

CITY OF RACINE

Racine, Wisconsin

FINANCIAL STATEMENTS

December 31, 2002

CITY OF RACINE

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Common Council
City of Racine
Racine, Wisconsin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Racine, Wisconsin, as of and for the year ended December 31, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Racine Water and Wastewater Utilities, both major enterprise funds, which represent 85 percent and 88 percent, respectively, of the assets and operating revenues of the business-type activities. We also did not audit the financial statements of the Downtown Racine Business Improvement District #1, the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Racine Water and Wastewater Utilities or the Downtown Racine Business Improvement District #1, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Racine, Wisconsin, as of December 31, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I B, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of January 1, 2002.

To the Mayor and Common Council
City of Racine

As described in Note IV L, the City has restated various beginning fund equity balances related to adjustments for capital assets, adjustments for expenditures incorrectly charged to TIF funds and various other reclassifications to more accurately present the financial information of the City.

As described in Note I C, effective January 1, 2002, the City changed its fund reporting for health insurance from the General Fund to an Internal Service Fund.

In accordance with *Government Auditing Standards*, we have issued a report on our consideration of the City of Racine's internal control over financial reporting and 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 audit.

The management discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Racine's basic financial statements. The *combining and individual fund financial statements and schedules* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *combining and individual fund financial statements and schedules* have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vickroy, Krause & Company, LLP

Milwaukee, Wisconsin
July 3, 2003

CITY OF RACINE

Management's Discussion and Analysis

As management of the City of Racine, we offer readers of the City of Racine's financial statements this narrative overview and analysis of the financial activities of the City of Racine for the fiscal year ended December 31, 2002.

Financial Highlights

- The assets of the City of Racine exceeded its liabilities at the close of the most recent fiscal year by \$295,904,001 (net assets). Of this amount, \$30,024,754 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$95,358
- As of the close of the current fiscal year, the City of Racine's governmental funds reported combined ending fund balances of \$52,967,814, a decrease of \$6,576,681, in comparison with the prior year. Approximately 35% of this amount, \$18,754,912, is available for spending at the government's discretion (unreserved fund balance). At year end, management had designated \$3,000,000 of the unreserved fund balance for use in the 2003 budget.
- At the end of the current fiscal year, unreserved-undesignated fund balance for the general fund was \$18,537,727 or 25% of total general fund expenditures.
- The City's total debt increased by \$14,798,179 during the current fiscal year due primarily to borrowings for the 2002 capital improvement program and the construction and expansion of the Wastewater Utility plant.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Racine's basic financial statements. The City of Racine's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The City of Racine adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments*, Statement No. 37, *Governments: Omnibus*, Statements No. 38, *Certain Financial Statement Disclosures* and Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of January 1, 2002. Therefore, comparative data for the year is not available for comprehensive discussion of the City of Racine's change in net assets.

Government-wide Financial Statements

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

The statement of net assets presents information on all of the City of Racine'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 City of Racine is improving or deteriorating.

CITY OF RACINE

Management's Discussion and Analysis

Government-wide Financial Statements (continued)

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the 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 the future fiscal periods (e.g., uncollected taxes)

Both the government-wide financial statements distinguish functions of the City of Racine that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Racine include general government, community development, health, education and recreation, public works, and public safety. The business-type activities of the City of Racine include the Water Utility, Wastewater Utility, Transit System, Parking Utility, Golf Courses, Civic Centre, and Radio Repair.

The government-wide financial statements include not only the City of Racine itself (known as the primary government), but also a legally separate Business Improvement District for which the City of Racine is financially accountable. Financial information for this component unit is reported separately from the financial information presented in the primary government itself.

The government-wide financial statements can be found on pages 16 – 18 of this report.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City of Racine, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City of Racine can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

CITY OF RACINE

Management's Discussion and Analysis

Governmental Funds (continued)

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Racine maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the Other HUD fund, the TIF fund, and the Debt Service Fund, all of which are considered to be major funds. Data from the Other governmental funds are combined into a single, aggregate presentation. Nonmajor governmental fund data is provided in the form of combining statements elsewhere in the report.

The City of Racine adopts an annual appropriated budget for various funds. Amendments are made during the year to the adopted budgets. Budgetary comparison statements have been provided for all budgeted funds with both the adopted and amended budgets.

The basic governmental fund financial statements can be found on pages 19 - 25 of this report.

Proprietary Funds

The City of Racine maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business type activities in the government wide financial statements. The City of Racine uses enterprise funds to account for its Water, Wastewater, and Parking Utilities as well as its Transit System, Civic Centre, Golf Courses, and Radio Repair Facility. The Water Utility, Wastewater Utility, and Transit System are all considered to be major funds of the City of Racine.

The City uses internal service funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis. The City uses internal service funds to account for its Equipment Maintenance Garage, Telephone System, and Health Insurance. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 26 - 32 of this report.

CITY OF RACINE

Management's Discussion and Analysis

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Racine's own programs. The City of Racine has two fiduciary funds. The most significant fiduciary fund, the Tax Collecting fund, records the tax roll and tax collections for other taxing jurisdictions within the City of Racine. The accounting used for fiduciary funds is much like that used for governmental funds.

The basic fiduciary financial statements can be found on page 33 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to gain a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 - 81 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental and proprietary funds is presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 82 - 105 of this report.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. At year-end, the City's assets exceeded liabilities by \$295,904,001.

The largest portion of the City's net assets is its investment in capital assets, less any related debt used to acquire those assets that is still outstanding (\$229,746,185). The City used these capital assets to provide services to citizens and therefore they are not available for future spending. Although the City's investment in capital assets is reported net of related debt, the resources need to repay this debt must be provided from other resources, since the capital assets can not be used to liquidate these liabilities.

An additional portion of the City of Racine's governmental activities net assets represents restricted net assets (\$36,133,062), or resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$30,024,754) may be used to meet the City's ongoing obligations to citizens and creditors.

Similar to the prior year, at year-end, the City is able to report positive balances in all three categories of net assets for both the governmental and business type activities.

CITY OF RACINE

Management's Discussion and Analysis

Government-Wide Financial Analysis (continued)

Condensed financial information from the statements of net assets is presented below for the year ended December 31, 2002.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	\$ 110,052,244	\$ 40,489,799	\$ 150,542,043
Capital assets	<u>182,274,432</u>	<u>144,719,436</u>	<u>326,993,868</u>
Total assets	<u>292,326,676</u>	<u>185,209,235</u>	<u>477,535,911</u>
Current and other liabilities	47,125,669	7,230,614	54,356,283
Liabilities payable from restricted assets	-	2,355,936	2,355,936
Long-term liabilities	<u>74,907,883</u>	<u>50,011,808</u>	<u>124,919,691</u>
Total liabilities	<u>122,033,552</u>	<u>59,598,358</u>	<u>181,631,910</u>
Net assets:			
Invested in capital assets, net of related debt	127,719,164	102,027,021	229,746,185
Restricted	23,119,914	13,013,148	36,133,062
Unrestricted	19,454,046	10,570,708	30,024,754
Total net assets	<u>\$ 170,293,124</u>	<u>\$ 125,610,877</u>	<u>\$ 295,904,001</u>

CITY OF RACINE

Management's Discussion and Analysis

Government-Wide Financial Analysis (continued)

Condensed financial information from the statement of activities is presented below for the year ended December 31, 2002.

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 25,733,140	\$ 24,064,273	\$ 49,797,413
Operating grants and contributions	11,140,375	6,421,098	17,561,473
Capital grants and contributions	3,126,148	996,790	4,122,938
General Revenues			-
Property taxes	34,921,006	-	34,921,006
Other taxes	182,415	-	182,415
Intergovernmental revenues not restricted to specific programs	30,783,987	-	30,783,987
Investment income	3,798,861	480,692	4,279,553
Other	<u>963,664</u>	<u>214,886</u>	<u>1,178,550</u>
Total revenues	<u>110,649,596</u>	<u>32,177,739</u>	<u>142,827,335</u>
Expenses			
General government	23,925,754	-	23,925,754
Community development	4,936,881	-	4,936,881
Health	2,670,609	-	2,670,609
Education and recreation	12,366,814	-	12,366,814
Public works	26,224,480	-	26,224,480
Public safety	39,031,013	-	39,031,013
Interest and fiscal charges	4,232,391	-	4,232,391
Water	-	10,213,173	10,213,173
Wastewater	-	8,537,681	8,537,681
Belle urban system	-	7,973,140	7,973,140
Other	<u>-</u>	<u>2,620,041</u>	<u>2,620,041</u>
Total expenses	<u>113,387,942</u>	<u>29,344,035</u>	<u>142,731,977</u>
Increase (decrease) in net assets before transfers	(2,738,346)	2,833,704	95,358
Transfers	<u>(3,366,725)</u>	<u>3,366,725</u>	<u>-</u>
Increase (decrease) in net assets	(6,105,071)	6,200,429	95,358
Net assets-beginning of year	<u>176,398,195</u>	<u>119,410,448</u>	<u>295,808,643</u>
Net assets-end of year	<u>170,293,124</u>	<u>125,610,877</u>	<u>295,904,001</u>

CITY OF RACINE

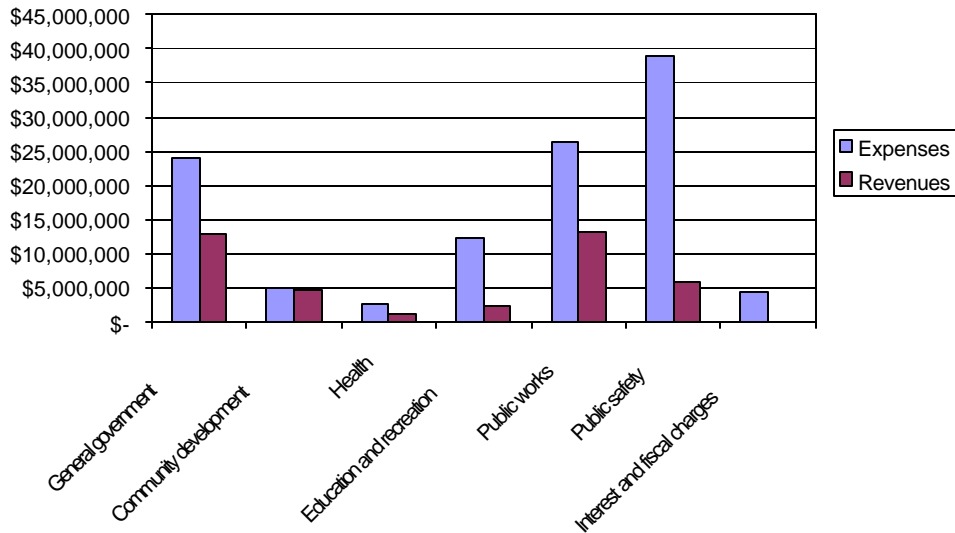
Management's Discussion and Analysis

Governmental Activities

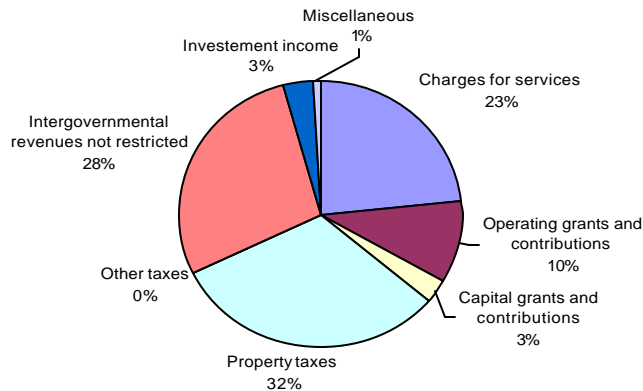
The net assets in the governmental activities decreased by approximately \$6,100,000 during the fiscal year. The primary reason for this decrease was:

- Construction of the Civic Center Parking Ramp. The ramp was constructed during 2002 with the majority of the cost contributed by various governmental funds. Amounts contributed to the parking system for the construction of the ramp exceeded \$6.4 million for the year ended December 31, 2002.

Expenses and Program Revenues-Governmental Activities:



Program and General Revenues by Source – Governmental Activities:



CITY OF RACINE

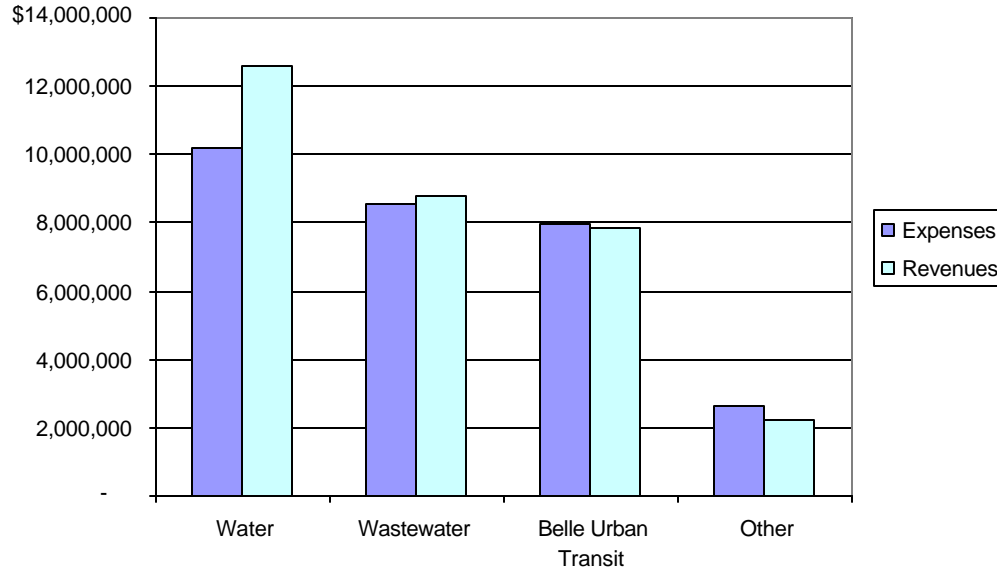
Management's Discussion and Analysis

Business-type activities

Business-type activities net assets increased by \$6,200,429 during the fiscal year 2002. Key elements of this increase are as follows:

- The Water and Wastewater Utilities operating revenues and expenses were consistent with fiscal year 2001. The Water Utility had an increase in net assets of \$1,554,904 while the Wastewater Utility had a decrease in net assets of \$(902,299). The decrease in net assets in the Wastewater Utility is primarily the result of the \$1,611,766 transfer to the City in accordance with the revenue sharing agreement signed during 2002.
- The Belle Urban Transit had a decrease in net assets of \$(464,292) for fiscal year 2002. This decrease was in part a result of decreased ridership during the year. However, the decrease was due primarily to a loss on sale of fixed assets \$(378,859) which resulted from an appraisal of the systems assets performed during 2002.
- The Other enterprise funds contributed to the majority of the net asset increase in the Business-type activities during 2002. The Other enterprise funds net assets increased by \$6,002,116 for fiscal year 2002. This increase is due primarily to the construction of the Civic Center Parking Ramp. The ramp was constructed during 2002 with the majority of the cost contributed by various governmental funds. Amounts transferred in to the Parking system for the construction of the ramp exceeded \$6.4 million for the year ended December 31, 2002.

Expenses and Program Revenues – Business-type Activities:

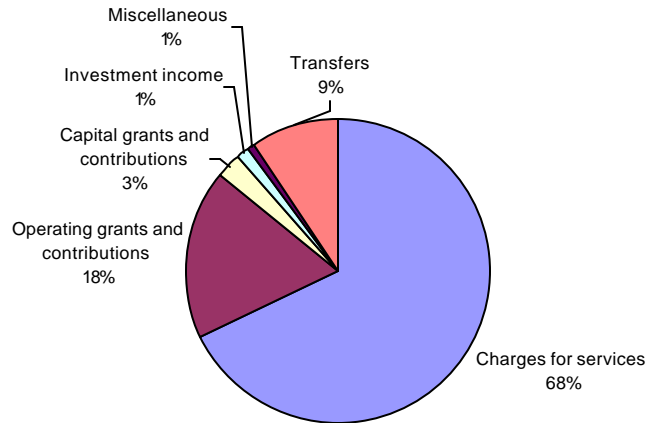


CITY OF RACINE

Management's Discussion and Analysis

Business-Type Activities (continued)

Revenues by Source – Business-type Activities:



Financial Analysis of the Government's Funds

As noted earlier, the City of Racine uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds-The focus of the City of Racine's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Racine's financing requirements. In particular, unreserved, undesignated fund balance may serve as a useful measure a government's net resources available for spending at year end.

As of the end of the current fiscal year, the City of Racine's governmental funds reported combined ending fund balances of \$52,967,814. Approximately 30% of this amount \$15,754,912 constitutes unreserved, undesignated fund balance which is available for spending at the government's discretion. Management has designated \$3,000,000 of general fund balance to be used in the 2003 budget.

The general fund is the primary operating fund of the City of Racine. At the end of the current fiscal year, unreserved-undesignated fund balance of the general fund was \$18,537,727, while total fund balance totaled \$37,966,988. Unreserved-undesignated fund balance represents 26% of total general fund expenditures, while total fund balance represents 52% of total general fund expenditures.

CITY OF RACINE

Management's Discussion and Analysis

Financial Analysis of the Government's Funds (continued)

Although the general fund was budgeted to use \$2.3 million of fund balances during 2002, the fund balance increased by \$1.2 million for the year ended December 31, 2002. The resulting \$3.4 million positive variance is the result of several factors:

- Investment income in the general fund was \$2.1 million over the anticipated budget of \$900,000. Investment income was conservatively budgeted for 2002 due to the increased market fluctuations at the end of 2001. The City invests a significant amount of its portfolio in long-term U.S. Government Securities resulting in a blended interest rate of about 5% for most of 2002.
- Charges for services were \$750,000 over the budget of \$3,582,349. This is a result primarily of two items. Landfill fees of \$543,784 exceeded the projected budget by approximately \$245,000. Landfill fees have been conservatively budgeted in the past in anticipation of the landfill closure within the next five years. Rescue squad fees of \$1,666,064 exceeded the projected budget by approximately \$266,000. Rescue squad fees were conservatively budgeted in 2002 as a result of the City using a new billing company.
- Overall general fund expenditures were \$590,319 under budget as of December 31, 2002. This was a result of unused contingency of \$223,202 and capital outlay expenditures less than the budget due to positive bid experience during 2002.

The Other HUD fund is another major governmental fund of the City of Racine. The fund accounts primarily for the City's housing and economic development loan program. Fund balances in this fund totaled \$1,617,298 at the end of fiscal year 2002 the majority of which \$1,565,316 was unreserved. Fund balance increased in the Other HUD fund during 2002 due primarily to loan payoffs exceeding new loans during 2002.

The Tax Increment Fund is another major governmental fund of the City of Racine. The fund accounts for the City's Tax Incremental Districts that have completed the construction phase of the district. Fund balances in this fund totaled \$(10,162,466) at the end of fiscal year 2002 due to expenditures exceeding tax incremental revenues for the majority of the districts. Fund balances increase slightly during the year \$61,960 due to tax increment sharing among the districts.

The Debt service fund is another major governmental fund of the City of Racine. The fund accounts for principle and interest payments made on the City's outstanding debt obligations. The debt service fund has a total fund balance of \$4,902,000, all of which is reserved for the payment of debt service in 2003. The increase in the fund balance during the year was \$3,197,495. The majority of this increase was a result of unspent bond proceeds transferred from the capital project funds.

CITY OF RACINE

Management's Discussion and Analysis

Financial Analysis of the Government's Funds (continued)

The other governmental funds are nonmajor funds of the City of Racine. These funds account for various activities within the City including grant programs, special assessment and economic development activities, library and cemetery activities, endowments, and all the capital project funds of the city. The other governmental funds have a total fund balance of \$18,643,994 of which \$12,829,659 is reserved and \$5,814,335 is unreserved. The fund balances of these funds decreased significantly during the year due primarily to the following factors:

- Approximately \$4.0 million of unspent bond proceeds was transferred into the debt service fund during 2002 to pay for 2003 debt service.
- Over \$6.4 million was transferred into the Parking system to pay for the construction of the Civic Center Parking ramp.

Proprietary Funds – The City of Racine's proprietary funds provide the same type of information found in the government wide statements.

Unrestricted net assets for the Water Utility at the end of the year amounted to \$2,941,709, for the Wastewater Utility \$8,190,835, for the Belle Urban system \$(188,557), and for the other enterprise funds \$(373,279). The total increase (decrease) in net assets for the funds was \$1,554,904, \$(902,299), \$(454,292), \$6,002,116 respectively. Factors concerning the financial results of these funds have been addressed in the discussion of the City of Racine's business-type activities.

Capital Asset and Debt Administration

Capital Assets – The City of Racine's investment in capital assets for its governmental and business-type activities as of December 31, 2002, amounts to \$326,993,868 net of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings and improvements, machinery and equipment, and infrastructure. Infrastructure includes street, roads, bridges, sidewalks, drainage system, sewer lines, shoreline walls, and other infrastructure. Capital assets increased approximately \$35 million during 2002. Approximately \$28 million of the increase came from the business-type activities due to the construction and expansion of the Wastewater Utility facilities and the construction of the Civic Center Parking Ramp. Approximately \$7 million came from the governmental activities due primarily to the construction of various infrastructure items including the Root River Pathway project and the continued construction in tax incremental district #9.

Significant capital asset events during the current fiscal year included the following:

- Construction of the Civic Center Parking Ramp was substantially completed for a total cost exceeding \$7 million.
- Construction and expansion of the Wastewater treatment plant was started during 2002. In the Wastewater Utility, construction in progress totaled \$15,288,434 at the end of 2002. This is a multiple year project with many phases.

CITY OF RACINE

Management's Discussion and Analysis

Capital Asset and Debt Administration (continued)

- The construction of the Root River Pathway was well under way during 2002. The project is anticipated to be completed towards the end of 2003. Construction in progress relating to the pathway was approximately \$3.7 million at the end of 2002.
- The construction phase of TIF #9 continued in 2002. Construction is expected to be completed in 2004. Construction in progress relating to this project was approximately \$3.4 million at the end of 2002.
- The design work associated with the new off-street transit center and passenger depot began in 2002. Construction is anticipated to begin during 2003 and completion of the depot is anticipated for 2005. Total project costs are estimated at \$6 million.

Long-term debt – At the end of the current fiscal year, the City of Racine had total debt outstanding of \$122,015,210. Of this amount, \$70,964,337 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenue sources (ie. revenue bonds). The City's total outstanding debt increased by approximately \$15 million during 2002. The increase was due primarily to the borrowing associated with the construction and expansion of the Wastewater Utility plant.

	<u>Outstanding debt</u>	
	<u>2001</u>	<u>2002</u>
Governmental Activities:		
General obligation bonds and notes	\$ 69,382,500	\$ 70,964,337
Business-Type Activities:		
Revenue bonds	<u>37,834,531</u>	<u>51,050,873</u>
Total	\$ 107,217,031	\$ 122,015,210

Economic Conditions and 2003 and 2004 Budget Outlook

Although there have not been any recent major layoffs or corporate closings in the city, Racine's unemployment rate continued to climb in 2002 to 11.8% from 10.7% in 2001, well above the state and national average.

The assessed value of the City has increased over the last several years with a 4.9% increase in 2002. The City anticipates a 5% increase in the assessed value in 2003.

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Management's Discussion and Analysis

Economic Conditions and 2003 and 2004 Budget Outlook (continued)

Due to the budget issues pending at the state level, the City is anticipating approximately a \$2 million reduction in the intergovernmental aids received from the state in 2004.

The City used \$7.5 million of fund balance to stabilize the 2002 tax rate. The 2002 tax rate was \$11.97 per thousand. Due to the anticipated reduction in state aids and the use of fund balance in the 2003 budget, difficult choices will have to be made in the preparation of the 2004 budget.

Requests for information

This financial report is designed to provide a general overview of the City of Racine's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the City of Racine Finance Department, 730 Washington Avenue, Racine, WI 53403.

CITY OF RACINE

STATEMENT OF NET ASSETS
December 31, 2002

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	
ASSETS				
Cash and investments	\$ 57,360,316	\$ 13,853,608	\$ 71,213,924	\$ 12,491
Receivables (net of allowance for uncollectible accounts)	48,596,583	7,557,772	56,154,355	-
Internal balances	(407,793)	407,793	-	-
Due from primary government	-	-	-	157,940
Due from other governments	2,991,970	811,906	3,803,876	-
Inventories	591,300	776,907	1,368,207	-
Prepaid items	272,951	36,916	309,867	-
Deferred charges	-	217,401	217,401	-
Advances to other funds	646,917	(646,917)	-	-
Restricted assets				
Cash and investments	-	17,432,467	17,432,467	-
Accrued interest receivable	-	41,946	41,946	-
Capital assets (net of accumulated depreciation)	<u>182,274,432</u>	<u>144,719,436</u>	<u>326,993,868</u>	-
TOTAL ASSETS	\$ 292,326,676	\$ 185,209,235	\$ 477,535,911	\$ 170,431
LIABILITIES				
Liabilities				
Accounts payable	\$ 4,596,726	\$ 5,418,075	\$ 10,014,801	\$ -
Accrued compensation and other current liabilities	4,134,684	420,748	4,555,432	-
Due to other governments	169,063	-	169,063	-
Accrued interest payable	294,070	-	294,070	-
Unearned revenue	37,931,126	1,391,791	39,322,917	139,789
Liabilities payable from restricted assets				
Accrued interest payable	-	449,455	449,455	-
Current portion of long term debt	-	1,906,481	1,906,481	-
Noncurrent liabilities				
Due within one year	8,281,885	-	8,281,885	-
Due in more than one year	<u>66,625,998</u>	<u>50,011,808</u>	<u>116,637,806</u>	-
TOTAL LIABILITIES	<u>122,033,552</u>	<u>59,598,358</u>	<u>181,631,910</u>	<u>139,789</u>
NET ASSETS				
Invested in capital assets, net of related debt	127,719,164	102,027,021	229,746,185	-
Restricted	23,119,914	13,013,148	36,133,062	30,642
Unrestricted	<u>19,454,046</u>	<u>10,570,708</u>	<u>30,024,754</u>	-
TOTAL NET ASSETS	<u>\$ 170,293,124</u>	<u>\$ 125,610,877</u>	<u>\$ 295,904,001</u>	<u>\$ 30,642</u>

CITY OF RACINE

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2002

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<u>Functions/Programs</u>								
Primary Government								
Governmental activities								
General government	\$ 23,925,754	\$ 12,562,331	\$ 209,152	\$ -	\$ (11,154,271)	\$ -	\$ (11,154,271)	\$ -
Community development	4,936,881	277,415	3,315,026	1,156,762	(187,678)	-	(187,678)	-
Health	2,670,609	325,793	707,367	-	(1,637,449)	-	(1,637,449)	-
Education and recreation	12,366,814	758,060	1,153,405	518,742	(9,936,607)	-	(9,936,607)	-
Public works	26,224,480	7,421,130	4,501,063	1,299,328	(13,002,959)	-	(13,002,959)	-
Public safety	39,031,013	4,388,411	1,254,362	151,316	(33,236,924)	-	(33,236,924)	-
Interest and fiscal charges	4,232,391	-	-	-	(4,232,391)	-	(4,232,391)	-
Total Governmental Activities	<u>113,387,942</u>	<u>25,733,140</u>	<u>11,140,375</u>	<u>3,126,148</u>	<u>(73,388,279)</u>	<u>-</u>	<u>(73,388,279)</u>	<u>-</u>
Business type activities								
Water	10,213,173	12,622,616	-	-	-	2,409,443	2,409,443	-
Wastewater	8,537,681	8,669,414	-	88,202	-	219,935	219,935	-
Belle urban system	7,973,140	1,100,037	5,845,984	908,588	-	(118,531)	(118,531)	-
Other	2,620,041	1,672,206	575,114	-	-	(372,721)	(372,721)	-
Total Business Type Activities	<u>29,344,035</u>	<u>24,064,273</u>	<u>6,421,098</u>	<u>996,790</u>	<u>-</u>	<u>2,138,126</u>	<u>2,138,126</u>	<u>-</u>

CITY OF RACINE

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2002

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities		Total
Total Primary Government	<u>\$ 142,731,977</u>	<u>\$ 49,797,413</u>	<u>\$ 17,561,473</u>	<u>\$ 4,122,938</u>	(73,388,279)	2,138,126	(71,250,153)	-
Component Unit								
Business Improvement District	<u>\$ 94,509</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-	-	-	(94,509)
General Revenues								
Taxes								
Property taxes levied for general purposes					27,852,312	-	27,852,312	-
Property taxes levied for debt service					4,319,143	-	4,319,143	-
Property taxes levied for TIF					2,749,551	-	2,749,551	-
Other taxes					182,415	-	182,415	125,151
Intergovernmental revenues not restricted to specific programs					30,783,987	-	30,783,987	-
Investment income					3,798,861	480,692	4,279,553	-
Miscellaneous					963,664	214,886	1,178,550	-
Transfers					(3,366,725)	3,366,725	-	-
Total General Revenues and Transfers					<u>67,283,208</u>	<u>4,062,303</u>	<u>71,345,511</u>	<u>125,151</u>
Change in Net Assets					(6,105,071)	6,200,429	95,358	125,151
NET ASSETS - Beginning of Year					<u>176,398,195</u>	<u>119,410,448</u>	<u>295,808,643</u>	<u>-</u>
NET ASSETS - END OF YEAR					<u>\$ 170,293,124</u>	<u>\$ 125,610,877</u>	<u>\$ 295,904,001</u>	<u>\$ 125,151</u>

CITY OF RACINE

Governmental Funds

BALANCE SHEET

December 31, 2002

	General Fund	Other HUD	Tax Increment Districts	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 26,782,410	\$ 2,018,408	\$ 5,000	\$ 4,902,000	\$ 22,348,326	\$ 56,056,144
Receivables						
Property taxes	23,161,132	-	2,598,674	4,067,399	5,646,934	35,474,139
Special assessments and special charges - tax roll	-	-	-	-	264,808	264,808
Special assessments	32,803	-	-	-	1,177,892	1,210,695
Delinquent personal property taxes	85,786	-	-	-	-	85,786
Loans and notes	172,541	9,486,072	-	-	450,000	10,108,613
Interest	545,088	-	-	-	-	545,088
Accounts	805,016	-	-	-	91,723	896,739
Total Receivables - Net	24,802,366	9,486,072	2,598,674	4,067,399	7,631,357	48,585,868
Due from other funds	6,139,691	-	-	-	1,046,740	7,186,431
Due from other governments	-	97,154	-	-	2,894,816	2,991,970
Inventories	176,999	-	-	-	-	176,999
Prepaid items	272,951	-	-	-	-	272,951
Advances to other funds	10,051,574	-	-	-	754,455	10,806,029
TOTAL ASSETS	<u>\$ 68,225,991</u>	<u>\$ 11,601,634</u>	<u>\$ 2,603,674</u>	<u>\$ 8,969,399</u>	<u>\$ 34,675,694</u>	<u>\$ 126,076,392</u>

CITY OF RACINE

Governmental Funds

BALANCE SHEET

December 31, 2002

	General Fund	Other HUD	Tax Increment Districts	Debt Service	Other Governmental Funds	Total Governmental Funds
<i>LIABILITIES AND FUND BALANCES</i>						
Liabilities						
Accounts payable	\$ 1,588,081	\$ (8,261)	\$ 6,100	\$ -	\$ 2,879,612	\$ 4,465,532
Other accrued liabilities	232,421	399,113	-	-	142,006	773,540
Accrued compensation	1,262,347	-	-	-	-	1,262,347
Due to other funds	1,272,245	86,077	2,254	-	5,236,302	6,596,878
Due to other governments	112,800	36,222	-	-	20,041	169,063
Insurance claims payable	865,146	-	-	-	-	865,146
Advances from other funds	-	-	10,159,112	-	-	10,159,112
Deferred revenue	172,541	9,471,185	-	-	2,106,805	11,750,531
Deferred interest	1,449,773	-	-	-	-	1,449,773
Deferred property tax revenue	23,303,649	-	2,598,674	4,067,399	5,646,934	35,616,656
Total Liabilities	<u>30,259,003</u>	<u>9,984,336</u>	<u>12,766,140</u>	<u>4,067,399</u>	<u>16,031,700</u>	<u>73,108,578</u>

CITY OF RACINE

Governmental Funds

BALANCE SHEET

December 31, 2002

	General Fund	Other HUD	Tax Increment Districts	Debt Service	Other Governmental Funds	Total Governmental Funds
Fund Balances						
Reserved for:						
Subsequent year's expenditures	\$ 2,541,962	\$ -	\$ -	\$ -	\$ -	\$ 2,541,962
Endowments	-	-	-	-	3,056,797	3,056,797
Inventories	176,999	-	-	-	-	176,999
Encumbrances	371,677	51,982	-	-	3,172,741	3,596,400
Prepaid Items	272,951	-	-	-	-	272,951
Capital projects	-	-	-	-	5,845,666	5,845,666
Noncurrent receivables	4,463,869	-	-	-	-	4,463,869
Advance to other funds	8,601,803	-	-	-	754,455	9,356,258
Debt service	-	-	-	4,902,000	-	4,902,000
Unreserved (deficit), reported in:						
General fund						
Designated for subsequent year's expenditures	3,000,000	-	-	-	-	3,000,000
Undesignated	18,537,727	-	-	-	-	18,537,727
Special revenue funds	-	1,565,316	(10,162,466)	-	6,335,274	(2,261,876)
Capital project funds	-	-	-	-	(520,939)	(520,939)
Total Fund Balances	<u>37,966,988</u>	<u>1,617,298</u>	<u>(10,162,466)</u>	<u>4,902,000</u>	<u>18,643,994</u>	<u>52,967,814</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 68,225,991</u>	<u>\$ 11,601,634</u>	<u>\$ 2,603,674</u>	<u>\$ 8,969,399</u>	<u>\$ 34,675,694</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in funds	180,328,346
Internal service fund net assets	1,313,083
Other long-term assets that are not available to pay for current period expenditures and therefore are deferred in funds	10,885,834
Some liabilities, including long-term debt, are not due and payable in the current period and therefore are not reported in the funds.	<u>(75,201,953)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 170,293,124

CITY OF RACINE
Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2002

	General Fund	Other HUD	Tax Increment	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 23,944,748	\$ -	\$ 2,716,406	\$ 4,319,143	\$ 3,803,489	\$ 34,783,786
Special assessments	-	-	-	-	1,438,067	1,438,067
Intergovernmental	35,292,513	1,907,914	153,055	-	7,926,207	45,279,689
Interdepartmental charges	-	-	-	-	1,060,303	1,060,303
Licenses and permits	1,324,386	-	-	-	-	1,324,386
Fines and forfeitures	1,633,651	-	-	-	-	1,633,651
Investment income	3,003,825	32,721	180,140	-	582,175	3,798,861
Charges for services	4,327,643	16,755	-	-	1,364,535	5,708,933
Other	432,801	1,274,787	-	716,984	883,720	3,308,292
Total Revenues	<u>69,959,567</u>	<u>3,232,177</u>	<u>3,049,601</u>	<u>5,036,127</u>	<u>17,058,496</u>	<u>98,335,968</u>
EXPENDITURES						
Current						
General government	12,141,882	-	10,885	-	1,865	12,154,632
Community development	-	3,149,178	-	-	2,064,394	5,213,572
Health	1,942,886	-	-	-	713,064	2,655,950
Education and recreation	6,727,145	-	-	-	3,695,234	10,422,379
Public works	11,914,164	-	-	-	1,953,077	13,867,241
Public safety	36,678,169	-	-	-	1,317,997	37,996,166
Capital outlay	2,423,030	-	-	-	13,349,061	15,772,091
Debt Service						
Principal	-	-	-	7,498,163	6,025,000	13,523,163
Interest	-	-	502,272	3,763,761	89,750	4,355,783
Total Expenditures	<u>71,827,276</u>	<u>3,149,178</u>	<u>513,157</u>	<u>11,261,924</u>	<u>29,209,442</u>	<u>115,960,977</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(1,867,709)</u>	<u>82,999</u>	<u>2,536,444</u>	<u>(6,225,797)</u>	<u>(12,150,946)</u>	<u>(17,625,009)</u>

CITY OF RACINE
Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2002

	General Fund	Other HUD	Tax Increment	Debt Service	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)						
Proceeds of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 9,000,000	\$ 9,000,000
Proceeds from refunding bonds	-	-	-	-	6,105,000	6,105,000
Transfers in	3,172,686	677,145	-	9,422,992	9,609,335	22,882,158
Transfers (out)	<u>(70,519)</u>	<u>(203,586)</u>	<u>(2,474,484)</u>	<u>-</u>	<u>(24,190,241)</u>	<u>(26,938,830)</u>
Total Other Financing Sources (Uses)	<u>3,102,167</u>	<u>473,559</u>	<u>(2,474,484)</u>	<u>9,422,992</u>	<u>524,094</u>	<u>11,048,328</u>
Net Change in Fund Balances	1,234,458	556,558	61,960	3,197,195	(11,626,852)	(6,576,681)
FUND BALANCES (DEFICIT) - Beginning of Year, as restated	<u>36,732,530</u>	<u>1,060,740</u>	<u>(10,224,426)</u>	<u>1,704,805</u>	<u>30,270,846</u>	<u>59,544,495</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 37,966,988</u>	<u>\$ 1,617,298</u>	<u>\$ (10,162,466)</u>	<u>\$ 4,902,000</u>	<u>\$ 18,643,994</u>	<u>\$ 52,967,814</u>

CITY OF RACINE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended December 31, 2002

Net change in fund balances - total governmental funds	\$ (6,576,681)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$12,166,070) exceeded depreciation (\$10,387,487) in the current period, less loss on disposal (\$613,407)	1,165,176
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, have any effect on net assets. This amount is the net effect of the difference in the treatment of long-term debt.	(1,581,837)
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds	(385,310)
Revenues in the governmental funds that are not reported as revenues in the statement of activities	(1,014,127)
Expenditures in the governmental funds that are not reported as expenses in the statement of activities	1,007,552
Revenues in the statement of activities do not require the use of current financial resources and are not reported as revenues in the funds	379,405
Internal service fund change in net assets	<u>900,751</u>
Change in net assets of governmental activities	<u>\$ (6,105,071)</u>

See accompanying notes to financial statements.

CITY OF RACINE

General Fund

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with Final Budget
	Original Budget	Final Budget		
REVENUES				
Taxes	\$ 24,002,901	\$ 24,002,901	\$ 23,944,748	\$ (58,153)
Intergovernmental	35,082,218	35,082,218	35,292,513	210,295
Licenses and permits	1,145,005	1,145,005	1,324,386	179,381
Fines and forfeitures	1,659,876	1,659,876	1,633,651	(26,225)
Investment income	900,000	900,000	3,003,825	2,103,825
Charges for services	3,582,349	3,582,349	4,327,643	745,294
Other	277,875	277,875	432,801	154,926
Total Revenues	66,650,224	66,650,224	69,959,567	3,309,343
EXPENDITURES				
Current				
General government	11,524,923	11,776,071	12,141,882	(365,811)
Health	1,944,777	1,948,067	1,942,886	5,181
Education and recreation	6,757,180	6,780,672	6,727,145	53,527
Public works	12,210,428	12,251,642	11,914,164	337,478
Public safety	36,213,066	36,283,738	36,678,169	(394,431)
Capital Outlay	2,505,094	3,154,203	2,423,030	731,173
Contingency	500,000	223,202	-	223,202
Total Expenditures	71,655,468	72,417,595	71,827,276	590,319
Excess (deficiency) of revenues over (under) expenditures	(5,005,244)	(5,767,371)	(1,867,709)	3,899,662
OTHER FINANCING SOURCES (USES)				
Transfers in	3,505,244	3,505,244	3,172,686	(332,558)
Transfers (out)	-	-	(70,519)	(70,519)
Total Other Financing Sources (Uses)	3,505,244	3,505,244	3,102,167	(403,077)
Net Change in Fund Balance	\$ (1,500,000)	\$ (2,262,127)	1,234,458	\$ 3,496,585
FUND BALANCE -				
Beginning of Year, as restated			36,732,530	
FUND BALANCE - END OF YEAR			\$ 37,966,988	

See accompanying notes to financial statements.

CITY OF RACINE

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2002

	Business Type Activities- Enterprise Funds				Total	Governmental Activities-
	Water Utility	Wastewater Utility	Belle Urban Transit	Other Enterprise Funds		Internal Service Funds
ASSETS						
Current Assets						
Cash and investments	\$ 3,675,807	\$ 9,136,743	\$ 200	\$ 1,040,858	\$ 13,853,608	\$ 1,304,172
Receivables						
Accounts	2,016,478	1,998,261	264,866	157,871	4,437,476	10,715
Taxes	864,514	839,429	822,473	559,513	3,085,929	-
Interest	2,702	8,090	-	-	10,792	-
Special assessments	23,575	-	-	-	23,575	-
Due from other governments			811,906		811,906	
Due from other funds	1,838,982	3,924,377	-	-	5,763,359	38,970
Inventories	206,744	23,763	546,400	-	776,907	414,301
Unamortized debt discount	91,770	125,631	-	-	217,401	-
Prepaid items	8,151	8,600	20,165	-	36,916	-
Total Current Assets	<u>8,728,723</u>	<u>16,064,894</u>	<u>2,466,010</u>	<u>1,758,242</u>	<u>29,017,869</u>	<u>1,768,158</u>
Noncurrent Assets						
Restricted Assets						
Cash and investments	10,146,950	7,285,517	-	-	17,432,467	-
Accrued interest receivable	18,326	23,620	-	-	41,946	-
Capital assets						
Land, buildings and improvements	68,474,832	45,777,322	1,358,093	25,991,504	141,601,751	1,550,727
Equipment, furniture and vehicles	18,708,489	16,783,423	7,678,026	1,037,847	44,207,785	875,158
Less: Accumulated depreciation	(19,169,102)	(32,765,950)	(5,025,961)	(6,396,082)	(63,357,095)	(479,799)
Construction in progress	6,441,419	15,288,434	520,754	16,388	22,266,995	-
Total Noncurrent Assets	<u>84,620,914</u>	<u>52,392,366</u>	<u>4,530,912</u>	<u>20,649,657</u>	<u>162,193,849</u>	<u>1,946,086</u>
TOTAL ASSETS	<u>\$ 93,349,637</u>	<u>\$ 68,457,260</u>	<u>\$ 6,996,922</u>	<u>\$ 22,407,899</u>	<u>\$ 191,211,718</u>	<u>\$ 3,714,244</u>

CITY OF RACINE
Proprietary Funds

STATEMENT OF NET ASSETS
December 31, 2002

	Business Type Activities- Enterprise Funds				Total	Governmental Activities-
	Water Utility	Wastewater Utility	Belle Urban Transit	Other Enterprise Funds		Internal Service Funds
LIABILITIES						
Current Liabilities						
Accounts payable	\$ 1,364,141	\$ 2,677,296	\$ 783,020	\$ 593,618	\$ 5,418,075	\$ 131,194
Accrued compensation	-	-	26,723	17,375	44,098	-
Accrued liabilities	174,366	162,696	-	39,588	376,650	1,233,651
Due to other funds	3,487,144	629,279	1,012,546	226,597	5,355,566	1,036,316
Deferred property tax revenue	-	-	822,473	559,513	1,381,986	-
Other deferred revenue	-	-	9,805	-	9,805	-
Total Current Liabilities	<u>5,025,651</u>	<u>3,469,271</u>	<u>2,654,567</u>	<u>1,436,691</u>	<u>12,586,180</u>	<u>2,401,161</u>
Current liabilities payable from restricted assets						
Accrued interest	352,815	96,640	-	-	449,455	-
Current portion of long term debt	1,110,757	795,724	-	-	1,906,481	-
Total Current Liabilities - payable from restricted assets	<u>1,463,572</u>	<u>892,364</u>	<u>-</u>	<u>-</u>	<u>2,355,936</u>	<u>-</u>
Noncurrent Liabilities						
Compensated absences	408,548	410,955	-	47,913	867,416	-
Revenue bonds and notes payable	28,100,061	21,044,331	-	-	49,144,392	-
Advances from other funds	-	-	-	646,917	646,917	-
Total Noncurrent Liabilities	<u>28,508,609</u>	<u>21,455,286</u>	<u>-</u>	<u>694,830</u>	<u>50,658,725</u>	<u>-</u>
TOTAL LIABILITIES	<u>34,997,832</u>	<u>25,816,921</u>	<u>2,654,567</u>	<u>2,131,521</u>	<u>65,600,841</u>	<u>2,401,161</u>
NET ASSETS						
Investment in capital assets, net of related debt	48,524,044	28,322,408	4,530,912	20,649,657	102,027,021	1,946,086
Restricted	6,886,052	6,127,096	-	-	13,013,148	-
Unrestricted (deficit)	2,941,709	8,190,835	(188,557)	(373,279)	10,570,708	(633,003)
TOTAL NET ASSETS	<u>\$ 58,351,805</u>	<u>\$ 42,640,339</u>	<u>\$ 4,342,355</u>	<u>\$ 20,276,378</u>	<u>\$ 125,610,877</u>	<u>\$ 1,313,083</u>

See accompanying notes to financial statements.

CITY OF RACINE

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2002

	Business Type Activities- Enterprise Funds				Total	Governmental Activities-
	Water Utility	Wastewater Utility	Belle Urban Transit	Other Enterprise Funds		Internal Service Funds
OPERATING REVENUES						
Charges for services	\$ 12,622,616	\$ 8,669,414	\$ 1,100,037	\$ 1,672,206	\$ 24,064,273	\$ 14,032,905
Other	-	-	47,839	47	47,886	-
Total Operating Revenues	<u>12,622,616</u>	<u>8,669,414</u>	<u>1,147,876</u>	<u>1,672,253</u>	<u>24,112,159</u>	<u>14,032,905</u>
OPERATING EXPENSES						
Public works	7,340,725	6,622,880	7,053,019	1,021,981	22,038,605	2,737,271
Education and recreation	-	-	-	976,187	976,187	-
General administration	-	-	-	-	-	11,165,936
Depreciation	1,951,255	1,515,763	541,262	586,769	4,595,049	57,353
Total Operating Expenses	<u>9,291,980</u>	<u>8,138,643</u>	<u>7,594,281</u>	<u>2,584,937</u>	<u>27,609,841</u>	<u>13,960,560</u>
Operating income (loss)	<u>3,330,636</u>	<u>530,771</u>	<u>(6,446,405)</u>	<u>(912,684)</u>	<u>(3,497,682)</u>	<u>72,345</u>
NONOPERATING REVENUES (EXPENSES)						
Investment income	172,741	282,686	-	25,265	480,692	-
Interest expense	(808,842)	(286,589)	-	(35,104)	(1,130,535)	-
Intergovernmental interest reimbursement	-	88,202	-	-	88,202	-
Bond issue costs	-	(10,530)	-	-	(10,530)	-
Gain (loss) on sale of fixed assets	-	(101,919)	(378,859)	-	(480,778)	-
Amortization of bond discount	(112,351)	-	-	-	(112,351)	-
Subsidies from other governmental units	-	-	5,004,532	-	5,004,532	-
Tax Levy	-	-	793,613	575,067	1,368,680	138,459
Other	8,040	206,846	-	-	214,886	-
Total Nonoperating Revenues (Expenses)	<u>(740,412)</u>	<u>178,696</u>	<u>5,419,286</u>	<u>565,228</u>	<u>5,422,798</u>	<u>138,459</u>

CITY OF RACINE

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2002

	Business Type Activities- Enterprise Funds				Total	Governmental Activities-
	Water Utility	Wastewater Utility	Belle Urban Transit	Other Enterprise Funds		Internal Service Funds
Income (loss) before capital contributions and transfers	2,590,224	709,467	(1,027,119)	(347,456)	1,925,116	210,804
CAPITAL CONTRIBUTIONS	450,338	-	458,250	-	908,588	-
TRANSFERS IN	-	-	114,577	6,457,125	6,571,702	689,947
TRANSFERS (OUT)	<u>(1,485,658)</u>	<u>(1,611,766)</u>	<u>-</u>	<u>(107,553)</u>	<u>(3,204,977)</u>	<u>-</u>
Change in Net Assets	1,554,904	(902,299)	(454,292)	6,002,116	6,200,429	900,751
TOTAL NET ASSETS - Beginning of Year, as restated	<u>56,796,901</u>	<u>43,542,638</u>	<u>4,796,647</u>	<u>14,274,262</u>	<u>119,410,448</u>	<u>412,332</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 58,351,805</u>	<u>\$ 42,640,339</u>	<u>\$ 4,342,355</u>	<u>\$ 20,276,378</u>	<u>\$ 125,610,877</u>	<u>\$ 1,313,083</u>

See accompanying notes to financial statements.

CITY OF RACINE

Proprietary Funds

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

	Business Type Activities- Enterprise Funds				Totals	Governmental Activities-
	Water Utility	Wastewater Utility	Belle Urban System	Other Enterprise		Internal Service Fund
CASH FLOW FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 12,625,306	\$ 8,447,793	\$ 1,121,888	\$ 1,599,175	\$ 23,794,162	\$ 14,000,224
Payments to suppliers	(3,090,397)	(2,664,911)	(4,672,062)	(1,202,510)	(11,629,880)	(11,274,612)
Payments to employees	(2,445,593)	(2,147,495)	(2,340,060)	(705,520)	(7,638,668)	(1,532,738)
Net Cash Provided (Used) by Operating Activities	<u>7,089,316</u>	<u>3,635,387</u>	<u>(5,890,234)</u>	<u>(308,855)</u>	<u>4,525,614</u>	<u>1,192,874</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer to other funds	(1,485,658)	(1,611,766)	-	(107,553)	(3,204,977)	-
Transfer from other funds	-	-	-	132,572	132,572	64,550
Miscellaneous receipts	-	295,048	-	-	295,048	-
Operating grants received	-	-	5,812,777	-	5,812,777	-
Operating subsidies received	-	-	150,791	564,472	715,263	138,459
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,485,658)</u>	<u>(1,316,718)</u>	<u>5,963,568</u>	<u>589,491</u>	<u>3,750,683</u>	<u>203,009</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of long-term debt	-	14,800,055	-	-	14,800,055	-
Principal paid on long-term debt	(1,066,849)	(612,834)	-	-	(1,679,683)	-
Principal paid on advances	-	-	-	(72,585)	(72,585)	-
Interest paid on long-term debt	(776,686)	(221,126)	-	-	(997,812)	-
Interest paid on advances	-	-	-	(35,104)	(35,104)	-
Transfer from other funds for capital purposes	-	-	-	6,324,553	6,324,553	625,397
Acquisition and construction of capital assets	(7,806,943)	(16,302,466)	(572,814)	(6,683,513)	(31,365,736)	(745,888)
Capital subsidies received	-	-	428,115	-	428,115	-
Proceeds from sale of capital assets	55,248	20,014	-	-	75,262	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(9,595,230)</u>	<u>(2,316,357)</u>	<u>(144,699)</u>	<u>(466,649)</u>	<u>(12,522,935)</u>	<u>(120,491)</u>

CITY OF RACINE

Proprietary Funds

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

	Business Type Activities- Enterprise Funds				Totals	Governmental Activities-
	Water Utility	Wastewater Utility	Belle Urban System	Other Enterprise		Internal Service Fund
CASH FLOW FROM INVESTING ACTIVITIES						
Purchase of investments	\$ (31,969,400)	\$ (37,344,840)	\$ -	\$ -	\$ (69,314,240)	\$ -
Proceeds on redemption of investments	35,414,667	36,760,633	-	-	72,175,300	-
Investment income received	208,116	329,038	-	25,265	562,419	-
Net Cash Provided (Used) by Investing Activities	<u>3,653,383</u>	<u>(255,169)</u>	<u>-</u>	<u>25,265</u>	<u>3,423,479</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(338,189)</u>	<u>(252,857)</u>	<u>(71,365)</u>	<u>(160,748)</u>	<u>(823,159)</u>	<u>1,275,392</u>
CASH AND CASH EQUIVALENTS						
Beginning of Year	<u>3,403,480</u>	<u>1,466,344</u>	<u>71,565</u>	<u>1,201,606</u>	<u>6,142,995</u>	<u>28,780</u>
End of Year	<u>\$ 3,065,291</u>	<u>\$ 1,213,487</u>	<u>\$ 200</u>	<u>\$ 1,040,858</u>	<u>\$ 5,319,836</u>	<u>\$ 1,304,172</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 3,330,636	\$ 530,771	\$ (6,446,405)	\$ (912,684)	\$ (3,497,682)	\$ 72,345
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation and amortization	1,951,255	1,515,763	541,262	586,769	4,595,049	57,353
(Increase) decrease in accounts receivable	140,021	152,478	(25,988)	(42,956)	223,555	144,748
(Increase) decrease in other assets	5,894	-	-	-	5,894	-
(Increase) decrease in prepaid items	614	(80,100)	(20,165)	-	(99,651)	-
(Increase) decrease in inventories	(25,221)	4,752	(67,468)	-	(87,937)	(414,301)
(Increase) decrease in due from other funds	(137,331)	(374,099)	-	(15,679)	(527,109)	(8,964)
Increase (decrease) in accounts payable	885,660	1,754,365	128,530	(56,251)	2,712,304	126,900
Increase (decrease) in accrued liabilities	67,212	39,932	-	1,613	108,757	1,191,139
Increase (decrease) in other current liabilities	-	-	-	7,294	7,294	-
Increase (decrease) in deferred revenue	-	-	-	(14,444)	(14,444)	(138,459)
Increase (decrease) in due to other funds	870,576	91,525	-	137,483	1,099,584	162,113
Net Cash Provided (Used) by Operating Activities	<u>\$ 7,089,316</u>	<u>\$ 3,635,387</u>	<u>\$ (5,890,234)</u>	<u>\$ (308,855)</u>	<u>\$ 4,525,614</u>	<u>\$ 1,192,874</u>

CITY OF RACINE

Proprietary Funds

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

	Business Type Activities- Enterprise Funds				Totals	Governmental Activities-
	Water Utility	Wastewater Utility	Belle Urban System	Other Enterprise		Internal Service Fund
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET						
Cash and investments						
Unrestricted	\$ 3,675,807	\$ 9,136,743	\$ 200	\$ 1,040,858	\$ 13,853,608	\$ 1,304,172
Restricted	10,146,950	7,285,517	-	-	17,432,467	-
Total Cash and Investments	13,822,757	16,422,260	200	1,040,858	31,286,075	1,304,172
Less investments not meeting the definition of cash and cash equivalents	(10,757,466)	(15,208,773)	-	-	(25,966,239)	-
TOTAL CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 3,065,291</u>	<u>\$ 1,213,487</u>	<u>\$ 200</u>	<u>\$ 1,040,858</u>	<u>\$ 5,319,836</u>	<u>\$ 1,304,172</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES						
Estimated cost of fixed assets installed or financed by developers, customers or the City	\$ 450,338	\$ -	\$ -	\$ -	\$ 450,338	\$ -

See accompanying notes to financial statements.

CITY OF RACINE

Fiduciary Funds

STATEMENT OF NET ASSETS

December 31, 2002

	Agency Funds		
	Police Evidence	Tax Collecting	Total
ASSETS			
Cash and investments	\$ 191,302	\$ 30,837,471	\$ 31,028,773
Receivables			
Property taxes	-	6,133,038	6,133,038
Other	-	-	-
TOTAL ASSETS	<u>\$ 191,302</u>	<u>\$ 36,970,509</u>	<u>\$ 37,161,811</u>
LIABILITIES			
Due to component unit	\$ -	\$ 157,940	\$ 157,940
Due to other governments	<u>191,302</u>	<u>36,812,569</u>	<u>37,003,871</u>
Total Liabilities	<u>191,302</u>	<u>36,970,509</u>	<u>37,161,811</u>
NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

CITY OF RACINE

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CITY OF RACINE

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CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Racine, Wisconsin conform to generally accepted accounting principles as applicable to governmental units.

A. REPORTING ENTITY

This report includes all of the funds of the City of Racine. The reporting entity for the City consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations 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. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. The discretely presented component unit described below is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

Business Improvement District

The government-wide financial statements include the Downtown Racine Business Improvement District #1, (BID) as a component unit. The BID, created in November 2001, has a separate nine member board appointed by the mayor and approved by the City council. The BID was designed to provide for and promote the continued vitality of the City's downtown business district through an aggressive marketing plan to promote existing businesses and attract new business. The BID has its own independent budgetary authority and assessment capabilities. However, the City can impose its will on the BID as the City must approve the BID operating budget and annual assessment. The City has no responsibility for fund deficits of the BID. As a component unit, the BID's financial statements have been presented as a discrete column in the City's financial statements. The financial information presented for the BID is for the fiscal year ended December 31, 2002. Separately issued financial statements of the BID may be obtained from the BID's office.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

In December 1998 the Governmental Accounting Standards Board (GASB) issued Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions* (GASB 33). In June 1999 issued Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34). In June 2001, GASB issued Statement No. 37 *Basic Financial Statement – and Management’s Discussion and Analysis – For State and Local Governments – Omnibus*, (GASB 37), and Statement No. 38 *Certain Financial Statement Note Disclosures* (GASB 38).

The City of Racine made the decision to implement these standards effective January 1, 2002.

Statements No. 34 and 37, among many other changes, add two new “government-wide” financial statements as basic financial statements required for all governmental units. The statement of net assets and the statement of activities are the two new required statements. Both statements are prepared on the full accrual basis. Previously, in accordance with accounting standards for governmental units, the City used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds in the fund financial statements are reported as business-type activities, governmental activities or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note I.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus non-major funds.

Statement No. 33 requires capital contributions to proprietary funds to be presented as a change in net assets rather than being directly credited to net assets. Statement No. 38 requires additional note disclosures.

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Government-Wide Financial Statements (cont.)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets/fund equity, revenues, and expenditure/expenses.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or proprietary fund that the City's management believes is particularly important to financial statement users may be reported as a major fund.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

The City reports the following major governmental funds:

Major Governmental Funds

General Fund – accounts for the City's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Other HUD Special Revenue Fund – Accounts for resources legally restricted to supporting expenditures for the various HUD financed programs in the City.

Tax Increment Districts Special Revenue Fund – accounts for expenditures outlined in the TID's project plans and related revenues and proceeds from long-term borrowing.

Debt Service Fund – accounts for resources accumulated and payments made for principal and interest on long-term debt other than enterprise fund debt.

The City reports the following major enterprise funds:

Major Enterprise Funds

Water Utility – accounts for operations of the water system.

Wastewater Utility – accounts for operations of the sewer system.

Belle Urban Transit Fund – accounts for operations of the Belle Urban Transit system.

The City reports the following non-major governmental and enterprise funds:

Non-Major Governmental Funds

Special Revenue Funds – used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Other Public Safety

Public Safety Grants

Special Assessments

Economic Development

Cemetery

Trusts

Other

Harbor Commission

Health

2002 HUD

Library

Recycling

Debt Service Fund – used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Refunding

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

The City reports the following non-major governmental and enterprise funds: (cont.)

Non-Major Governmental Funds (cont.)

Capital Projects Funds – used to account for financial resources to be used for the acquisition or construction of equipment and/or major capital facilities.

TIF #9

Assessment Projects

Street Projects

Capital Outlay 2000 and Prior

Capital Projects 2001 and Prior

2002 Capital Projects

City Projects

Equipment Replacement

Permanent Funds – used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

Endowment

Enterprise Funds – may be used to report any activity for which a fee is charged to external users for goods or services, and must be used for activities which meet certain debt or cost recovering criteria.

Parking Utility

Golf Courses

Civic Centre

Radio Repair

In addition, the City reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. As of January 1, 2002, the City began reporting health insurance activities in an internal service fund. In prior years health insurance activities were reported in the General Fund.

Equipment Maintenance Garage

Health Insurance

Telephones

Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Police Evidence

Tax Collecting

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's Water and Wastewater Utilities and Belle Urban Transit and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues, except for reimbursable intergovernmental grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursable intergovernmental grants are considered to be available if they are collected within one year of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred revenues. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the City is entitled the resources and the amounts are available. Amounts owed to the City which are not available are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

***Fund Financial Statements* (cont.)**

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and deferred revenues. Delinquent special assessments being held for collection by the county are reported as receivables and reserved fund balance in the General Fund.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The City reports deferred revenues on its governmental funds balance sheet. Deferred revenues arise from taxes levied in the current year which are for subsequent year's operations. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

The proprietary funds follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. The proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits, Investments and Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investment of City funds is restricted by state statutes. Available investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

Investment of most trust funds including cemetery perpetual care funds, is regulated by Chapter 881 of the Wisconsin Statutes. Investment of library trust funds is regulated by Chapter 112. Those sections give broad authority to use such funds to acquire various kinds of investments including stocks, bonds and debentures.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average investment balances. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2002, the fair value of the City's share of the LGIP's assets was substantially equal to the amount as reported in these financial statements.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

1. Deposits, Investments and Equivalents (cont.)

The Wisconsin Investment Trust (WIT) is a diversified investment fund sponsored by the League of Wisconsin Municipalities. The WIT is not registered with the Securities and Exchange Commission. It constitutes a contractual agreement among Wisconsin Municipalities for the joint exercise of their powers with respect to investment of municipal assets and the cooperative provision of investment management services. The WIT reports the fair value of its underlying assets annually. Participants in the WIT have the right to withdraw their funds in total with one day's notice. At December 31, 2002, the fair value of the WIT's assets was substantially equal to the City's share as reported in these financial statements.

See Note IV.A. for further information.

2. Receivables

Property taxes are levied in November on the assessed value as of the prior January 1. In addition to property taxes for the City, taxes are collected for and remitted to the state and county governments as well as the local school district and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying agency fund balance sheet.

Property tax calendar – 2002 tax roll:

Lien date and levy date	November 2002
Tax bills mailed	December 2002
Payment in full, or	
First installment due	January 31, 2003
Second installment due	March 31, 2003
Third installment due	May 31, 2003
Fourth installment due	July 31, 2003
Personal property taxes in full	January 31, 2003
Final settlement with County	August 15, 2003
Tax deed by County - 2002	
Delinquent real estate taxes	October 2005

Accounts receivable have been shown net of an allowance for uncollectible accounts. Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable of the Water and Wastewater Utilities has been made for those utilities because they have the right by law to place delinquent bills on the tax roll.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

2. Receivables (cont.)

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

In the governmental fund financial statements, advances to other funds are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

The City has received federal and state grant funds for economic development and housing rehabilitation loan programs to various businesses and individuals. The City records a loan receivable when the loan has been made.

It is the City's policy to record deferred revenue for the net amount of the receivable balance. As loans are repaid, revenue is recognized. When new loans are made from the repayments, expenditures are recorded. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as designated fund balance in the fund financial statements.

3. Inventories and Prepaid Items

Governmental fund inventories, if material, are recorded at cost based on the weighted average method using the consumption method of accounting. Inventory quantities at December 31, 2002 were determined by physical counts. Inventory amounts of governmental funds were offset by fund balance reserve amounts as they are not expendable available financial resources.

Proprietary fund inventories are generally used for operation and maintenance work. They are not for resale. They are valued at cost based on weighted average method, and charged to operation and maintenance expense when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Such amounts are offset by fund balance reserve accounts in governmental fund financial statements.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

4. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

5. Capital Assets

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 for general capital assets and \$25,000 for infrastructure assets, and an estimated useful life in excess of one year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated fixed assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Prior to January 2002, infrastructure assets of governmental funds were not capitalized. Upon implementing GASB 34, governmental units are required to account for all capital assets, including infrastructure, in the government-wide statements prospectively from the date of implementation. Retroactive reporting of all major general infrastructure assets is encouraged but not required until January 1, 2006, when GASB 34 requires the City to retroactively report all major general infrastructure assets acquired since January 1, 1980. For the year ended December 31, 2002, the City has retroactively reported all network infrastructure acquired by its governmental fund types except for the land value of the right-of-way under the City streets which has not yet been retroactively reported. An appraisal of all City capital assets was performed during 2001. In preparation for the retroactive reporting required upon the implementation of GASB 34, various adjustments were made to all City capital assets included in the appraisal.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. There was no interest capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

5. Capital Assets (cont.)

Government–Wide Statements (cont.)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation with a half year convention. The range of estimated useful lives by type of asset is as follows:

Buildings and Building Improvements	10-50 Years
Land Improvements	20 Years
Machinery and Equipment, including buses	3-25 Years
Infrastructure:	
Streets, Roads, and Bridges	30-50Years
Sidewalks	20Years
Drainage System	50Years
Sewer Lines	50Years
Shoreline Walls	50Years
Other	15-100 Years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

6. Other Assets

In governmental funds, debt issuance costs are recognized as expenditures in the current period. For the government-wide and the proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue.

7. Compensated Absences

The City's policy allows employees to earn varying amounts of vacation pay for each year employed. Upon retirement or termination of employment, the employee is entitled to payment in cash for any unused accrued vacation. Sick leave is earned at the rate of eight hours per month of full-time service to a maximum of 150 days. Employees are not compensated for unused sick leave upon termination of employment, except upon retirement or death. Upon retirement or death, accumulated sick leave, to a maximum of 70 days, is paid to the employee or the estate.

Only benefits considered to be vested are disclosed in these statements.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

7. Compensated Absences (cont.)

All vested vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. In governmental fund financial statements, the cost of vacation and sick leave is recognized when payments are made to employees and liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, or are payable with expendable available resources.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2002 are determined on the basis of current salary rates and include salary related payments.

8. Long-Term Obligations/Conduit Debt

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes and bonds payable, and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

The City has approved the issuance of industrial revenue bonds (IRB) for the benefit of private business enterprises. IRB's are secured by mortgages or revenue agreements on the associated projects, and do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The total amount of IRB's outstanding at the end of the year is approximately \$33,200,000 made up of twelve issues.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

9. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

10. Equity Classifications

Government–Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

10. Equity Classifications (cont.)

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled “designated”. The balance of unreserved fund balance is labeled “undesignated”, which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

The nature and purpose of each of the City’s reserves and designations are explained as follows:

1. Reserve for subsequent year’s expenses/expenditures – These reserves represent carryovers of 2002 budget appropriations, restricted under contractual agreements, to be utilized for specific purposes in the 2003 budget as legally authorized by City resolution.
2. Reserve for debt service – This reserve represents amounts provided for future payment of principal and interest on obligations of the City.
3. Reserve for capital projects – This reserve represents fully appropriated and legally authorized funds for future capital projects.
4. Reserve for endowments – To account for the segregation of donated monies, which may not be spent. However, the income earned may be spent for specific purposes.
5. Reserve for inventories – This reserve is discussed in Note (1)D3.
6. Reserve for prepaid items – This reserve is discussed in Note (1)D3.
7. Reserve for non-current receivables – This reserve represents receivable amounts that do not constitute expendable available financial resources.
8. Reserve for advance to other funds – This reserve represents advance amounts that do not constitute expendable available financial resources.
9. Reserve for encumbrances – This reserve represents the estimated amount of expenditures ultimately to result if unperformed contracts and open purchase orders at year end are fulfilled.
10. Designated for subsequent year’s expenditures – These amounts represent the amount of fund balances to be utilized in the 2003 budget as authorized by City resolution.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds”. The details of this \$10,885,834 difference are as follows:

Deferred revenue-loans	\$ 9,503,672
Deferred revenue-special assessments	<u>1,382,162</u>
Combined Adjustment for Long-Term Assets	<u>\$ 10,885,834</u>

Another element of that reconciliation states that “some liabilities, including long-term debt, are not due and payable in the current period and therefore are not reported in the funds”. In addition, interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net assets. The details of the \$75,201,953 difference are as follows:

Bonds and notes payable	\$ 70,964,337
Compensated absences	3,893,546
Accrued interest	294,070
Arbitrage rebate liability	<u>50,000</u>
Combined Adjustment for Long-Term Liabilities	<u>\$ 75,201,953</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$1,581,837 difference are as follows:

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (cont.)

Debt issued or incurred	
Issuance of general obligation bonds	\$ 15,105,000
Principal repayments	
General obligation debt	<u>(13,523,163)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 1,581,837</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$385,310 difference are as follows:

Compensated absences	\$ 239,362
Loan writeoffs	269,340
Accrued interest	<u>(123,392)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 385,310</u>

Another element of that reconciliation states that “Revenues in the governmental funds that are not reported as revenues in the statement of activities.” The net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net assets governmental activities of \$1,014,127 represents principal paid on economic development loans.

Another element of that reconciliation states that “Expenditures in the governmental funds that are not reported as expenses in the statement of activities.” The net adjustment to increase net changes in fund balance – total governmental funds to arrive at changes in net assets governmental activities of \$1,007,552 represents the amount of economic development loans made during the year.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

C. DETAILED EXPLANATION OF ADJUSTMENT TO PRIOR YEAR ENDING BALANCES TO CURRENT YEAR BEGINNING BALANCES USED ON THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND THE STATEMENT OF ACTIVITIES

Financial statements for the year ended December 31, 2001 were issued in conformance with generally accepted accounting principles. GASB 34 requires certain amounts be restated. The reconciliation of restated amounts to the December 31, 2001 year end balance is:

Total Equity and Other Credits Reported for December 31, 2001	\$ 242,816,434
Less	
Capital assets	(63,747,696)
Fund equity for proprietary funds	(118,669,211)
Restatement of December 31, 2001 fund balances (See Note IV J.)	(855,032)
Beginning Fund Balance Report on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, as Adjusted	59,544,495

The following adjustments are necessary to determine the beginning net assets for the statement of activities

Capital asset related items	
Capital assets reported on December 31, 2001	63,747,696
Adjustment of December 31, 2001 reported capital assets	4,716,778
Adjustment of December 31, 2001 capital assets	241,786,827
Accumulated depreciation for governmental type capital assets through December 31, 2001	(131,088,130)
Long-term assets as of December 31, 2001	10,782,343
Long-term outstanding obligations items	
Long-term obligations as of December 31, 2001	(73,531,844)
Adjustment of December 31, 2001 vested compensated absences	445,160
Accrued interest on long-term obligations as of December 31, 2001	(417,462)
Internal service fund	
Fund equity as of December 31, 2001	412,332
Beginning Net Assets Reported on Statement of Activities for Governmental Activities	\$ 176,398,195

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note I.

The City adopted annual Governmental Fund budgets for the following funds:

General Fund	Debt Service Fund:
Special Revenue Funds:	Currently Due
Health	Capital Project Funds:
Public Safety Grants	2002 Capital Projects
2002 HUD	Assessment Projects
Harbor Commission	Street Projects
Library	
Recycling	

These budgets are adopted in accordance with State Statutes. The budgeted amounts presented include any amendments made. Appropriation lapse at year-end unless specifically carried over. Carryovers to the following year include items encumbered at yearend. Carryovers to the following year were \$5,405,881. The City uses appropriation unit control (salaries and fringe benefits, operating and capital outlay) within department. All modifications/changes to appropriation units, capital outlay items and capital projects require Liaison Committee, Finance Committee and Common Council approval. Supplemental appropriations during the year were \$1,700,840.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

B. EXCESS EXPENDITURES OVER APPROPRIATIONS

The following appropriation units have an excess of actual expenditures over appropriations for the year ended December 31, 2002:

<u>Fund</u>	<u>Department</u>	<u>Appropriation Unit</u>	<u>Amount</u>
General Fund	City Clerk	Salaries and Fringes	\$ 9,735
	City Attorney	Salaries and Fringes	1,625
	City Development	Operating Expenditures	1,723
	Fire	Salaries and Fringes	120,209
	Fire Protection Services	Operating Expenditures	66,950
	Municipal Judge	Capital Outlay	603
	Municipal Judge	Operating Expenditures	753
	Insurance	Operating Expenditures	70,250
	Police	Operating Expenditures	113,809
	Miscellaneous Unclassified	Operating Expenditures	15,648

In addition, all departments were over budget in the interdepartmental appropriation unit due to an unexpected fluctuation in health insurance claims during the fiscal year. The interdepartmental appropriation units were over budget in the amount of \$2,526,379.

C. DEFICIT BALANCES

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end.

Special Revenue Funds

Recycling Program – The fund deficit of \$639,376 is the result of expenditures in excess of revenues received from the State of Wisconsin for this mandated program. The continued operation of this program is dependent upon funding through tax levy.

Harbor Commission– The fund deficit of \$269,398 is the result of expenditures for a dredging project in excess of revenues received from the State of Wisconsin Department of Natural Resources. Taxes have been levied in 2003 to cover this deficit.

Tax Incremental Districts – The accumulated fund deficits of \$10,162,466 are the result of expenditures exceeding available bond proceeds and tax increments. In future years, these deficits are expected to be offset as incremental tax revenues are collected.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Total cash and investments in the basic financial statements consist of the following:

	Unrestricted	Restricted	Total
Cash on Hand	\$ 5,190	\$ -	\$ 5,190
Deposits	21,625,815	1,570,897	23,196,712
Investments	80,611,692	15,861,570	96,473,262
	\$ 102,242,697	\$ 17,432,467	\$ 119,675,164

The City's deposits and investments are categorized to give an indication of the level of custodial credit risk assumed by the entity at year end. Category 1 includes items that are insured or registered or which are collateralized by or evidenced by securities held by the City or its agent in the City's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, or uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the City's name. Category 3 includes uncollateralized deposits, and uninsured and unregistered investments, with securities held by the counterparty or its trust department or agent but not in the City's name.

	Category			Totals	Carrying Amount/ Fair Value
	1	2	3		
U.S.Government Securities	\$ 93,052,702	\$ -	\$ 2,003,348	\$ 95,056,050	\$ 91,068,264
Equity securities	1,401,548	-	1,401,548	2,803,096	1,401,548
Certificates of Deposit	2,019,012	-	19,012	2,038,024	2,019,012
Local Deposits	4,624,121	-	9,386,090	14,010,211	23,196,712
Sub-Totals	\$ 101,097,383	\$ -	\$ 12,809,998	\$ 113,907,381	
Wisconsin Local Government Investment Pool					827,918
Wisconsin Investment Trust Pool					1,156,520
Petty cash					5,190
Total Deposits and Investments					\$ 119,675,164
Reconciliation to financial statements					
Per statement of net assets					
Cash and investments					\$ 71,213,924
Restricted Cash and investments					17,432,467
Per statement of net assets – fiduciary funds					31,028,773
Total					\$ 119,675,164

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

The City had no significant type of investment during the year not included in the above schedule.

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities. This coverage has not been considered in computing the amounts in Category 1 above.

Investments in the Wisconsin Local Government Investment Pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by any FDIC and State of Wisconsin Guarantee Fund insurance.

One of the City's investment companies insures U.S. government securities to a maximum of \$150 million. These investments have been included in Category 1 above. The City's certificates of deposit are collateralized at 125 percent of value and are included in Category 1 above.

During 2002, the City experienced unrealized gains on investments in the amount of \$1,048,845 in the General Fund. This amount is included in investment income. It is the intent of the City to hold these investments to maturity.

Fluctuating cash flows during the year due to tax collections, receipt of state aids and/or proceeds from borrowing may have resulted in temporary balances exceeding insured amounts by substantially higher amounts.

The City is exposed to market risk through its participation in the Wisconsin Local Government Investment Pool and both market risk and credit risk through its investment in government securities, equity securities and the Wisconsin Investment Trust Pool.

B. RECEIVABLES

Receivables of the City are reported net of uncollectible amounts. Details relating to the uncollectible amounts are as follows:

	<u>General</u>		<u>Other</u>	<u>Internal</u>	<u>Other</u>	
	<u>Fund</u>	<u>Transit</u>	<u>Enterprise</u>	<u>Service</u>	<u>Non Major</u>	<u>Total</u>
Accounts receivable	\$ 487,011	\$ 36,058	\$ 36,442	\$ 29,851	\$ 138,561	\$ 727,923
Delinquent personal property	<u>81,876</u>	-	-	-	-	<u>81,876</u>
Total Uncollectibles	<u>\$ 568,887</u>	<u>\$ 36,058</u>	<u>\$ 36,442</u>	<u>\$ 29,851</u>	<u>\$ 138,561</u>	<u>\$ 809,799</u>

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES (cont.)

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable	\$ 35,616,656	\$ -	\$ 35,616,656
Loans receivable	9,676,214	-	9,676,214
Special assessments not yet due	1,442,700	-	1,442,700
Interest on loans and advances	1,867,285	-	1,867,285
Grant drawdowns prior to meeting all eligibility requirements	-	214,105	214,105
	<hr/>	<hr/>	<hr/>
Total Deferred/Unearned Revenue for Governmental Funds	\$ 48,602,855	\$ 214,105	\$ 48,816,960

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Long Term Debt Accounts

- Redemption – Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve – Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Depreciation – Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.
- Improvement – Used to report proceeds of revenue bond issuances that are restricted for use in construction.

Equipment Replacement Account

The Wastewater Utility established an equipment replacement account to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources.

Following is a list of restricted assets for the Water and Wastewater Utility at December 31, 2002:

	Water Utility	Wastewater Utility	Total
Bond redemption account	\$ 1,293,924	\$ 685,271	\$ 1,979,195
Bond reserve account	1,991,024	497,350	2,488,374
Bond depreciation account	796,368	995,441	1,791,809
Improvement account	6,083,960	-	6,083,960
Equipment replacement account	-	5,131,075	5,131,075
 Total Restricted Assets	 10,165,276	 7,309,137	 17,474,413
 Less: Liabilities payable from restricted assets	 3,279,224	 1,182,041	 4,461,265
 Restricted Net Assets	 \$ 6,886,052	 \$ 6,127,096	 \$ 13,013,148

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2002 was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 4,010,488	\$ -	\$ 275,000	\$ 3,292,905	\$ 7,028,393
Construction in progress	-	5,345,016	-	3,554,507	8,899,523
Total Capital Assets Not Being Depreciated	4,010,488	5,345,016	275,000	6,847,412	15,927,916
Capital assets being depreciated					
Land improvements	1,544,714	802,941	59,926	4,954,742	7,242,471
Buildings	26,752,471	692,579	-	725,520	28,170,570
Machinery and equipment	32,816,103	2,836,192	1,170,462	(8,041,565)	26,440,268
Roads, streets, and bridges	113,622,038	2,652,960	461,432	-	115,813,566
Drainage system	48,306,650	235,228	-	-	48,541,878
Sidewalks	42,974,697	245,293	1,074	-	43,218,916
Sewer lines	27,389,669	24,053	2,057	-	27,411,665
Shoreline walls	7,623,425	1,180,279	-	-	8,803,704
Other	1,302,350	-	-	-	1,302,350
Total Capital Assets Being Depreciated	302,332,117	8,669,525	1,694,951	(2,361,303)	306,945,388
Less: accumulated depreciation for					
Land improvements	2,569,957	313,656	38,952	5,329	2,849,990
Buildings	10,098,904	553,846	-	130,125	10,782,875
Machinery and equipment	12,196,431	3,011,615	1,008,692	56,637	14,255,991
Roads, streets, and bridges	44,711,310	3,423,365	305,768	-	47,828,907
Drainage system	20,630,191	953,009	-	-	21,583,200
Sidewalks	26,012,084	1,490,181	1,074	-	27,501,191
Sewer lines	11,754,856	523,480	2,057	-	12,276,279
Shoreline walls	2,537,806	156,962	-	-	2,694,768
Other	806,946	18,725	-	-	825,671
Total Accumulated Depreciation	131,318,485	10,444,839	1,356,543	192,091	140,598,872
Total Capital Assets being Depreciated, Net	171,013,632	(1,775,314)	338,408	(2,553,394)	166,346,516
Governmental Activities					
Capital Assets, Net	\$ 175,024,120	\$ 3,569,702	\$ 613,408	\$ 4,294,018	\$ 182,274,432

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Depreciation expense was charged to functions as follows:

Governmental Activities

General government	\$ 157,471
Education and recreation	1,775,673
Public works, which includes infrastructure	7,770,484
Public safety	<u>741,211</u>
 Total Governmental Activities Depreciation Expense	 \$ <u>10,444,839</u>

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Business-Type Activities					
Capital assets not being depreciated					
Land	\$ 196,424	\$ 2,319,015	\$ -	\$ -	\$ 2,515,439
Construction in progress	<u>8,937,364</u>	<u>14,065,678</u>	<u>736,047</u>	<u>-</u>	<u>22,266,995</u>
Total Capital Assets Not Being Depreciated	9,133,788	16,384,693	736,047	-	24,782,434
Capital assets being depreciated					
Land improvements	5,247,923	395,430	-	1,201,358	6,844,711
Improvements other than buildings	65,280,509	1,768,856	192,392	-	66,856,973
Buildings	54,610,133	11,281,919	245,890	(264,531)	65,381,631
Machinery and equipment	<u>46,826,629</u>	<u>2,989,710</u>	<u>1,452,157</u>	<u>(4,153,398)</u>	<u>44,210,784</u>
Total Capital Assets Being Depreciated	<u>171,965,194</u>	<u>16,435,915</u>	<u>1,890,439</u>	<u>(3,216,571)</u>	<u>183,294,099</u>
Less: accumulated depreciation for					
Land improvements	1,736,501	135,688	-	172,241	2,044,430
Improvements other than buildings	16,932,141	990,528	192,393	-	17,730,276
Buildings	21,890,725	1,464,206	179,662	(87,068)	23,088,201
Machinery and equipment	<u>23,539,656</u>	<u>2,188,884</u>	<u>1,396,448</u>	<u>(3,837,902)</u>	<u>20,494,190</u>
Total Accumulated Depreciation	<u>64,099,023</u>	<u>4,779,306</u>	<u>1,768,503</u>	<u>(3,752,729)</u>	<u>63,357,097</u>
Total Capital Assets being Depreciated, Net	<u>107,866,171</u>	<u>11,656,609</u>	<u>121,936</u>	<u>536,158</u>	<u>119,937,002</u>
Business-Type Activities Capital Assets, Net	<u>\$116,999,959</u>	<u>\$28,041,302</u>	<u>\$857,983</u>	<u>\$ 536,158</u>	<u>\$144,719,436</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities	
Water	\$ 1,951,255
Wastewater	1,515,763
Belle Urban Transit	541,262
Other	<u>586,769</u>
Total Business-Type Activities Depreciation Expense	\$ 4,595,049

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

Receivable Fund	Payable Fund	Amount due Within One Year
General Fund	Enterprise Fund-Transit	\$ 1,012,546
General Fund	Enterprise Fund-Civic Center	226,597
General Fund	Internal Service Fund-Equipment Maint.	1,036,316
General Fund	Permanent Fund	123
General Fund	Capital Projects-City Projects	710,087
General Fund	Special Revenue-Harbor Commission	444,053
General Fund	Special Revenue-Public Safety Grants	209,517
General Fund	Special Revenue-Recycling	596,327
General Fund	Special Revenue-Health	43,115
General Fund	Special Revenue-Other HUD	86,077
General Fund	Special Revenue-TIF	2,254
General Fund	Special Revenue-2002 HUD	396,517
General Fund	Wastewater Utility	30,167
General Fund	Water Utility	1,345,995
Wastewater Utility	Capital Projects-City Projects	2,836,563
Wastewater Utility	Water Utility	1,057,052
Wastewater Utility	General Fund	30,762
Water Utility	Wastewater Utility	597,499
Water Utility	General Fund	1,241,483
Internal Service Fund-Equipment Maint.	Water Utility	8,353
Internal Service Fund-Equipment Maint.	Wastewater Utility	611
Internal Service Fund-Health Insurance	Water Utility	27,768
Internal Service Fund-Telephone	Water Utility	1,295
Internal Service Fund-Telephone	Wastewater Utility	943
Special Revenue-Library	Wastewater Utility	59
Capital Projects-City Projects	Water Utility	<u>1,046,681</u>
		<u>\$ 12,988,760</u>

The principal purpose of these interfunds is to fund overdrafts on pooled cash. In addition, the balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the statement of net assets, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

The general fund is advancing funds to various Tax Incremental Financing (TIF) Districts and the Golf Course. The amount advanced to the TIF Districts is determined by the deficiency of revenues over expenditures and other financing sources since the district's inception. The General Fund is charging the Golf Course interest at 6% and repayment schedules have been established for these amounts advanced to the Golf Course. The General Fund is charging the TIF Districts interest at the City's blended investment rate. No repayment schedules have been established for the advances to the TIF Districts.

The following is a schedule of interfund advances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount	Amount Due Within One Year
General Fund	Tax Increment District # 3	\$ 957,143	\$ -
General Fund	Tax Increment District # 5	1,399,684	-
General Fund	Tax Increment District # 6	5,143,296	-
General Fund	Tax Increment District # 7	532,812	-
General Fund	Tax Increment District # 8	1,371,722	-
General Fund	Golf Courses Enterprise Fund	646,917	70,724
Special Assessment Fund	Tax Increment District # 8	<u>754,455</u>	-
		<u>\$ 10,806,029</u>	<u>\$ 70,724</u>

Repayment schedules for advances to the Golf Course with an established payment schedule follow:

2003	\$ 107,401
2004	107,401
2005	107,401
2006	107,401
2007	107,401
2008-2010	<u>257,714</u>
Sub-total	794,719
Amount representing interest	<u>(157,248)</u>
	<u>\$ 637,471</u>

In addition to the above, the General Fund has also advanced funds to the golf course that are to be repaid using surcharge fees charged by the golf courses. This advance does not have an established repayment schedule. The balance remaining on this advance at year end was \$9,446.

For the statement of net assets, interfund advance balances which are owed within the governmental activities or business-type activities are netted and eliminated.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount
General Fund	Special Revenue-Cemetery	\$ 36,970
General Fund	Special Revenue-Other	21,311
General Fund	Special Revenue-Public Safety	289
General Fund	Trusts	502
General Fund	Permanent	16,191
General Fund	Water	1,485,658
General Fund	Wastewater	1,611,766
Debt Service Fund	Special Revenue-Special Assessment	2,113,919
Debt Service Fund	Capital Projects-City Projects	4,750,000
Debt Service Fund	Special Revenue-TIF	2,249,899
Debt Service Fund	Capital Projects-TIF #9	309,174
Capital Projects-Assessment Projects	Special Revenue-Special Assessment	433,002
Capital Projects-City Projects	Capital Projects-2001 and Prior	6,739,575
Capital Projects-City Projects	Capital Projects-Street Projects	783,802
Capital Projects-City Projects	Special Revenue-TIF	224,587
Capital Projects-2001 and Prior	Capital Projects-City Projects	1,037,928
Capital Projects-Capital Outlay 2000 and Prior	Capital Projects-2001 and Prior	31,551
Enterprise-Transit	Capital Projects-City Projects	4,950
Enterprise-Civic Center	Capital Projects-2001 and Prior	132,572
Enterprise-Transit	Capital Projects-2001 and Prior	109,627
Enterprise-Parking	Capital Projects-2001 and Prior	655,332
Enterprise-Parking	Capital Projects-2002	3,719,221
Enterprise-Parking	Special Revenue-Economic Development	1,700,000
Enterprise-Parking	Capital Projects-2001 and Prior	250,000
Internal Service-Telephone	Capital Projects-2002	286,884
Internal Service-Telephone	Capital Projects-2001 and Prior	338,513
Internal Service-Health	General Fund	64,550
Capital Projects-2001 and Prior	Enterprise-Parking	107,553
Special Revenue-Other	Special Revenue-Public Safety	6,171
Special Revenue-Other	Special Revenue-Other HUD	21,348
Special Revenue-Other	Special Revenue-2002 HUD	35,610
Special Revenue-Other	General Fund	2,931
Special Revenue-Other Public Safety	General Fund	3,038
Special Revenue-2002 HUD	Special Revenue-Other HUD	182,238
Special Revenue-Other HUD	Special Revenue-2002 HUD	677,145
		<u>\$ 30,143,807</u>

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2002 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
General obligation					
bonds and notes payable	\$ 69,382,500	\$ 15,105,000	\$ 13,523,163	\$ 70,964,337	\$ 8,029,123
Sub-total	69,382,500	15,105,000	13,523,163	70,964,337	8,029,123
Other Liabilities					
Vested compensated absences	4,099,344	-	205,798	3,893,546	252,762
Arbitrage rebate	50,000	-	-	50,000	-
Total Other Liabilities	4,149,344	-	205,798	3,943,546	252,762
Total Governmental Activities					
Long-Term Liabilities	\$ 73,531,844	\$ 15,105,000	\$ 13,728,961	\$ 74,907,883	\$ 8,281,885

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable					
Revenue bonds	\$38,440,290	\$14,800,055	\$1,679,681	\$51,560,664	\$1,906,481
Add/(Subtract) Deferred Amounts For					
Refundings - Gains/(Losses)	<u>(605,759)</u>	<u>-</u>	<u>(95,968)</u>	<u>(509,791)</u>	<u>-</u>
Sub-total	37,834,531	14,800,055	1,583,713	51,050,873	1,906,481
Other Liabilities					
Vested compensated absences	<u>794,175</u>	<u>73,241</u>	<u>-</u>	<u>867,416</u>	<u>-</u>
Total Other Liabilities	<u>794,175</u>	<u>73,241</u>	<u>-</u>	<u>867,416</u>	<u>-</u>
Total Business-Type Activities					
Long-Term Liabilities	<u>\$38,628,706</u>	<u>\$14,873,296</u>	<u>\$1,583,713</u>	<u>\$51,918,289</u>	<u>\$1,906,481</u>

General Obligation Debt

All general obligation notes and bonds payable are backed by the full faith and credit of the City. Notes and bonds in the governmental funds will be retired by future property tax levies or tax increments accumulated by the debt service fund. Business-type activities debt is payable by revenues from user fees of those funds or, if the revenues are not sufficient, by future tax levies.

In accordance with Wisconsin Statutes, total general obligation indebtedness of the City may not exceed five percent of the equalized value of taxable property within the City's jurisdiction. The debt limit as of December 31, 2002, was \$144,129,115. Total general obligation debt outstanding at year end was \$70,964,337.

During 2002, the City issued \$6,105,000 of general obligation refunding bonds for the purpose of refunding the City's outstanding \$6,025,000 bond anticipation notes issued in 2000, in March, 2002, an early call date for redemption.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

<u>Type/Series</u>	<u>Date of Issue</u>	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance Outstanding 12/31/02</u>
General Obligation Bonds					
1987	11/01/87	11/01/07	7.0-8.7%	\$ 5,012,875	\$ 2,291,625
1991	10/15/91	10/15/04	5.00-7.00	4,570,000	575,000
2001	4/15/01	04/15/11	4.00-4.63	<u>5,205,000</u>	<u>4,710,000</u>
				<u>14,787,875</u>	<u>7,576,625</u>
State Trust Fund Loans					
2000	08/16/00	08/16/10	5.25	<u>10,000,000</u>	<u>9,362,712</u>
General Obligation Promissory Notes					
1995	09/15/95	09/15/04	4.30-4.70	4,500,000	1,250,000
1996	12/01/96	12/01/06	4.50-4.90	6,200,000	3,000,000
1997	09/30/97	09/30/06	4.38-4.75	6,575,000	3,275,000
1998	09/30/98	09/30/07	4.00-4.30	6,795,000	4,400,000
1999	12/01/99	12/01/09	4.60-5.20	7,880,000	5,510,000
2001	12/1/01	12/01/11	2.50-4.00	9,500,000	9,500,000
2002	11/1/02	11/01/11	2.00-4.00	<u>9,000,000</u>	<u>9,000,000</u>
				50,450,000	35,935,000
Tax Incremental General Obligation Debt					
1991 (Tif #6)	10/01/91	10/01/11	5.00-7.00	3,945,000	925,000
1993 (Tif #7)	06/01/93	06/01/12	5.40-7.00	6,140,000	5,600,000
1993 (Tif #8)	06/01/93	06/01/12	5.40-7.00	6,065,000	5,460,000
2002 (Tif #9)	02/15/02	02/15/21	3.00-5.10	<u>6,105,000</u>	<u>6,105,000</u>
				<u>22,255,000</u>	<u>18,090,000</u>
Total Governmental Activities - General Obligation Debt				<u>\$ 97,492,875</u>	<u>\$ 70,964,337</u>

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

Debt service requirements to maturity are as follows:

<u>Years</u>	Governmental Activities General Obligation Debt		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 8,029,123	\$ 3,392,215	\$ 11,421,338
2004	8,733,058	2,987,795	11,720,853
2005	9,051,397	2,570,084	11,621,481
2006	9,224,033	2,148,608	11,372,641
2007	7,784,010	1,697,276	9,481,286
2008 – 2012	24,502,716	3,887,503	28,390,219
2013 – 2017	1,820,000	734,270	2,554,270
2018 – 2021	1,820,000	237,051	2,057,051
Totals	<u>\$ 70,964,337</u>	<u>\$ 17,654,802</u>	<u>\$ 88,619,139</u>

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Business-Type Activities Revenue Debt

Revenue Debt

Revenue bonds are payable only from revenues derived from the operation of the Water and Wastewater Utilities.

Revenue debt payable at December 31, 2002 consists of the following:

	Date of Issue	Final Maturity	Interest Rates	Original Indebted- ness	Balance 12/31/02
<u>Water Utility</u>					
Mortgage Revenue Bonds	11/1/89	11/1/09	6.10-7.35%	\$ 3,400,000	\$ 200,000
Mortgage Revenue Bonds	5/1/93	5/1/09	4.00-5.80	2,075,000	470,000
Mortgage Revenue Bonds	2/1/95	2/1/15	5.90-6.60	5,000,000	830,000
Safe Drinking Water Loan	2/10/99	2/10/18	2.64	12,594,655	10,595,608
Mortgage Revenue Bonds	10/1/01	10/1/21	3.50-5.25	11,460,000	11,460,000
Mortgage Revenue Bonds	4/15/01	4/15/21	4.00-5.38	6,235,000	6,165,000
Total Water Utility				<u>40,764,655</u>	<u>29,720,608</u>
<u>Wastewater Utility</u>					
Mortgage Revenue Bonds	6/1/93	6/1/08	2.80-5.80	4,880,000	2,200,000
State Cleanwater Fund Loans	4/27/94	4/27/13	3.19	2,701,745	1,756,177
State Cleanwater Fund Loans	3/26/97	3/26/16	3.00	1,158,993	913,970
State Cleanwater Fund Loans	5/27/99	5/27/18	2.64	854,147	716,957
State Cleanwater Fund Loans	11/1/99	11/1/19	2.64	797,249	708,785
State Cleanwater Fund Loans	9/27/00	9/27/20	2.97	802,113	744,112
State Cleanwater Fund Loans	4/10/02	4/10/21	2.75	3,786,634	3,786,634
State Cleanwater Fund Loans	7/24/02	7/24/21	2.86	10,624,806	10,624,806
State Cleanwater Fund Loans	11/27/02	11/27/22	2.87	388,615	388,615
Total Wastewater Utility				<u>25,994,302</u>	<u>21,840,056</u>
Total Business-Type Activities Revenue Debt				<u>\$ 66,758,957</u>	<u>\$ 51,560,664</u>

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Revenue Debt (cont.)

Debt service requirements to maturity are as follows:

<u>Years</u>	<u>Business-Type Activities General Obligation Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 1,906,481	\$ 1,864,430	\$ 3,770,911
2004	2,867,465	1,784,448	4,651,913
2005	2,969,538	1,677,117	4,646,655
2006	3,086,423	1,565,044	4,651,467
2007	3,199,483	1,447,495	4,646,978
2008-2012	14,511,776	5,587,528	20,099,304
2013-2017	13,998,941	3,001,519	17,000,460
2018-2022	<u>9,020,557</u>	<u>774,354</u>	<u>9,794,911</u>
Totals	<u>\$ 51,560,664</u>	<u>\$ 17,701,935</u>	<u>\$ 69,262,599</u>

Arbitrage Rebate Liability

The City has issued tax-exempt general obligation debt that is subject to arbitrage regulations. City management has reviewed the arbitrage regulations and believes that the potential for an arbitrage rebate liability exists. The City has engaged a third party to review the activity related to its debt issues and calculate the amount of any liability. As of December 31, 2002, the third party has not completed their analysis of the debt issues. Accordingly, the City has recorded \$50,000 as an estimated arbitrage rebate liability.

Other Debt Information

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be liquidated primarily by the general fund.

A statutory mortgage lien upon the City's utility system and any additions, improvements and extensions thereto is created by Section 66.066 of the Wisconsin Statutes as provided for in the ordinances creating the revenue bond issue. The City's system and the earnings of the system remain subject to the lien until payment in full of the principal and interest on the bonds.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Other Debt Information (cont.)

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. The City believes it is in compliance with all significant limitations and restrictions, including federal arbitrage regulations.

During 2002, the Wastewater Utility was approved to borrow \$84,246,903 of State of Wisconsin Clean Water Fund loans for use in connection with the construction of the Wastewater Utility plant. At December 31, 2002, \$14,800,055 was drawn down on these loans and is included in long-term debt of the Utility with interest rates ranging from 2.75% to 2.867%.

Prior-Year Defeasance of Debt

In prior years, the City defeased certain general obligation notes and bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old notes and bonds. Accordingly, the trust account assets and the liability for the defeased notes and bonds are not included in the City's financial statements. At December 31, 2002, \$3,095,000 of bonds outstanding are considered defeased. The bonds are callable from October 1, 2004 to October 2, 2006.

In prior years, the Water Utility defeased certain mortgage revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old rates and bonds. Accordingly, the trust account assets and the liability for the defeased rates and bonds are not included in the Water Utility's financial statements. At December 31, 2002, \$5,695,000 of bonds outstanding are considered defeased. The bonds are callable from September 1, 2003 to September 1, 2007.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

Deferred Amount on Refunding

Deferred amounts on refunding arise from advance refunding of debt. The difference between the cost of the securities placed in trust for future payment of refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deduction from debt payable in the government-wide and proprietary fund statements. Amortization for 2002 was \$95,968 for the Water Utility.

G. LEASE DISCLOSURES

The City has no material leases as lessee or lessor.

H. NET ASSETS

Net assets reported on the government wide statement of net assets at December 31, 2002 includes the following:

Governmental Activities

Invested in capital assets, net of related debt	
Capital assets, net of accumulated depreciation	\$ 182,274,432
Less: related long-term debt outstanding	(59,045,414)
Plus: funds borrowed but not spent	<u>4,490,146</u>
Total Invested in Capital Assets, Net of Related Debt	<u>127,719,164</u>
Restricted for	
Debt service	4,902,000
Permanent Funds	3,056,797
Funds borrowed but not spent	4,490,146
HUD loan program	<u>10,670,971</u>
Total Restricted	<u>23,119,914</u>
Unrestricted	<u>19,454,046</u>
Total Governmental Activities Net Assets	<u>\$ 170,293,124</u>

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

H. NET ASSETS (cont.)

Business-Type Activities

Invested in capital assets, net of related debt	
Other Capital assets, net of accumulated depreciation	\$ 144,719,436
Less: related long-term debt outstanding	(47,153,680)
Plus: debt restricted assets	<u>4,461,265</u>
Total Invested in Capital Assets, Net of Related Debt	<u>102,027,021</u>
Restricted for (See Note IV C for details)	
Water	6,886,052
Wastewater	<u>6,127,096</u>
Total Restricted	<u>13,013,148</u>
Unrestricted	<u>10,570,708</u>
Total Net Assets	<u>\$ 125,610,877</u>

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. RESTATEMENT

The City has restated the following December 31, 2001 fund equity balances to reflect the following adjustments made during 2002.

1. The enterprise and internal service funds have a reported adjustment for capital assets. An appraisal was completed during 2002 on the enterprise and internal service funds, resulting in the identification of various capital assets that should have been capitalized in prior years. In addition, several capital assets were identified that were disposed in prior years but not removed from the financial records. Accordingly, fund equity has been restated to reflect these items.
2. In 1994, the City entered into an agreement with the Wastewater Utility to periodically replace all of the manholes and upgrade other structures to promote infiltration/inflow removal in the City of Racine. The manholes are owned by the City, rather than the Utility and therefore are an asset of the City and not the Utility under GASB 34. The Utility initially borrows to finance the manhole replacement and is then reimbursed by the City. There is no set repayment schedule for this agreement. The restatement of \$2,647,896 relates to the balance owed to the Wastewater Utility as of December 31, 2001.
3. During an audit of Tax Incremental District #5 it was determined that various expenditures originally charged to the TIF were not eligible expenditures under the TIF plan. As a result, \$1,216,797 of expenditures were reclassified, with \$1,085,536 to the general fund and with \$131,261 to the capital projects fund. Various revenues totaling \$517,757 associated with these expenditures were also reclassified to the general fund. The general fund had advanced funds to the TIF district to pay for these expenditures and charged the TIF interest on these advances. Since the expenditures were determined ineligible, the advance and the interest charged on the advance of \$1,928,573 were eliminated in 2002.
4. Other restatements include various reclassifications between funds to more accurately present the financial information of the City.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. RESTATEMENT (cont.)

MAJOR GOVERNMENTAL FUNDS

	<u>General Fund</u>	<u>Tax Increment</u>
Fund Equity December 31, 2001, (as previously reported)	\$ 37,359,663	\$ (12,852,039)
Reclassified to special revenue-Other	(59,354)	-
Reclassification of non TIF related revenues	517,757	(517,757)
Reclassification of non TIF related expenditures	(1,085,536)	1,216,797
Elimination of advance interest	-	1,928,573
 Fund Equity January 1, 2002 (as restated)	 <u>\$ 36,732,530</u>	 <u>\$ (10,224,426)</u>

INTERNAL SERVICE FUNDS

	<u>Equipment Maintenance Garage</u>	<u>Telephone</u>
Fund Equity December 31, 2001, (as previously reported)	\$ 153,305	\$ 16,474
 Adjustments to capital assets	 <u>213,383</u>	 <u>29,170</u>
 Fund Equity January 1, 2002 (as restated)	 <u>\$ 366,688</u>	 <u>\$ 45,644</u>

NONMAJOR GOVERNMENTAL FUNDS

	<u>Capital Projects</u>		<u>Special Revenue</u>					<u>Permanent Endowment</u>
	2001 and Prior	City Projects	Trusts	Other	Harbor Commission	Other Public Safety	Public Safety Grants	
Fund Equity December 31, 2001, (as previously reported)	\$ 16,724,512	\$ -	\$ 1,231,634	\$ 550,555	\$ -	\$ 568,543	\$ -	\$ 3,281,182
Reclassified portion of general				59,354				
Reclassified to Public Safety Grants Fund						(171)	171	
Reclassified to Harbor Commission Fund				(16,602)	16,602			
Reclassified trust	-	-	67,951	-	-	-	-	(67,951)
Writeoff of improper receivable	(135,709)							
Reclassification of non TIF Expend	(131,261)							
Reclassified to City Projects Fund	(541,000)	541,000						
Recording of Sewer Manhole Fund	-	(2,647,896)						
 Fund Equity January 1, 2002 (as restated)	 <u>\$ 15,916,542</u>	 <u>\$ (2,106,896)</u>	 <u>\$ 1,299,585</u>	 <u>\$ 593,307</u>	 <u>\$ 16,602</u>	 <u>\$ 568,372</u>	 <u>\$ 171</u>	 <u>\$ 3,213,231</u>

NONMAJOR ENTERPRISE FUNDS

	<u>Parking</u>	<u>Golf</u>	<u>Civic Center</u>	<u>Radio Repair</u>
Fund Equity December 31, 2001, (as previously reported)	\$ 8,156,076	\$ 866,552	\$ 4,067,607	\$ 273,011
 Adjustments to capital assets	 <u>(869,357)</u>	 <u>1,458,330</u>	 <u>287,701</u>	 <u>34,342</u>
 Fund Equity January 1, 2002 (as restated)	 <u>\$ 7,286,719</u>	 <u>\$ 2,324,882</u>	 <u>\$ 4,355,308</u>	 <u>\$ 307,353</u>

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNIT

This report contains the Downtown Racine Business Improvement District #1 (BID), which is included as a component unit. Financial information is presented as a discrete column in the statement of net assets and statement of activities.

In addition to the basic financial statements and the preceding notes to financial statements which apply, the following additional disclosures are considered necessary for a fair presentation.

a. **Basis of Accounting/Measurement Focus**

The BID follows the modified accrual basis of accounting and the flow of current financial resources measurement focus.

b. **Transactions with the Primary Government**

At December 31, 2002, the BID has a receivable of \$157,940 from the City's tax collection fund for a portion of the 2001 annual assessment and the entire subsequent year's annual assessment.

NOTE V – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

All eligible City employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category are required by statute to contribute 5.2% of their salary (3.9% for Executives and Elected Officials, 3.8% for Protective Occupations with Social Security, and 3.3% for Protective Occupations without Social Security) to the plan. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for City employees covered by the system for the year ended December 31, 2002 was \$45,976,880; the employer's total payroll was \$48,068,051. The total required contribution for the year ended December 31, 2002 was \$5,425,057 or 11.8 percent of covered payroll. Of this amount, 100 percent was contributed by the employer for the current year. Total contributions for the years ending December 31, 2001 and 2000 were \$5,229,997 and \$5,398,502, respectively, equal to the required contributions for each year.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE V – OTHER INFORMATION (cont.)

A. EMPLOYERS' RETIREMENT SYSTEM (cont)

Employees who retire at or after age 65 (62 for elected officials and 55 for protective occupation employees) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final average earnings is the average of the employee's three highest years earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after

April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of Wisconsin Statutes. The System issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

The pension related debt for the City as of December 31, 2002, was \$16,891,808. This liability was determined in accordance with provisions of GASB Statement 27 regarding pension-related debt. Depending on actuarial assumptions, this estimate can vary significantly.

B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. The City is self-insured for medical coverage and workers compensation at December 31, 2002. The City purchases general and automobile liability insurance from the Cities and Villages Mutual Insurance Company. The City purchases commercial insurance for property and casualty claims. There have been no significant reductions in insurance coverage for any risk of loss in the past year and settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

Self Insurance

For health care claims, the uninsured risk of loss is \$25,000 per incident and \$1,000,000 in the aggregate for a policy year. The City has purchased commercial insurance for claims in excess of those amounts. Settled claims have not exceeded the commercial coverage in any of the past three years.

For workers compensation claims, the uninsured risk of loss is \$250,000 per incident and \$750,000 in the aggregate for a policy year. The City has purchased commercial insurance for claims in excess of those amounts. Settled claims have not exceeded the commercial coverage in any of the past three years.

All funds of the City participate in the risk management program. Amounts payable to the general fund are based on actuarial estimates of the amounts necessary to pay prior and current year claims.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE V – OTHER INFORMATION (cont.)

B. RISK MANAGEMENT (cont.)

Self Insurance (cont.)

A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. Liabilities include an amount for claims that have been incurred but not reported.

Claims Liability

	<u>Prior Year</u>	<u>Current Year</u>
Unpaid claims – Beginning of Year	\$ 1,084,000	\$ 865,000
Current year claims and changes in estimates	7,842,067	8,370,304
Claim payments	<u>8,061,067</u>	<u>8,135,304</u>
Unpaid Claims – End of Year	<u>\$ 865,000</u>	<u>\$ 1,100,000</u>

Public Entity Risk Pool

Wisconsin Municipal Insurance Commission (WMIC) Cities and Villages Mutual Insurance Company (CVMIC)

The WMIC is an intergovernmental cooperation commission created by contract under Section 66.30 of the Wisconsin Statutes. It was created in August, 1987 for the purpose of facilitating the organization, establishment and capitalization of the CVMIC, and has numerous cities and villages as members.

The CVMIC is a municipal mutual insurance company established on September 19, 1987 under Section 611.23 of the Wisconsin Statutes. The CVMIC provides liability insurance coverage to the cities and villages which make up the membership of the WMIC.

The WMIC provided for the capitalization of the CVMIC through the issuance of \$28,645,000 of WMIC revenue bonds, dated November 11, 1987 and refinanced on December 15, 1997 in the amount of \$22,800,000. The bonds are due in varying installments starting in 1998 and ending in 2007. Interest rates vary from 5.74% to 6.47%. The underlying security for the revenue bonds are general obligation bonds of each of the cities and villages participating in the enterprise. Each city and village assumed a proportionate share of the revenue bond obligation and delivered its general obligation bond in that proportionate amount to the WMIC. The principal and interest payments made by each municipality to the WMIC on its general obligation bond provides the revenue stream to make the principal and interest payments on the WMIC revenue bonds.

The CVMIC is self-insured up to a maximum of \$2,000,000 of each insurance risk. Losses paid by CVMIC plus administrative expenses will be recovered through premiums to the participating pool of municipalities. The City's share of such losses is approximately 11.85%.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE V – OTHER INFORMATION (cont.)

B. RISK MANAGEMENT (cont.)

Public Entity Risk Pool (cont.)

**Wisconsin Municipal Insurance Commission (WMIC)
Cities and Villages Mutual Insurance Company (CVMIC) (cont.)**

Management of each organization consists of a board of directors or officers comprised of representatives elected by each of three classes of participants based on population. The City does not exercise any control over the activities of the agencies beyond the election of the officers and board.

Financial statements of WMIC and CVMIC are available from: Cities and Village Mutual Insurance Company, 1250 South Sunnyslope Road, Suite 105, Brookfield, WI 53005.

The City shows the general obligation bond that it owes to WMIC in the governmental activities column of government-wide statement of net assets in the amount of \$2,291,625

The City pays an annual premium to the mutual for its general liability insurance, which provides coverage up to \$10,000,000 per occurrence, less the City's retained liability. The City's retained liability is limited to \$175,000 per occurrence and an annual aggregate limit of \$750,000. An actuarially determined estimate has been recorded for this liability, as well as for claims incurred but not reported at December 31, 2002. A total liability of approximately \$865,146 at December 31, 2002 was recorded as claims payable in the governmental activities column of government-wide statement of net assets. Changes in the fund's claims loss liability follow:

	Beginning	Incurred	Claims	Ending
	Balance	Claims	Paid/ Settled	Balance
2001	\$ 818,706	\$ 523,869	\$ 691,520	\$ 651,055
2002	651,055	410,013	195,922	865,146

C. COMMITMENTS AND CONTINGENCIES

From time to time, the City is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the City Attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE V – OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (CONT.)

Funding for the operating budget of the City comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits, and other miscellaneous revenues. The State of Wisconsin provides a variety of aid and grant programs which benefit the City. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget processes. The State of Wisconsin is currently experiencing budget problems, and is considering numerous alternatives including reducing aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the City.

During the year, the Water Utility entered into contract agreements with various companies to perform professional services and construction activities. At December 31, 2002, contracts with these entities totaled \$6,756,933 of which \$3,939,821 was paid and \$2,817,112 is committed for future services to be performed.

During the year, the Wastewater Utility entered into contract agreements with various companies to perform professional services and construction activities related to the wastewater treatment plant expansion and regular maintenance. At December 31, 2002, contracts with these entities totaled \$71,205,754 of which \$8,798,845 was paid and \$62,406,909 is committed for future services to be performed.

D. OTHER POSTEMPLOYMENT BENEFITS

The City provides post employment health care and life benefits to retired employees and their dependents. The benefits can vary, depending upon the age and years of service of the retiree. Depending on the union contract, the City pays 100 percent of the health care costs for employees who retire with a combination of age and years of service between 75 and 80 years. The City also pays 100 percent of the Medicare premiums for those individuals. Life insurance premiums are paid to age 65 for those individuals who retire prior to age 65 and qualify as defined above. At December 31, 2002, the City had 490 retirees who received full health care coverage. In addition, 39 retirees who pay a percentage of their health care costs were covered under this benefit.

The City finances the plan on a "pay as you go basis". The total cost in fiscal year 2002 was \$5,084,537, which includes health care, Medicare premiums and life insurance premiums. Employee contributions totaled \$105,870.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE V – OTHER INFORMATION (cont.)

E. SUBSEQUENT EVENTS

On July 30, 2003 the City issued the following general obligation debt:

1. \$16,525,000 of Taxable Note Anticipation Notes for the purpose of paying off the City's Wisconsin Retirement prior service pension liability. The note is scheduled to mature on December 15, 2003 and bears interest at a rate of 1.15%.
2. \$2,000,000 of Note Anticipation Notes for the purpose of funding various tax incremental economic development projects. The note is scheduled to mature on December 31, 2006 and bears interest at a rate of 2.5%.
3. \$8,650,000 of Taxable General Obligation Refunding Bonds for the purpose of refinancing the balance on the State Trust Fund Loan issued during 2000. The bonds are scheduled to mature in amounts of \$330,000 to \$775,000 per year from 2004 through 2018, and bear interest at rates of 2.0% to 4.9%, payable semi-annually on June 1 and December 1 each year.
4. \$22,755,000 of General Obligation Refunding Bonds for the purpose of refinancing various maturities on the 1991 library bonds, an 1995-2001 promissory notes. The bonds are scheduled to mature in amounts of \$300,000 to \$3,015,000 per year from 2008 through 2018, and bear interest at rates of 2.75% to 4.20%, payable semi-annually on June 1 and December 1 each year.
5. \$7,900,000 of Note Anticipation Notes for the purpose of funding various capital improvement projects. The notes are scheduled to mature on December 15, 2003 and bear interest at a rate of 1.45%.

F. ECONOMIC DEPENDENCY

The Water Utility had one major customer with sales of approximately \$2.9 million that accounted for 23% of the Utility's gross sales.

G. TAX INCREMENTAL FINANCING DISTRICTS

The City currently maintains separate special revenue and capital projects funds accounts for seven Tax Incremental Financing Districts (TID). The districts were created in accordance with Section 66.1105 of the Wisconsin Statutes. At the time the districts were created, the property tax base within each district was "frozen" and subsequent incremental taxes resulting from any increases to the property tax base are available to finance district improvements, including principal and interest on debt issued by the City to finance such improvements. All eligible project expenditures for the districts are made from capital projects funds and must be incurred within ten years for districts created prior to October 1, 1995, and seven years for districts created thereafter. Special revenue funds are maintained to account for tax increment and other revenues used to finance principal and interest payments on outstanding debt applicable to the districts. Unless terminated by the City prior thereto, each TID must be terminated after 27 years for districts created prior to October 1, 1995, and 23 years for districts created thereafter.

CITY OF RACINE

NOTES TO FINANCIAL STATEMENTS December 31, 2002

NOTE V – OTHER INFORMATION (cont.)

G. TAX INCREMENTAL FINANCING DISTRICTS (cont.)

	Creation Date	Expenditure Deadline	Termination Year	2001 Valuation Increase	2002 Increment Revenues	2002 Debt Service
TID No. 2	6/24/1983	6/24/1993	6/24/2010	\$ 34,481,100	\$ 936,856	\$ -
TID No. 3	6/24/1983	6/24/1993	6/24/2010	1,023,400	27,806	-
TID No. 5	9/17/1985	9/17/1995	9/17/2012	14,056,600	381,920	421,200
TID No. 6	3/3/1987	3/3/1997	3/3/2014	3,635,400	98,774	55,530
TID No. 7	3/21/1989	3/21/1999	3/21/2016	29,422,500	799,413	767,050
TID No. 8	7/17/1990	7/17/2000	7/17/2017	17,358,650	471,637	680,418
TID No. 9	6/6/2000	6/6/2007	6/6/2023	1,219,900	33,145	309,174
				<u>\$ 101,197,550</u>	<u>\$ 2,749,551</u>	<u>\$ 2,233,372</u>

Upon termination, the incremental tax base created by each TID will become part of the City's regular tax base. Any surplus remaining in the TID special revenue fund at the time of termination will be allocated among all affected taxing jurisdictions.

H. INTERMUNICIPAL AGREEMENT

On April 25, 2002, the City of Racine, its Wastewater Commission, the Town of Mt. Pleasant and its Wastewater Utility, and the Town of Caledonia and its Wastewater Utility entered into an area-wide sewer service, revenue sharing, cooperation and settlement agreement. The Village of Sturtevant and North Park Utility also signed the Agreement in early May, 2002. This agreement will result in expansion of the City's wastewater plant to provide sewer service to serve new growth in the outlying communities, out to and two miles beyond I-94. Financing of the project is divided into deficiency work and new growth work. The costs of deficiency work will be shared among the communities through sewer rates, and the costs of new growth work will be paid based on capacity allocations as requested and agreed on by each party. As a result, City residents will pay for only a small portion of the new growth work while those communities that will receive growth will pay the vast majority of the new growth work. In addition, revenue sharing included as part of the agreement will provide an income stream to the City for a period of 30 years. It is based on a formula incorporating equalized value, population and municipal budgets. The City will receive approximately \$74,000,000 from the outlying communities over the period of 30 years, based on growth projections. In addition, the parties agreed to a transfer of Wastewater Utility reserve funds to the City, to the extent available, to complete the payoff of the value of assets transferred from the City to the Utility, and to compensate the City for provision of library, zoo and museum services that also benefit the outlying communities. The transfer of assets payment will be \$660,000 per year until paid off, in the year 2007, and an additional amount of approximately \$900,000 per year for the other elements, which will increase by 3% per year through 2007 with no increases in subsequent years. It is anticipated that utility reserves can support these payments for a period of at least 23 years. The agreement is for a period of 50 years and provides conditions for adding new territory and parties. For any such addition, the revenue sharing period would start fresh and continue for a full 30 year term. This agreement will result in enhanced cooperation among municipalities in this area and should provide a solid base for growth that will result in benefits to all parties.

CITY OF RACINE
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 December 31, 2002

	Special Revenue Funds			
	Other Public Safety	Public Safety Grants	Special Assessments	Economic Development
ASSETS				
Cash and investments	\$ 672,705	\$ 80,291	\$ 1,855,782	\$ 127,023
Receivables				
Property taxes	-	159,351	-	-
Special assessment - tax roll	-	-	264,808	-
Special assessment	-	-	1,177,892	-
Loans and notes	-	-	-	-
Accounts	20,660	-	-	-
Due from other funds	-	-	-	-
Due from other governments	-	243,922	-	-
Advances to other funds	-	-	754,455	-
TOTAL ASSETS	\$ 693,365	\$ 483,564	\$ 4,052,937	\$ 127,023
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 66,787	\$ 37,830	\$ -	\$ -
Accrued liabilities	139	6,238	20,210	-
Due to other funds	-	209,517	-	-
Due to other governments	133	-	-	-
Deferred revenues	83,873	59,727	1,442,700	-
Deferred property tax revenue	-	159,351	-	-
Total Liabilities	150,932	472,663	1,462,910	-
Fund Balances				
Reserved				
Encumbrances	13,332	5,578	-	-
Endowments	-	-	-	-
Capital projects	-	-	-	-
Advances	-	-	754,455	-
Unreserved				
Undesignated (deficit)	529,101	5,323	1,835,572	127,023
Total Fund Balances	542,433	10,901	2,590,027	127,023
TOTAL LIABILITIES AND FUND BALANCES	\$ 693,365	\$ 483,564	\$ 4,052,937	\$ 127,023

CITY OF RACINE
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 December 31, 2002

Special Revenue Funds						
Cemetery	Trusts	Other	Harbor Commission	Health	2002 HUD	Library
\$ 2,765,938	\$ 1,226,602	\$ 549,719	\$ -	\$ 69,310	\$ -	\$ 509,524
79,481	-	-	300,000	-	-	2,053,402
-	-	-	-	-	-	-
-	-	450,000	-	-	-	-
-	-	47,930	6,465	40	-	-
-	-	-	-	-	-	59
-	-	-	181,027	59,218	573,497	-
-	-	-	-	-	-	-
<u>\$ 2,845,419</u>	<u>\$ 1,226,602</u>	<u>\$ 1,047,649</u>	<u>\$ 487,492</u>	<u>\$ 128,568</u>	<u>\$ 573,497</u>	<u>\$ 2,562,985</u>
\$ 33,050	\$ 6,436	\$ 63,088	\$ 2,695	\$ 7,905	\$ 170,229	\$ 63,184
-	-	876	10,142	12,045	6,751	58,996
-	-	-	444,053	43,115	396,517	-
-	-	-	-	19,908	-	-
-	-	453,620	-	33,871	-	-
79,481	-	-	300,000	-	-	2,053,402
<u>112,531</u>	<u>6,436</u>	<u>517,584</u>	<u>756,890</u>	<u>116,844</u>	<u>573,497</u>	<u>2,175,582</u>
27,928	-	3,790	5,151	17,548	80,575	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>2,704,960</u>	<u>1,220,166</u>	<u>526,275</u>	<u>(274,549)</u>	<u>(5,824)</u>	<u>(80,575)</u>	<u>387,403</u>
<u>2,732,888</u>	<u>1,220,166</u>	<u>530,065</u>	<u>(269,398)</u>	<u>11,724</u>	<u>-</u>	<u>387,403</u>
<u>\$ 2,845,419</u>	<u>\$ 1,226,602</u>	<u>\$ 1,047,649</u>	<u>\$ 487,492</u>	<u>\$ 128,568</u>	<u>\$ 573,497</u>	<u>\$ 2,562,985</u>

CITY OF RACINE
Nonmajor Governmental Funds

COMBINING BALANCE SHEET
December 31, 2002

	Special Revenue Funds		Debt Service Fund	Capital Project Funds		
	Recycling	Refunding	TIF #9	Assessment	Street	
				Projects	Projects	
ASSETS						
Cash and investments	\$ -	\$ -	\$ 1,109,165	\$ 36,831	\$ -	
Receivables						
Property taxes	1,667,658	-	394,042	-	-	
Special assessment - tax roll	-	-	-	-	-	
Special assessment	-	-	-	-	-	
Loans and notes	-	-	-	-	-	
Accounts	16,628	-	-	-	-	
Due from other funds	-	-	-	-	-	
Due from other governments	-	-	-	-	-	
Advances to other funds	-	-	-	-	-	
TOTAL ASSETS	\$ 1,684,286	\$ -	\$ 1,503,207	\$ 36,831	\$ -	
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 46,068	\$ -	\$ 102,327	\$ 36,831	\$ -	
Accrued liabilities	13,609	-	-	-	-	
Due to other funds	596,327	-	-	-	-	
Due to other governments	-	-	-	-	-	
Deferred revenues	-	-	-	-	-	
Deferred property tax revenue	1,667,658	-	394,042	-	-	
Total Liabilities	<u>2,323,662</u>	<u>-</u>	<u>496,369</u>	<u>36,831</u>	<u>-</u>	
Fund Balances						
Reserved						
Encumbrances	225	-	477,827	107,613	-	
Endowments	-	-	-	-	-	
Capital projects	-	-	529,011	-	-	
Advances	-	-	-	-	-	
Unreserved						
Undesignated (deficit)	(639,601)	-	-	(107,613)	-	
Total Fund Balances	<u>(639,376)</u>	<u>-</u>	<u>1,006,838</u>	<u>-</u>	<u>-</u>	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,684,286	\$ -	\$ 1,503,207	\$ 36,831	\$ -	

CITY OF RACINE
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 December 31, 2002

Capital Outlay 2000 and Prior	Capital Project Funds				Equipment Replacement	Permanent Fund Endowment Fund	Total Nonmajor Governmental Funds
	Capital Projects		City Projects				
	2001 and Prior	2002					
\$ -	\$ 5,407,022	\$ 2,792,574	\$ 2,088,871	\$ -	\$ 3,056,969	\$ 22,348,326	
-	-	-	-	993,000	-	5,646,934	
-	-	-	-	-	-	264,808	
-	-	-	-	-	-	1,177,892	
-	-	-	-	-	-	450,000	
-	-	-	-	-	-	91,723	
-	-	-	1,046,681	-	-	1,046,740	
-	-	-	1,837,152	-	-	2,894,816	
-	-	-	-	-	-	754,455	
<u>\$ -</u>	<u>\$ 5,407,022</u>	<u>\$ 2,792,574</u>	<u>\$ 4,972,704</u>	<u>\$ 993,000</u>	<u>\$ 3,056,969</u>	<u>\$ 34,675,694</u>	
\$ -	\$ 971,265	\$ 357,258	\$ 914,610	\$ -	\$ 49	\$ 2,879,612	
-	-	-	13,000	-	-	142,006	
-	-	-	3,546,650	-	123	5,236,302	
-	-	-	-	-	-	20,041	
-	-	-	33,014	-	-	2,106,805	
-	-	-	-	993,000	-	5,646,934	
-	<u>971,265</u>	<u>357,258</u>	<u>4,507,274</u>	<u>993,000</u>	<u>172</u>	<u>16,031,700</u>	
-	882,787	671,631	878,756	-	-	3,172,741	
-	-	-	-	-	3,056,797	3,056,797	
-	3,552,970	1,763,685	-	-	-	5,845,666	
-	-	-	-	-	-	754,455	
-	-	-	(413,326)	-	-	5,814,335	
-	<u>4,435,757</u>	<u>2,435,316</u>	<u>465,430</u>	<u>-</u>	<u>3,056,797</u>	<u>18,643,994</u>	
<u>\$ -</u>	<u>\$ 5,407,022</u>	<u>\$ 2,792,574</u>	<u>\$ 4,972,704</u>	<u>\$ 993,000</u>	<u>\$ 3,056,969</u>	<u>\$ 34,675,694</u>	

CITY OF RACINE
Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2002

	Special Revenue Funds			
	Other Public Safety	Public Safety Grants	Special Assessments	Economic Development
REVENUES				
Taxes	\$ -	\$ 73,808	\$ -	\$ -
Special charges and assessments	-	-	835,444	-
Intergovernmental	301,398	668,705	-	-
Interdepartmental charges	-	-	-	-
Investment income	18,407	3,710	184,322	15,483
Charges for services	95,303	-	-	-
Other	113,823	4,660	-	-
Total Revenues	<u>528,931</u>	<u>750,883</u>	<u>1,019,766</u>	<u>15,483</u>
EXPENDITURES				
Current				
General government	-	-	-	-
Community development	-	-	-	-
Health	-	-	-	-
Education and recreation	-	-	-	-
Public works	-	-	-	-
Public safety	472,369	733,982	-	-
Capital outlay	85,250	-	-	-
Debt service	-	-	-	-
Total Expenditures	<u>557,619</u>	<u>733,982</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(28,688)</u>	<u>16,901</u>	<u>1,019,766</u>	<u>15,483</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long term debt	-	-	-	-
Proceeds from refunding bonds	-	-	-	-
Transfers in	3,038	-	-	-
Transfers (out)	(289)	(6,171)	(2,546,921)	(1,700,000)
Total Other Financing Sources (Uses)	<u>2,749</u>	<u>(6,171)</u>	<u>(2,546,921)</u>	<u>(1,700,000)</u>
Net Change in Fund Balances	(25,939)	10,730	(1,527,155)	(1,684,517)
FUND BALANCES (DEFICIT) - Beginning of Year, as restated	<u>568,372</u>	<u>171</u>	<u>4,117,182</u>	<u>1,811,540</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 542,433</u>	<u>\$ 10,901</u>	<u>\$ 2,590,027</u>	<u>\$ 127,023</u>

CITY OF RACINE
Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2002

Special Revenue Funds						
Cemetery	Trusts	Other	Harbor Commission	Health	2002 HUD	Library
\$ -	\$ -	\$ 162,061	\$ -	\$ -	\$ -	\$ 2,012,788
-	-	-	-	-	-	-
-	-	21,039	181,027	704,132	2,484,987	1,094,740
-	-	-	-	-	-	-
126,753	(57,680)	10,515	-	-	-	27,792
92,190	-	276,077	28,684	4,665	-	106,372
730	26,436	19,089	1	1,130	78,887	52,029
<u>219,673</u>	<u>(31,244)</u>	<u>488,781</u>	<u>209,712</u>	<u>709,927</u>	<u>2,563,874</u>	<u>3,293,721</u>
-	-	1,865	-	-	-	-
-	-	31,036	-	-	2,033,358	-
-	-	54	-	713,010	-	-
71,951	47,673	260,240	-	-	-	3,266,620
-	-	191,931	17,076	-	-	-
-	-	111,646	-	-	-	-
-	-	-	478,636	-	-	63,426
-	-	-	-	-	-	-
<u>71,951</u>	<u>47,673</u>	<u>596,772</u>	<u>495,712</u>	<u>713,010</u>	<u>2,033,358</u>	<u>3,330,046</u>
<u>147,722</u>	<u>(78,917)</u>	<u>(107,991)</u>	<u>(286,000)</u>	<u>(3,083)</u>	<u>530,516</u>	<u>(36,325)</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	66,060	-	-	182,239	-
(36,970)	(502)	(21,311)	-	-	(712,755)	-
<u>(36,970)</u>	<u>(502)</u>	<u>44,749</u>	<u>-</u>	<u>-</u>	<u>(530,516)</u>	<u>-</u>
110,752	(79,419)	(63,242)	(286,000)	(3,083)	-	(36,325)
<u>2,622,136</u>	<u>1,299,585</u>	<u>593,307</u>	<u>16,602</u>	<u>14,807</u>	<u>-</u>	<u>423,728</u>
<u>\$ 2,732,888</u>	<u>\$ 1,220,166</u>	<u>\$ 530,065</u>	<u>\$ (269,398)</u>	<u>\$ 11,724</u>	<u>\$ -</u>	<u>\$ 387,403</u>

CITY OF RACINE
Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2002

	Special Revenue Funds	Debt Service Fund	Capital Project Funds	
	Recycling	Refunding	TIF #9	Assessment Projects
REVENUES				
Taxes	\$ 1,521,687	\$ -	\$ 33,145	\$ -
Special assessments	-	-	-	-
Intergovernmental	381,939	-	253	-
Interdepartmental charges	-	-	-	-
Investment income	-	-	204,131	-
Charges for services	61,226	-	-	-
Other	-	9,750	3,825	-
Total Revenues	<u>1,964,852</u>	<u>9,750</u>	<u>241,354</u>	<u>-</u>
EXPENDITURES				
Current				
General Government	-	-	-	-
Community development	-	-	-	-
Health	-	-	-	-
Education and recreation	-	-	-	-
Public works	1,744,070	-	-	-
Public safety	-	-	-	-
Capital outlay	-	-	794,314	433,002
Debt service	-	6,114,750	-	-
Total Expenditures	<u>1,744,070</u>	<u>6,114,750</u>	<u>794,314</u>	<u>433,002</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>220,782</u>	<u>(6,105,000)</u>	<u>(552,960)</u>	<u>(433,002)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long term debt	-	-	-	-
Proceeds from refunding bonds	-	6,105,000	-	-
Transfers in	-	-	-	433,002
Transfers (out)	-	-	(309,174)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>6,105,000</u>	<u>(309,174)</u>	<u>433,002</u>
Net Change in Fund Balances	220,782	-	(862,134)	-
FUND BALANCES (DEFICIT) - Beginning of Year, as restated	<u>(860,158)</u>	<u>-</u>	<u>1,868,972</u>	<u>-</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (639,376)</u>	<u>\$ -</u>	<u>\$ 1,006,838</u>	<u>\$ -</u>

CITY OF RACINE
Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2002

Street Projects	Capital Outlay 2000 and Prior	Capital Project Funds		City Projects	Equipment Replacement	Permanent Fund Endowment Fund	Total Nonmajor Governmental Funds
		2001 and Prior	2002				
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,803,489
-	-	-	-	602,623	-	-	1,438,067
-	-	-	-	2,087,987	-	-	7,926,207
-	-	13,622	-	1,046,681	-	-	1,060,303
31,593	-	53,704	33,445	21,993	-	(91,993)	582,175
-	-	700,018	-	-	-	-	1,364,535
-	-	466,727	106,133	-	-	500	883,720
<u>31,593</u>	<u>-</u>	<u>1,234,071</u>	<u>139,578</u>	<u>3,759,284</u>	<u>-</u>	<u>(91,493)</u>	<u>17,058,496</u>
-	-	-	-	-	-	-	1,865
-	-	-	-	-	-	-	2,064,394
-	-	-	-	-	-	-	713,064
-	-	-	-	-	-	48,750	3,695,234
-	-	-	-	-	-	-	1,953,077
-	-	-	-	-	-	-	1,317,997
-	51,067	5,603,165	2,698,157	3,142,044	-	-	13,349,061
-	-	-	-	-	-	-	6,114,750
<u>-</u>	<u>51,067</u>	<u>5,603,165</u>	<u>2,698,157</u>	<u>3,142,044</u>	<u>-</u>	<u>48,750</u>	<u>29,209,442</u>
<u>31,593</u>	<u>(51,067)</u>	<u>(4,369,094)</u>	<u>(2,558,579)</u>	<u>617,240</u>	<u>-</u>	<u>(140,243)</u>	<u>(12,150,946)</u>
-	-	-	9,000,000	-	-	-	9,000,000
-	-	-	-	-	-	-	6,105,000
-	31,551	1,145,481	-	7,747,964	-	-	9,609,335
<u>(783,802)</u>	<u>-</u>	<u>(8,257,172)</u>	<u>(4,006,105)</u>	<u>(5,792,878)</u>	<u>-</u>	<u>(16,191)</u>	<u>(24,190,241)</u>
<u>(783,802)</u>	<u>31,551</u>	<u>(7,111,691)</u>	<u>4,993,895</u>	<u>1,955,086</u>	<u>-</u>	<u>(16,191)</u>	<u>524,094</u>
(752,209)	(19,516)	(11,480,785)	2,435,316	2,572,326	-	(156,434)	(11,626,852)
<u>752,209</u>	<u>19,516</u>	<u>15,916,542</u>	<u>-</u>	<u>(2,106,896)</u>	<u>-</u>	<u>3,213,231</u>	<u>30,270,846</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,435,757</u>	<u>\$ 2,435,316</u>	<u>\$ 465,430</u>	<u>\$ -</u>	<u>\$ 3,056,797</u>	<u>\$ 18,643,994</u>

CITY OF RACINE
Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2002

	Public Safety Grants			
	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 73,808	\$ 73,808	\$ 73,808	\$ -
Intergovernmental	496,966	861,378	668,705	(192,673)
Investment income	-	-	3,710	3,710
Charges for services	-	-	-	-
Other	-	-	4,660	4,660
Total Revenues	<u>570,774</u>	<u>935,186</u>	<u>750,883</u>	<u>(184,303)</u>
EXPENDITURES				
Current				
Community development	-	-	-	-
Health	-	-	-	-
Education and recreation	-	-	-	-
Public works	-	-	-	-
Public safety	570,774	999,239	733,982	265,257
Capital outlay	-	-	-	-
Total Expenditures	<u>570,774</u>	<u>999,239</u>	<u>733,982</u>	<u>265,257</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>-</u>	<u>(64,053)</u>	<u>16,901</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	(6,171)	(6,171)
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>(6,171)</u>	<u>(6,171)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ (64,053)</u>	<u>10,730</u>	<u>\$ 74,783</u>
FUND BALANCES (DEFICIT) - Beginning of Year			<u>171</u>	
FUND BALANCES (DEFICIT) - END OF YEAR			<u>\$ 10,901</u>	

CITY OF RACINE
Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2002

Health				2002 HUD			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
616,940	834,050	704,132	(129,918)	3,691,000	3,849,749	2,484,987	(1,364,762)
-	-	-	-	-	-	-	-
-	-	4,665	4,665	-	-	-	-
-	-	1,130	1,130	-	78,887	78,887	-
<u>616,940</u>	<u>834,050</u>	<u>709,927</u>	<u>(124,123)</u>	<u>3,691,000</u>	<u>3,928,636</u>	<u>2,563,874</u>	<u>(1,364,762)</u>
-	-	-	-	3,691,000	3,812,802	2,033,358	1,779,444
616,940	844,324	713,010	131,314	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>616,940</u>	<u>844,324</u>	<u>713,010</u>	<u>131,314</u>	<u>3,691,000</u>	<u>3,812,802</u>	<u>2,033,358</u>	<u>1,779,444</u>
-	(10,274)	(3,083)	7,191	-	115,834	530,516	414,682
-	-	-	-	-	182,239	182,239	-
-	-	-	-	-	(642,503)	(712,755)	(70,252)
-	-	-	-	-	(460,264)	(530,516)	(70,252)
<u>\$ -</u>	<u>\$ (10,274)</u>	<u>(3,083)</u>	<u>\$ 7,191</u>	<u>\$ -</u>	<u>\$ (344,430)</u>	<u>-</u>	<u>\$ 344,430</u>
		<u>14,807</u>				<u>-</u>	
		<u>\$ 11,724</u>				<u>\$ -</u>	

CITY OF RACINE
Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2002

	Library			
	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 2,012,788	\$ 2,012,788	\$ 2,012,788	\$ -
Intergovernmental	1,037,214	1,037,214	1,094,740	57,526
Investment income	-	-	27,792	27,792
Charges for services	100,000	100,000	106,372	6,372
Other	-	52,015	52,029	14
Total Revenues	<u>3,150,002</u>	<u>3,202,017</u>	<u>3,293,721</u>	<u>91,704</u>
EXPENDITURES				
Current				
Community development	-	-	-	-
Health	-	-	-	-
Education and recreation	3,309,790	3,309,790	3,266,620	43,170
Public works	-	-	-	-
Public safety	-	-	-	-
Capital outlay	14,697	66,712	63,426	3,286
Total Expenditures	<u>3,324,487</u>	<u>3,376,502</u>	<u>3,330,046</u>	<u>46,456</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(174,485)</u>	<u>(174,485)</u>	<u>(36,325)</u>	<u>138,160</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (174,485)</u>	<u>\$ (174,485)</u>	<u>(36,325)</u>	<u>\$ 138,160</u>
FUND BALANCES (DEFICIT) - Beginning of Year			<u>423,728</u>	
FUND BALANCES (DEFICIT) - END OF YEAR			<u>\$ 387,403</u>	

CITY OF RACINE
Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2002

Harbor Commission				Recycling			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -	\$ 1,521,687	\$ 1,521,687	\$ 1,521,687	\$ -
-	181,027	181,027	-	370,000	370,000	381,939	11,939
-	-	-	-	-	-	-	-
28,500	28,500	28,684	184	75,360	75,360	61,226	(14,134)
-	-	1	1	-	-	-	-
<u>28,500</u>	<u>209,527</u>	<u>209,712</u>	<u>185</u>	<u>1,967,047</u>	<u>1,967,047</u>	<u>1,964,852</u>	<u>(2,195)</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
24,400	24,506	17,076	7,430	1,967,047	1,967,572	1,744,070	223,502
-	-	-	-	-	-	-	-
-	422,004	478,636	(56,632)	-	-	-	-
<u>24,400</u>	<u>446,510</u>	<u>495,712</u>	<u>(49,202)</u>	<u>1,967,047</u>	<u>1,967,572</u>	<u>1,744,070</u>	<u>223,502</u>
<u>4,100</u>	<u>(236,983)</u>	<u>(286,000)</u>	<u>(49,017)</u>	<u>-</u>	<u>(525)</u>	<u>220,782</u>	<u>221,307</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 4,100</u>	<u>\$ (236,983)</u>	<u>(286,000)</u>	<u>\$ (49,017)</u>	<u>\$ -</u>	<u>\$ (525)</u>	<u>220,782</u>	<u>\$ 221,307</u>
		<u>16,602</u>				<u>(860,158)</u>	
		<u>\$ (269,398)</u>				<u>\$ (639,376)</u>	

CITY OF RACINE

Debt Service Fund

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2002**

	Currently Due		
	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Tax Levy	\$ 4,319,143	\$ 4,319,143	\$ -
Other	564,983	716,984	152,001
Total Revenues	<u>4,884,126</u>	<u>5,036,127</u>	<u>152,001</u>
EXPENDITURES			
Debt service			
Principal	7,498,163	7,498,163	-
Interest and fiscal charges	3,898,294	3,763,761	134,533
Total Expenditures	<u>11,396,457</u>	<u>11,261,924</u>	<u>134,533</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(6,512,331)</u>	<u>(6,225,797)</u>	<u>286,534</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	6,012,331	9,422,992	3,410,661
Total Other Financing Sources	<u>6,012,331</u>	<u>9,422,992</u>	<u>3,410,661</u>
Net Change in Fund Balances	<u>\$ (500,000)</u>	3,197,195	<u>\$ 3,697,195</u>
FUND BALANCES - Beginning of Year		<u>1,704,805</u>	
FUND BALANCES - END OF YEAR		<u>\$ 4,902,000</u>	

CITY OF RACINE

Capital Project Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2002

	2002 Capital Projects			
	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Investment income	-	257,000	33,445	(223,555)
Other	-	106,133	106,133	-
Total Revenues	-	363,133	139,578	(223,555)
EXPENDITURES				
Capital outlay	6,549,000	5,357,028	2,698,157	2,658,871
Total Expenditures	6,549,000	5,357,028	2,698,157	2,658,871
Excess (Deficiency) of Revenues over (under) Expenditures	(6,549,000)	(4,993,895)	(2,558,579)	2,435,316
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	9,500,000	9,000,000	9,000,000	-
Transfers in	-	-	-	-
Transfers (out)	(3,800,000)	(4,006,105)	(4,006,105)	-
Total Other Financing Sources (Uses)	5,700,000	4,993,895	4,993,895	-
Net Change in Fund Balances	\$ (849,000)	\$ -	2,435,316	\$ 2,435,316
FUND BALANCES - Beginning of Year			-	
FUND BALANCES - END OF YEAR			\$ 2,435,316	

CITY OF RACINE

Capital Project Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2002

Assessment Projects			Street Projects		
Original and Final Budget	Actual	Variance with Final Budget	Original and Final budget	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ 270,000	\$ -	\$ (270,000)
-	-	-	-	31,593	31,593
-	-	-	-	-	-
-	-	-	270,000	31,593	(238,407)
<u>1,425,000</u>	<u>433,002</u>	<u>991,998</u>	<u>270,000</u>	-	<u>270,000</u>
<u>1,425,000</u>	<u>433,002</u>	<u>991,998</u>	<u>270,000</u>	-	<u>270,000</u>
(1,425,000)	(433,002)	991,998	-	31,593	31,593
-	-	-	-	-	-
1,425,000	433,002	(991,998)	-	-	-
-	-	-	-	(783,802)	(783,802)
<u>1,425,000</u>	<u>433,002</u>	<u>(991,998)</u>	-	<u>(783,802)</u>	<u>(783,802)</u>
<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>	(752,209)	<u>\$ (752,209)</u>
	-			752,209	
	<u>\$ -</u>			<u>\$ -</u>	

CITY OF RACINE
Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS
December 31, 2002

	Parking Utility	Golf Courses	Civic Centre	Radio Repair	Total
ASSETS					
Current Assets					
Cash and investments	\$ 267,098	\$ 581,336	\$ -	\$ 192,424	\$ 1,040,858
Receivables					
Accounts	27,654	-	44,690	85,527	157,871
Taxes	10,595	-	548,918	-	559,513
Total Current Assets	<u>305,347</u>	<u>581,336</u>	<u>593,608</u>	<u>277,951</u>	<u>1,758,242</u>
Noncurrent Assets					
Capital assets					
Land, buildings and improvements	16,146,801	3,509,323	6,199,354	136,026	25,991,504
Equipment, furniture and vehicles	728,934	-	296,000	12,913	1,037,847
Less: Accumulated depreciation	<u>(3,323,669)</u>	<u>(1,051,988)</u>	<u>(1,972,389)</u>	<u>(48,036)</u>	<u>(6,396,082)</u>
	13,552,066	2,457,335	4,522,965	100,903	20,633,269
Construction in progress	-	-	16,388	-	16,388
Total Capital Assets (net of accumulated depreciation)	<u>13,552,066</u>	<u>2,457,335</u>	<u>4,539,353</u>	<u>100,903</u>	<u>20,649,657</u>
TOTAL ASSETS	<u>\$ 13,857,413</u>	<u>\$ 3,038,671</u>	<u>\$ 5,132,961</u>	<u>\$ 378,854</u>	<u>\$ 22,407,899</u>

CITY OF RACINE
Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS
December 31, 2002

	Parking Utility	Golf Courses	Civic Centre	Radio Repair	Total
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 524,756	\$ -	\$ 67,240	\$ 1,622	\$ 593,618
Accrued compensation	8,375	-	5,728	3,272	17,375
Accrued liabilities	-	14,958	24,630	-	39,588
Due to other funds	-	-	226,597	-	226,597
Deferred property tax revenue	10,595	-	548,918	-	559,513
Total Current Liabilities	<u>543,726</u>	<u>14,958</u>	<u>873,113</u>	<u>4,894</u>	<u>1,436,691</u>
Noncurrent Liabilities					
Compensated absences	22,457	-	14,311	11,145	47,913
Advances from other funds	-	646,917	-	-	646,917
Total Noncurrent Liabilities	<u>22,457</u>	<u>646,917</u>	<u>14,311</u>	<u>11,145</u>	<u>694,830</u>
TOTAL LIABILITIES	<u>566,183</u>	<u>661,875</u>	<u>887,424</u>	<u>16,039</u>	<u>2,131,521</u>
NET ASSETS					
Invested in capital assets	13,552,066	2,457,335	4,539,353	100,903	20,649,657
Unrestricted (deficit)	<u>(260,836)</u>	<u>(80,539)</u>	<u>(293,816)</u>	<u>261,912</u>	<u>(373,279)</u>
TOTAL NET ASSETS	<u>\$ 13,291,230</u>	<u>\$ 2,376,796</u>	<u>\$ 4,245,537</u>	<u>\$ 362,815</u>	<u>\$ 20,276,378</u>

CITY OF RACINE
Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended December 31, 2002

	Parking Utility	Golf Courses	Civic Centre	Radio Repair	Total
OPERATING REVENUES					
Charges for services	\$ 888,007	\$ 148,270	\$ 373,574	\$ 262,355	\$ 1,672,206
Other	-	3	44	-	47
Total Operating Revenues	<u>888,007</u>	<u>148,273</u>	<u>373,618</u>	<u>262,355</u>	<u>1,672,253</u>
OPERATING EXPENSES					
Public works	789,127	-	-	232,854	1,021,981
Education and recreation	-	14,409	961,778	-	976,187
Depreciation	321,964	72,111	187,422	5,272	586,769
Total Operating Expenses	<u>1,111,091</u>	<u>86,520</u>	<u>1,149,200</u>	<u>238,126</u>	<u>2,584,937</u>
Operating income (loss)	<u>(223,084)</u>	<u>61,753</u>	<u>(775,582)</u>	<u>24,229</u>	<u>(912,684)</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	-	25,265	-	-	25,265
Interest expense	-	(35,104)	-	-	(35,104)
Tax levy	10,595	-	533,239	31,233	575,067
Total Nonoperating Revenues (Expenses)	<u>10,595</u>	<u>(9,839)</u>	<u>533,239</u>	<u>31,233</u>	<u>565,228</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(212,489)</u>	<u>51,914</u>	<u>(242,343)</u>	<u>55,462</u>	<u>(347,456)</u>
CAPITAL CONTRIBUTIONS					
TRANSFERS IN	6,324,553	-	132,572	-	6,457,125
TRANSFERS (OUT)	<u>(107,553)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(107,553)</u>
Change in Net Assets	6,004,511	51,914	(109,771)	55,462	6,002,116
TOTAL NET ASSETS, Beginning of Year, as restated	<u>7,286,719</u>	<u>2,324,882</u>	<u>4,355,308</u>	<u>307,353</u>	<u>14,274,262</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 13,291,230</u>	<u>\$ 2,376,796</u>	<u>\$ 4,245,537</u>	<u>\$ 362,815</u>	<u>\$ 20,276,378</u>

CITY OF RACINE
Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

	Parking Utility	Golf Courses	Civic Centre	Radio Repair	Totals
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 853,916	\$ 148,273	\$ 377,183	\$ 219,803	\$ 1,599,175
Payments to suppliers	(396,107)	(24,281)	(698,162)	(83,960)	(1,202,510)
Payments to employees	(347,447)	-	(212,290)	(145,783)	(705,520)
Net Cash Provided (Used) by Operating Activities	<u>110,362</u>	<u>123,992</u>	<u>(533,269)</u>	<u>(9,940)</u>	<u>(308,855)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer from other funds	-	-	132,572	-	132,572
Transfer to other funds	(107,553)	-	-	-	(107,553)
Operating subsidies received-City	-	-	533,239	31,233	564,472
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(107,553)</u>	<u>-</u>	<u>665,811</u>	<u>31,233</u>	<u>589,491</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principle paid on advances	-	(72,585)	-	-	(72,585)
Interest paid on advances	-	(35,104)	-	-	(35,104)
Transfer from other funds for capital purposes	6,324,553	-	-	-	6,324,553
Acquisition and construction of capital assets	(6,491,181)	(59,758)	(132,574)	-	(6,683,513)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(166,628)</u>	<u>(167,447)</u>	<u>(132,574)</u>	<u>-</u>	<u>(466,649)</u>
CASH FLOW FROM INVESTING ACTIVITIES					
Investment income received	-	25,265	-	-	25,265
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(163,819)</u>	<u>(18,190)</u>	<u>(32)</u>	<u>21,293</u>	<u>(160,748)</u>
CASH AND CASH EQUIVALENTS,					
Beginning of Year	<u>430,917</u>	<u>599,526</u>	<u>32</u>	<u>171,131</u>	<u>1,201,606</u>
End of Year	<u>\$ 267,098</u>	<u>\$ 581,336</u>	<u>\$ -</u>	<u>\$ 192,424</u>	<u>\$ 1,040,858</u>

CITY OF RACINE
Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

	Parking Utility	Golf Courses	Civic Centre	Radio Repair	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (223,084)	\$ 61,753	\$ (775,582)	\$ 24,229	\$ (912,684)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	321,964	72,111	187,422	5,272	586,769
(Increase) decrease in accounts receivable	(3,968)	-	3,565	(42,553)	(42,956)
(Increase) decrease in due from other funds	-	-	(15,679)	-	(15,679)
Increase (decrease) in accounts payable	44,969	(10,557)	(92,102)	1,439	(56,251)
Increase (decrease) in accrued liabilities	(25)	-	420	1,218	1,613
Increase (decrease) in other current liabilities	629	685	5,525	455	7,294
Increase (decrease) in deferred revenue	(30,123)	-	15,679	-	(14,444)
Increase (decrease) in due to other funds	-	-	137,483	-	137,483
Net Cash Provided (Used) by Operating Activities	<u>\$ 110,362</u>	<u>\$ 123,992</u>	<u>\$ (533,269)</u>	<u>\$ (9,940)</u>	<u>\$ (308,855)</u>

CITY OF RACINE
Internal Service Funds

COMBINING STATEMENT OF NET ASSETS
December 31, 2002

	Equipment Maintenance Garage	Health Insurance	Telephones	Total
ASSETS				
Current Assets				
Cash and investments	\$ -	\$ 1,238,233	\$ 65,939	\$ 1,304,172
Inventories	414,301	-	-	414,301
Receivables				
Accounts	10,086	-	629	10,715
Due from other funds	8,964	27,768	2,238	38,970
Total Current Assets	<u>433,351</u>	<u>1,266,001</u>	<u>68,806</u>	<u>1,768,158</u>
Noncurrent Assets				
Capital assets				
Land, buildings and improvements	1,550,727	-	-	1,550,727
Equipment, furniture and vehicles	220,592	-	654,566	875,158
Less: Accumulated depreciation	<u>(466,708)</u>	<u>-</u>	<u>(13,091)</u>	<u>(479,799)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>1,304,611</u>	<u>-</u>	<u>641,475</u>	<u>1,946,086</u>
TOTAL ASSETS	<u>\$ 1,737,962</u>	<u>\$ 1,266,001</u>	<u>\$ 710,281</u>	<u>\$ 3,714,244</u>
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 34,631	\$ 76,751	\$ 19,812	\$ 131,194
Accrued liabilities	44,401	1,189,250	-	1,233,651
Due to other funds	<u>1,036,316</u>	<u>-</u>	<u>-</u>	<u>1,036,316</u>
TOTAL LIABILITIES	<u>1,115,348</u>	<u>1,266,001</u>	<u>19,812</u>	<u>2,401,161</u>
NET ASSETS				
Invested in capital assets	1,304,611	-	641,475	1,946,086
Unrestricted (deficit)	<u>(681,997)</u>	<u>-</u>	<u>48,994</u>	<u>(633,003)</u>
TOTAL NET ASSETS	<u>\$ 622,614</u>	<u>\$ -</u>	<u>\$ 690,469</u>	<u>\$ 1,313,083</u>

CITY OF RACINE

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

For the year ended December 31, 2002

	Equipment Maintenance Garage	Health Insurance	Telephones	Total
OPERATING REVENUES				
Charges for services and sales				
Labor charges	\$ 1,453,005	\$ -	\$ -	\$ 1,453,005
Machinery and equipment charges	410,340	-	-	410,340
Fuel and oil sales	557,027	-	-	557,027
Parts and supplies sales	478,628	-	-	478,628
Health insurance premiums		10,972,922		10,972,922
Telephone service sales	-	-	160,983	160,983
Total Operating Revenues	<u>2,899,000</u>	<u>10,972,922</u>	<u>160,983</u>	<u>14,032,905</u>
OPERATING EXPENSES				
Public Works				
Operating supplies and expenses	2,734,686	-	-	2,734,686
Office supplies and expenses	2,585	-	-	2,585
General administration				
Telephone expenses	-	-	128,464	128,464
Health insurance	-	11,037,472	-	11,037,472
Depreciation	44,262	-	13,091	57,353
Total Operating Expenses	<u>2,781,533</u>	<u>11,037,472</u>	<u>141,555</u>	<u>13,960,560</u>
Operating Income (loss)	<u>117,467</u>	<u>(64,550)</u>	<u>19,428</u>	<u>72,345</u>
NON OPERATING REVENUES (EXPENSES)				
Tax levy	138,459	-	-	138,459
Total Nonoperating Revenues (Expenses)	<u>138,459</u>	<u>-</u>	<u>-</u>	<u>138,459</u>
Income (Loss) Before Contributions and Transfers	255,926	(64,550)	19,428	210,804
TRANSFER IN	<u>-</u>	<u>64,550</u>	<u>625,397</u>	<u>689,947</u>
Change in Net Assets	255,926	-	644,825	900,751
TOTAL NET ASSETS - Beginning of Year, as restated	<u>366,688</u>	<u>-</u>	<u>45,644</u>	<u>412,332</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 622,614</u>	<u>\$ -</u>	<u>\$ 690,469</u>	<u>\$ 1,313,083</u>

CITY OF RACINE

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2002

	Equipment Maintenance Garage	Health Insurance	Telephones	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 2,895,552	\$ 10,945,154	\$ 159,518	\$ 14,000,224
Payments to suppliers	(1,391,225)	(9,771,471)	(111,916)	(11,274,612)
Payments to employees	(1,532,738)	-	-	(1,532,738)
Net Cash Provided (Used) by Operating Activities	<u>(28,411)</u>	<u>1,173,683</u>	<u>47,602</u>	<u>1,192,874</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating subsidies received-City	138,459	-	-	138,459
Transfer from other funds	-	64,550	-	64,550
Net Cash Provided by Noncapital Financing Activities	<u>138,459</u>	<u>64,550</u>	<u>-</u>	<u>203,009</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfer from other funds for capital purposes	-	-	625,397	625,397
Acquisition and construction of capital assets	(120,492)	-	(625,396)	(745,888)
Net Cash Used by Capital and Related Financing Activities	<u>(120,492)</u>	<u>-</u>	<u>1</u>	<u>(120,491)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(10,444)	1,238,233	47,603	1,275,392
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>10,444</u>	<u>-</u>	<u>18,336</u>	<u>28,780</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ -</u>	<u>\$ 1,238,233</u>	<u>\$ 65,939</u>	<u>\$ 1,304,172</u>

CITY OF RACINE
Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2002

	<u>Equipment Maintenance Garage</u>	<u>Health Insurance</u>	<u>Telephones</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME				
TO NET CASH PROVIDED (USED) BY				
OPERATING ACTIVITIES:				
Operating Income (loss)	\$ 117,467	\$ (64,550)	\$ 19,428	\$ 72,345
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities				
Depreciation expense	44,262	-	13,091	57,353
(Increase) in accounts receivable	143,975	-	773	144,748
(Increase) in inventories	(414,301)	-	-	(414,301)
(Increase) in due from other funds	(8,964)	-	-	(8,964)
Increase in accounts payable	33,601	76,751	16,548	126,900
Increase in accrued liabilities	1,889	1,189,250	-	1,191,139
Increase (decrease) in deferred revenue	(138,459)	-	-	(138,459)
Increase in due to other funds	192,119	(27,768)	(2,238)	162,113
Total Adjustments	<u>(145,878)</u>	<u>1,238,233</u>	<u>28,174</u>	<u>1,120,529</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (28,411)</u>	<u>\$ 1,173,683</u>	<u>\$ 47,602</u>	<u>\$ 1,192,874</u>

CITY OF RACINE

REPORT ON INTERNAL CONTROL

(Including Memorandum on Accounting Procedures,
Internal Controls, and Other Matters)

December 31, 2002

CITY OF RACINE

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To the Mayor and Common Council
City of Racine
Racine, Wisconsin

In planning and performing our audit of the basic financial statements of the City of Racine, Wisconsin for the year ended December 31, 2002, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and improving operating efficiency. The following comments are related to procedural matters which can be implemented by City staff. As always, you should consider the costs of making improvements to the expected benefits. This report does not affect our report, dated July 3, 2003, on the basic financial statements of the City of Racine. We have also included some comments related to policy matters for the City Council's consideration and other comments for informational purposes. The last section provides information to the City Council about the annual audit.

We will review the status of these comments during the 2003 audit. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Common Council and management and is not intended to be, and should not be, used by anyone other than the specified parties.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
July 3, 2003

GASB 39: DETERMINING COMPONENT UNITS

COMMENT AND RECOMMENDATION

In order to improve governmental reporting for component units, the Governmental Accounting Standards Board (GASB) amended GASB 14 and issued Statement 39. This statement was issued in May 2002 and is effective for fiscal periods beginning on June 15, 2003 and later. For you, this would be your calendar year 2004.

Previously, Statement 14 stated that all entities associated with a primary government such as the City of Racine are potential component units and should be evaluated for inclusion in the financial reporting entity. Now, Statement 39 sets up new criteria to determine if an organization should be reported as a component unit. These new criteria will likely result in more component units being included in the reporting entity of some governments.

Statement 14 defined the financial reporting entity to include other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Statement 39 has expanded those criteria. Entities (including nongovernmental entities) which are legally separate, tax-exempt organizations affiliated with a primary government and meeting *all* of the following criteria should be discretely presented within the primary government's financial reporting entity.

THE QUALIFYING CRITERIA

- The money received or held by the separate organization is entirely, or almost entirely, for the direct benefit of the primary government, its component units, or its constituents.
- The primary government (or its component units), is entitled to, or has the ability to otherwise access, a majority of the money received or held by the separate organization. While access does not necessarily imply control, the focus is on the "ability to access," not whether it did so in the current period. For example, if an affiliated organization historically provides resources to a college, this would indicate that the college can "otherwise access" the resources even if no resources were transferred in the current year.
- The money received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, is significant to the primary government. Significant means at least "material" to the financial statements taken as a whole. This criterion is aimed at concerns expressed that would have required school districts to always include parent teacher organizations (PTO) in their reporting entities. Unless the PTO provided "significant" financial support, they need not be included.

Organizations meeting the criteria should be discretely presented within the primary government's financial statements as a component unit. It is still a matter of professional judgment. Examples of organizations which may need to be audited and included are groups such as "Friends of the Library", or "Swimming Pool Committee," etc. This may be an annual requirement, or it may only be necessary in the year of a significant construction project.

GASB 39: DETERMINING COMPONENT UNITS (continued)

MANAGEMENT RESPONSE

Management is aware of the new reporting requirement. In the upcoming year, the finance department will investigate all related organizations to determine inclusion in the financial statements as a component unit.

BEAT PATROL GRANT REPORTS

COMMENT AND RECOMMENDATION

During our audit, we noted that quarterly Beat Patrol grant reports did not agree or could not be reconciled to the City's general ledger. After further testing it was concluded that the costs included on the grant reports were appropriate and could be supported by City financial records. We recommend that the City monitor the grant related reports filed with the State of Wisconsin for the Beat Patrol grant to ensure the reports agree with or can be reconciled to the City's general ledger.

MANAGEMENT RESPONSE

All grant reports filed with the State of Wisconsin for Beat Patrol are currently reviewed by a finance department manager prior to submission. Reports are agreed to the general ledger and the general ledger is attached to a copy of the report and retained to ensure an appropriate audit trail.

STATUS OF PRIOR YEAR POINTS

CAPITAL PROJECTS FUND BALANCE COMPONENTS (PER 12/31/01 LETTER)

During the review of the financial statements, it was noted that the entire fund balance in the capital projects fund was classified as "reserved". However, upon examination of the underlying details, it was noted that the fund balance contained components that should have been reported as; "reserved for encumbrances", "designated for subsequent years' expenditures", and "undesignated". We recommend that the fund balance be broken down into the correct components for reporting purposes. The proper classification of fund balance will make it easier for the reader of the financial statements to understand the various uses and commitments of the fund balance amount.

MANAGEMENT RESPONSE

Capital projects fund balance will be properly classified for the 2002 financial statements.

STATUS (12/31/02)

This point is still valid.

SELF-INSURANCE ACTIVITY (PER 12/31/01 LETTER)

The City is self-insured for health, general liability and workers compensation insurance. Generally accepted accounting principles require that two years of data related to claims activities and liabilities should be disclosed in the notes to the financial statements. This information was

STATUS OF PRIOR YEAR POINTS (continued)

not available from the City for 2000 or 2001. We recommend that the City maintain and/or accumulate the required information to ensure that the disclosure is included in the 2002 financial statements.

MANAGEMENT RESPONSE

The City is currently accumulating the required information to be included in the 2002 financial statements. The required data will be properly disclosed in the 2002 notes to the financial statements.

STATUS (12/31/02)

The City has satisfactorily addressed this point.

INTERNAL ACCOUNTING CONTROLS (PER 12/31/01 LETTER)

During the testing of internal control procedures related to payroll, it was noted that several timecards did not contain documentation of proper approval. We recommend that all timesheets and timecards be reviewed and approved by appropriate supervisory personnel and that such approval should be documented.

MANAGEMENT RESPONSE

The appropriate departmental managers have been notified of the requirement to review and approve timecards. Timecards will be checked by the payroll department for proper authorization prior to entry into the payroll system.

STATUS (12/31/02)

This point is still valid.

COMPLIANCE WITH STATUTORY BUDGET REQUIREMENTS (PER 12/31/01 LETTER)

Wisconsin state statutes specify the form and content of various budget documents and budget publications. These statutes require that the following information be presented in the budget information that is included in the notice of the public hearing on the proposed budget.

- An identification of the amount of indebtedness owed by the City at year-end.
- Actual revenues and expenditures for the preceding year.
- Actual revenues and expenditures for the current year for a period of not less than six months.
- All anticipated surplus balances at the end of the year for each fund.

The above information is not currently being included in the published notices for the public hearing on the budget. We recommend that management review the statutory budget compliance requirements and implement the necessary changes to ensure full compliance.

STATUS OF PRIOR YEAR POINTS (continued)

MANAGEMENT RESPONSE

The City is aware of the statutory budget compliance requirements and will include all information required by state statutes in the 2003 budget publication.

STATUS (12/31/02)

This point is still valid.

WISCONSIN COACHLINES PASS-THROUGH SUBSIDIES (PER 12/31/01 LETTER)

We noted during our audit that state operating assistance and congestion mitigation air quality (CMAQ) funds are passed through to Wisconsin Coachlines to provide the EEExpress Transit Service between Kenosha, Racine and Milwaukee. Historically, these funds have not been recorded on the transit books as a revenue and related expense. We would recommend that management contact the appropriate state funding agencies to verify proper reporting requirements.

MANAGEMENT RESPONSE

The City will contact the Department of Transportation during 2002 to determine the appropriate accounting and reporting treatment of these funds.

STATUS (12/31/02)

The City has satisfactorily addressed this point.

GASB STATEMENT No. 34 – PLANNING FOR IMPLEMENTATION (PER 12/31/00 LETTER)

In the summer of 1999, the Governmental Accounting Standards Board (GASB) approved the most comprehensive government accounting rule ever developed.

Effective Dates

Based on your total annual revenues for the year ended December 31, 1999 the new rules will start for your community for the year ended December 31, 2002.

Major Changes

The major changes facing the City as required by GASB 34 include:

- The financial statements must now include a Management's Discussion and Analysis section (MD&A). This will provide a narrative analysis of the statements and an analytical review of current financial activities.
- Government-wide financial statements (statement of net assets and statement of activities), along with the continuing presentation of fund financial statements, and notes to the financial statements, will comprise the basic financial statements for all governmental units.

STATUS OF PRIOR YEAR POINTS (continued)

- The government-wide financial statements will need to include infrastructure assets, as well as depreciation on all capital assets.

What should you be doing?

The City will need to establish a plan for tackling these accounting requirements. We consider this a strategic planning process that is required for governments to make educated decisions related to the accounting options and ways to accumulate the necessary data. Each governmental unit is unique. The strategic plan you create should be tailored to meet your specific needs. Since your accounting records and financial statements need to meet accounting and auditing standards, we would like to work with you during the GASB 34 strategic planning process. Our common goal would be to implement GASB 34 in the most efficient and effective way possible.

MANAGEMENT RESPONSE

The Finance Department staff will continue to attend relevant seminars relating to implementation of GASB 34. In addition, Finance staff will continue to work with Virchow, Krause & Company, LLP staff to insure timely implementation of GASB 34.

STATUS (12/31/02)

The City has satisfactorily addressed this point.

GASB STATEMENT No. 34 FIXED ASSET REQUIREMENTS (PER 12/31/00 LETTER)

Capital asset accounting requirements under the Governmental Accounting Standards Board Statement No. 34 have been causing concern for many local governments. Under GASB 34, capital asset accounting will include two components:

1. General Capital Assets – These are the assets normally accounted for in the General Fixed Assets Account Group and include land, buildings, equipment etc.
2. Infrastructure Assets – Infrastructure assets include long-lived capital assets like roads, bridges, storm sewers etc. Other than in the enterprise funds, infrastructure has not been previously accounted for in government financial statements.

General Capital Assets

Currently, the City is maintaining general fixed asset records that meet current reporting standards, but may not satisfy all of the requirements of GASB Statement No. 34. In preparation for GASB 34 implementation, one of the first things you can do is assess and upgrade your current general fixed asset records.

General capital assets (fixed assets) must be reported with accumulated depreciation at the effective date of GASB 34. For your community the effective date is January 1, 2002.

We will work with management to ensure that the fixed asset records have all of the necessary components to satisfy the requirements of GASB 34.

STATUS OF PRIOR YEAR POINTS (continued)

Infrastructure

Infrastructure assets must be reported on a prospective basis at the GASB 34 effective date. Infrastructure assets must be depreciated like general capital assets or may be reported using the modified approach. Creating a record of infrastructure assets will be a large task for many governments. GASB 34 identifies a number of methods to meet the infrastructure requirements. We are available to discuss your options with you.

Retroactive reporting of infrastructure assets is encouraged on the GASB 34 effective date January 1, 2002, but this reporting can be delayed to January 1, 2005. The City will be required to report retroactively to at least 1980.

Recommendations

We recommend first that the City assess and begin to upgrade its general fixed asset records to meet the requirements identified above. We can guide management in the process. We should also begin to plan for how your community will implement the infrastructure reporting requirements.

MANAGEMENT RESPONSE

The City has budgeted funds in 2002 for an appraisal and valuation of all of its fixed assets, including infrastructure. In addition, Finance Department staff will continue to attend relevant seminars relating to implementation of GASB 34. Lastly, Finance staff will continue to work with Virchow, Krause & Company, LLP staff to insure timely implementation of GASB 34.

STATUS (12/31/02)

The City has satisfactorily addressed this point.

UNDESIGNATED FUND BALANCE (PER 12/31/00)

Many of our public sector clients are experiencing an increasing pressure from citizen and taxpayer groups to utilize a City's undesignated fund balance to keep tax levies at the same level or lower. Accordingly, many of these entities have formally adopted resolutions "designating" a portion of their undesignated fund balance for "working capital and/or contingencies." They have found that by doing this they have established as policy their intent not to reduce their fund balance to a point requiring the entity to borrow for those requirements.

Fund equity essentially serves two purposes: 1) to fund unbudgeted expenditures the City may wish to incur or to fund unrealized revenues which may occur, and 2) to provide working capital sufficient to meet the City's cash flow requirements during the annual operating cycle. Considering that the City's General Fund operating budget for 2001 will approximate \$69.1 million and considering the City's specific cash flow needs, we would recommend that the designated fund equity for working capital and contingencies would approximate 15 – 25% of the 2001 operating budget or \$10.4 – 17.3 million. Currently, the City's General Fund undesignated fund equity is approximately \$14.4 million.

STATUS OF PRIOR YEAR POINTS (continued)

MANAGEMENT RESPONSE

The City is aware of the necessity of maintaining a sufficient undesignated general fund balance in the range recommended. The City is currently following this policy and will continue to insure that a satisfactory general fund undesignated fund balance is maintained. In addition, an amount is budgeted each year for contingencies.

STATUS (12/31/02)

This point is still valid.

CASH RECEIPTING (PER 12/31/00 LETTER)

We noted that the cash receipting procedures in several City departments are not adequate. We recommend that the City develop and implement a formal cash receipting policy for all departments.

MANAGEMENT RESPONSE

We concur with this recommendation and will continue to work with departments to insure uniform procedures are followed throughout the City.

STATUS (12/31/02)

This point is still valid.

ARBITRAGE REBATE (PER 12/31/00 LETTER)

The City has not performed calculations to identify the amount of arbitrage rebate liability for all bonds and notes issued after 1988. The bond and note ordinances and tax regulations require this calculation to be performed annually with the rebate paid every five years. The City has hired an outside firm to investigate and calculate the possible liability and has recorded an estimate of the liability in the General Long Term Obligations Account Group. We recommend that the City formalize a policy to monitor long term borrowings for arbitrage compliance and obtain assistance from your bond counsel and financial consultants as necessary.

MANAGEMENT RESPONSE

The outside consulting firm has made considerable progress in performing the arbitrage rebate calculations. Calculations for required prior years are projected to be current by early 2002. The City recognized this issue in 2000 and immediately took steps to have the required calculations performed.

STATUS (12/31/02)

The City has satisfactorily addressed this point.

AUDIT COMMUNICATIONS

This section of our report is to inform the Common Council about significant matters related to the annual audit so that it can appropriately discharge its oversight responsibility of the financial reporting process.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS, OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT GUIDELINES

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we consider the City of Racine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133* and the *State Single Audit Guidelines*.

As a part of obtaining reasonable assurance about whether the City of Racine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with *OMB Circular A-133* and the *State Single Audit Guidelines*, we examined, on a test basis, evidence about the City of Racine's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines* applicable to each of its major federal and state programs for the purpose of expressing an opinion on the City of Racine's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Racine's compliance with those requirements.

CHANGES IN ACCOUNTING METHODS

As described in Note 1B, the City has adopted and implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*," as of January 1, 2002. In addition, as described in Note 1C, the City changed its accounting related to the fund used for reporting health insurance from the General Fund to an Internal Service Fund as of January 1, 2002.

AUDIT COMMUNICATIONS (continued)

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used in the preparation of the basic financial statements are discussed in Note I to the financial statements. There have been no material unusual transactions or controversial accounting issues.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. We are not aware of any particularly sensitive accounting estimates utilized by management in its financial statement process.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. All audit and bookkeeping adjustments we prepared were included in your financial statements. Copies of these adjustments are available from management.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

All the information included in the basic financial statements has been audited. Our responsibilities are addressed in the Independent Auditors' Report.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional auditing standards define a disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during our audit.

CONSULTATIONS WITH OTHER ACCOUNTANTS

To the best of our knowledge, management has not consulted with or obtained opinions from other independent accountants on auditing and accounting matters during the past year.

ISSUES DISCUSSED PRIOR TO THIS YEAR'S AUDIT

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to performing the audit. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to the services performed as your auditor.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

CLOSING

In closing, we would like to thank you for allowing us to serve you. We are very interested in the long-term success of the City of Racine and our comments are intended to draw your attention to issues which need to be addressed for the City to meet its goals and responsibilities.

This letter, by its nature, focuses on improvements and does not comment on the many strong areas of the City's systems, procedures and personnel. The comments and suggestions in this report are not intended to reflect in any way on the integrity or ability of the personnel of the City. They are made solely in the interest of establishing sound internal control practices and improving the City's financial operations. The City's staff is genuinely concerned about maintaining the City's financial reporting system so that informed decisions can be made. They were receptive to our ideas, comments and suggestions.

We will review the status of these comments during our next audit engagement. We have already discussed the previous comments and suggestions with various City personnel and we would be pleased to discuss them with you in further detail.