

**CITY OF RACINE**  
Racine, Wisconsin

**FINANCIAL STATEMENTS**

December 31, 2008

# CITY OF RACINE

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## **INDEPENDENT AUDITORS' REPORT**

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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 units, each major fund and the aggregate remaining fund information of the City of Racine, Wisconsin, as of and for the year ended December 31, 2008, 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 of Racine'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 83 percent and 81 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, a 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. The financial statements of the Downtown Racine Business Improvement District #1 were not audited in accordance with *Government Auditing Standards*.

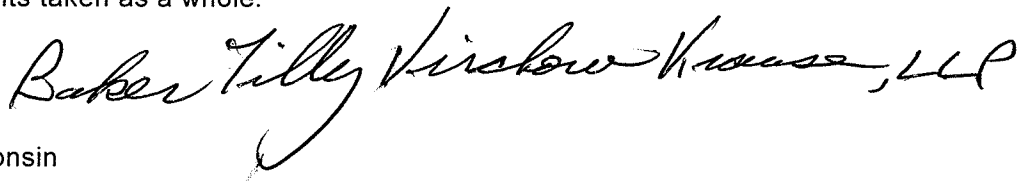
To the Mayor and Common Council  
City of Racine

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 units, each major fund, and the aggregate remaining fund information of the City of Racine, Wisconsin, as of December 31, 2008, and the respective changes in financial position and where applicable, cash flows 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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2009 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress of other postemployment benefits are not a required part of the basic financial statements but are 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 as listed in the table of contents 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 as listed in the table of contents 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.

A handwritten signature in cursive script that reads "Baker Tilly Virchow Krause, LLP". The signature is written in black ink and is positioned above the typed name and date.

Milwaukee, Wisconsin  
July 23, 2009



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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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, 2008.

**Financial Highlights**

- The assets of the City of Racine exceeded its liabilities at the close of the most recent fiscal year by \$286,472,547 (net assets). Of this amount, \$2,936,096 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$21,673,084.
- As of the close of the current fiscal year, the City of Racine's governmental funds reported combined ending fund balances of \$55,156,141, an increase of \$878,846, in comparison with the prior year. Approximately 47.5% of this amount, \$26,187,094, is available for spending at the government's discretion (unreserved fund, undesignated fund balance). At year end, management had designated \$2,536,469 of the unreserved fund balance for use in the 2009 budget.
- At the end of the current fiscal year, unreserved-undesignated fund balance for the general fund was \$23,437,572 or 29.4% of total general fund expenditures.
- Total long term obligations decreased by approximately \$2.7 million for the fiscal year ended December 31, 2008. Long term obligation activity during the year included the following:
  - \$7.68 million of general obligation debt issued for the 2008 capital improvement plan
  - \$14.4 million for general repayments
  - \$3.4 million of clean water fund loans issued by the Wastewater Utility for general plant improvements.

**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.

**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.

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).

**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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**Government-wide Financial Statements (continued)**

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, Storm Water Utility, 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 and Redevelopment Authority for which the City of Racine is financially accountable. Financial information for these component units is reported separately from the financial information presented in the primary government itself.

The government-wide financial statements can be found on pages 17-19 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.

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.

**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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**Governmental Funds (continued)**

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, HUD fund, 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 worksheets 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 20-26 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, Storm Water 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 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, Building Complex, 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 27-33 of this report.

**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 34 of this report.

**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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**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 35-92 of this report.

**Other Information**

The required supplementary information and the combining statements referred to earlier in connection with nonmajor governmental and proprietary funds are presented immediately following the notes to the financial statements. This information can be found on pages 93-125 of this report.

**Government-wide Financial Analysis**

Net assets may serve over time as a useful indicator of a government's financial position. December 31, 2008 and 2007 City's assets exceeded liabilities by \$286,472,547 and \$308,145,631 respectively.

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. 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. The City's investment in capital assets was \$251,306,834 and \$254,705,838 at December 31, 2008 and 2007.

An additional portion of the City of Racine's governmental activities net assets represents restricted net assets, or resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. Restricted net assets were \$23,406,928 and \$25,581,097 and unrestricted net assets were \$11,758,785 and \$27,858,696 as of December 31, 2008 and 2007 respectively.

At December 31 2008, the City's governmental activities had a deficit unrestricted net assets of (\$2,323,919). The deficit is primarily the result of the increase in the City's OPEB obligation in 2008.

The City's net OPEB obligation was \$36,858,629 and \$17,415,472 as of December 31, 2008 and 2007 respectively.

**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

**Government-wide Financial Analysis (continued)**

Condensed financial information from the statements of net assets is presented below for the years ended December 31, 2008 and 2007. Amounts are expressed in thousands.

|   | <u>2008</u>       | <u>2007</u>       | <u>2008</u>       | <u>2007</u>       | <u>2008</u>       | <u>2007</u>       |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | Governmental      | Governmental      | Business-type     | Business-type     | Total             | Total             |
|   | <u>Activities</u> | <u>Activities</u> | <u>Activities</u> | <u>Activities</u> | <u>Total</u>      | <u>Total</u>      |
| Current and other assets                          | \$ 138,002        | \$ 132,843        | \$ 85,499         | \$ 91,817         | \$ 223,501        | \$ 224,660        |
| Capital assets                                    | <u>176,417</u>    | <u>176,453</u>    | <u>289,038</u>    | <u>290,696</u>    | <u>465,455</u>    | <u>467,149</u>    |
| Total assets                                      | <u>314,419</u>    | <u>309,296</u>    | <u>374,537</u>    | <u>382,513</u>    | <u>688,956</u>    | <u>691,809</u>    |
| Current and other liabilities                     | 62,444            | 59,017            | 7,364             | 6,990             | 69,808            | 66,007            |
| Liabilities payable from<br>restricted assets     | -                 | -                 | 10,808            | 11,264            | 10,808            | 11,264            |
| Long-term liabilities                             | <u>140,213</u>    | <u>121,176</u>    | <u>181,655</u>    | <u>185,216</u>    | <u>321,868</u>    | <u>306,392</u>    |
| Total liabilities                                 | <u>202,657</u>    | <u>180,193</u>    | <u>199,827</u>    | <u>203,470</u>    | <u>402,484</u>    | <u>383,663</u>    |
| Net assets:                                       |                   |                   |                   |                   |                   |                   |
| Invested in capital assets<br>net of related debt | 99,869            | 102,120           | 160,261           | 161,521           | 251,307           | 254,706           |
| Restricted  | 14,217            | 14,688            | 9,189             | 10,894            | 23,406            | 25,582            |
| Unrestricted                                      | <u>(2,324)</u>    | <u>12,295</u>     | <u>5,260</u>      | <u>6,628</u>      | <u>11,759</u>     | <u>27,858</u>     |
| Total net assets                                  | <u>\$ 111,762</u> | <u>\$ 129,103</u> | <u>\$ 174,710</u> | <u>\$ 179,043</u> | <u>\$ 286,472</u> | <u>\$ 308,146</u> |

**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

**Government-wide Financial Analysis (continued)**

Condensed financial information from the statement of activities is presented below for the year ended December 31, 2008 and 2007. Amounts are expressed in thousands.

|  | <u>2008</u>       | <u>2007</u>       | <u>2008</u>       | <u>2007</u>       | <u>2008</u>       | <u>2007</u>       |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | Governmental      | Governmental      | Business-type     | Business-type     | <u>Total</u>      | <u>Total</u>      |
|  | <u>Activities</u> | <u>Activities</u> | <u>Activities</u> | <u>Activities</u> |                   |                   |
| <b>Revenues</b>  |                   |                   |                   |                   |                   |                   |
| Charges for services   | \$ 35,940         | \$ 36,615         | \$ 35,539         | \$ 35,406         | \$ 71,479         | \$ 72,021         |
| Operating grants<br>and contributions                                | 11,590            | 11,807            | 5,215             | 4,945             | 16,805            | 16,752            |
| Capital grants<br>and contributions                                  | 3,037             | 2,274             | 3,853             | 12,628            | 6,890             | 14,902            |
| Taxes  | 46,287            | 43,878            | 1,380             | 1,383             | 47,667            | 45,261            |
| Intergovernmental revenues<br>not restricted to<br>specific programs | 31,206            | 31,106            | -                 | -                 | 31,206            | 31,106            |
| Investment income  | 2,367             | 5,465             | 906               | 1,820             | 3,273             | 7,285             |
| Other  | 814               | 835               | 116               | 25                | 930               | 860               |
| <b>Total revenues</b>  | <u>131,241</u>    | <u>131,980</u>    | <u>47,009</u>     | <u>56,207</u>     | <u>178,250</u>    | <u>188,187</u>    |
| <b>Expenses</b>  |                   |                   |                   |                   |                   |                   |
| General government   | 30,264            | 33,855            | -                 | -                 | 30,264            | 33,855            |
| Community development  | 7,009             | 5,285             | -                 | -                 | 7,009             | 5,285             |
| Health   | 3,358             | 3,461             | -                 | -                 | 3,358             | 3,461             |
| Education and recreation   | 14,891            | 14,016            | -                 | -                 | 14,891            | 14,016            |
| Public works   | 31,933            | 27,711            | -                 | -                 | 31,933            | 27,711            |
| Public safety  | 57,958            | 55,639            | -                 | -                 | 57,958            | 55,639            |
| Interest and fiscal charges  | 5,605             | 5,218             | -                 | -                 | 5,605             | 5,218             |
| Water  | -                 | -                 | 16,881            | 17,195            | 16,881            | 17,195            |
| Wastewater   | -                 | -                 | 15,124            | 14,824            | 15,124            | 14,824            |
| Belle urban system   | -                 | -                 | 9,428             | 8,782             | 9,428             | 8,782             |
| Other  | -                 | -                 | 7,473             | 6,577             | 7,473             | 6,577             |
| <b>Total expenses</b>  | <u>151,018</u>    | <u>145,185</u>    | <u>48,906</u>     | <u>47,378</u>     | <u>199,924</u>    | <u>192,563</u>    |
| Increase (decrease) in<br>net assets before transfers                | (19,777)          | (13,205)          | (1,897)           | 8,829             | (21,674)          | (4,376)           |
| Transfers  | 2,436             | 2,207             | (2,436)           | (2,207)           | -                 | -                 |
| Increase (decrease) in net assets                                    | (17,341)          | (10,998)          | (4,333)           | 6,622             | (21,674)          | (4,376)           |
| Net assets-beginning of year   | 129,103           | 140,101           | 179,043           | 172,421           | 308,146           | 312,522           |
| <b>Net assets-end of year</b>  | <u>\$ 111,762</u> | <u>\$ 129,103</u> | <u>\$ 174,710</u> | <u>\$ 179,043</u> | <u>\$ 286,472</u> | <u>\$ 308,146</u> |



**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

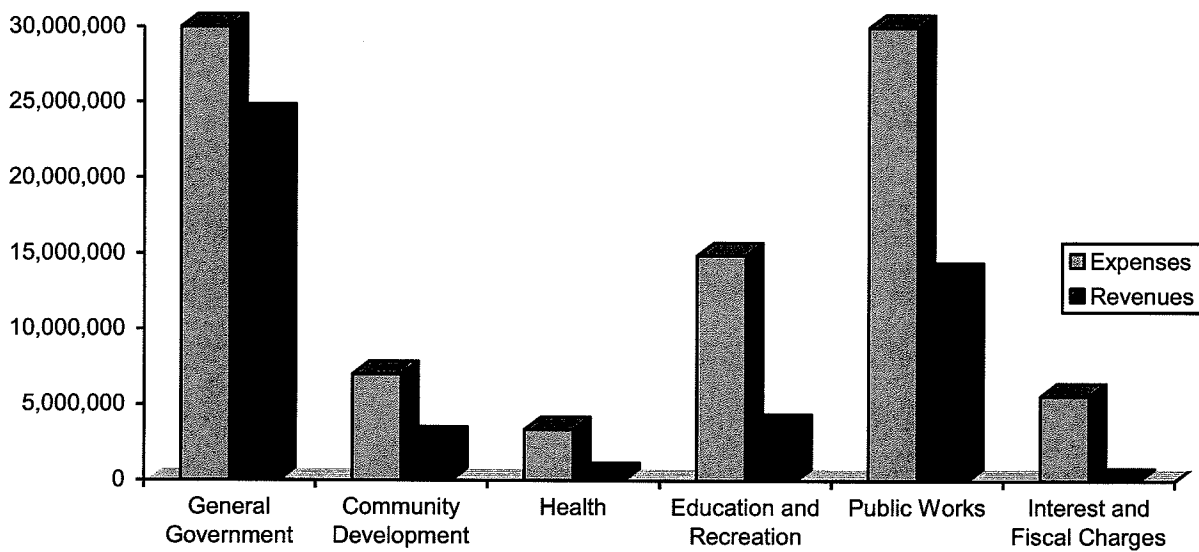
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**Governmental Activities**

The net assets in the governmental activities decreased by over \$17 million during the fiscal year. The primary reasons for the decrease are as follows:

The governmental activities estimated annual required contribution for post employment benefits exceeded the contributions made during 2008 by just over \$17 million.

*Expenses and Program Revenues-Governmental Activities:*

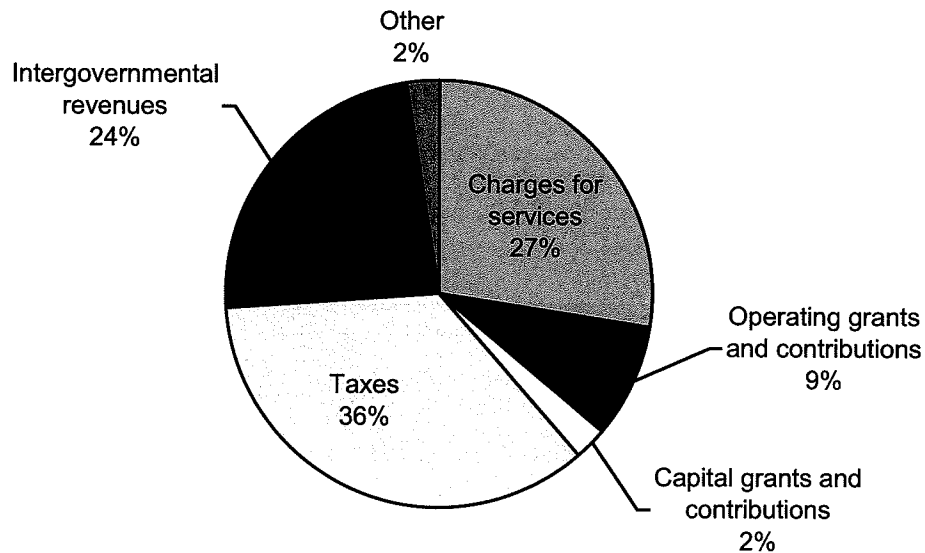


**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

**Governmental Activities** (continued)

Program and General Revenues by Source – Governmental Activities:



**Business-type activities**

Business-type activities net assets decreased by \$4.3 million during the fiscal year 2008. Key elements of this decrease are as follows:

- The Water utility had a decrease in net assets of approximately \$1.1 million. The decrease in net assets in the Water utility relates primarily to a \$1 million increase in the Utility's net OPEB obligation as the required contributions exceeded the actual contributions.
- The Wastewater utility had a decrease in net assets of approximately \$1.2 million. The decrease in net assets in the Wastewater utility relates to both a \$700 thousand increase in the Utility's net OPEB obligation as the required contributions exceeded the actual contributions and a loss in interest income due market conditions during 2008.
- The Belle Urban Transit system has a decrease in net assets of \$993,104 which relates primarily to operating revenues that were unable to cover escalating depreciation expense. Although the Transit system continues to initiate fee increases, it is anticipated that this will be continue to be the trend.
- The Other Enterprise Funds of the City had a decrease in net assets of \$1,071,166. The decrease in net assets relates primarily to operating revenues unable to cover escalating depreciation expense. In addition, the estimated annual required contribution for post employment benefits exceeded the contributions made during 2008 by just over \$597,000.

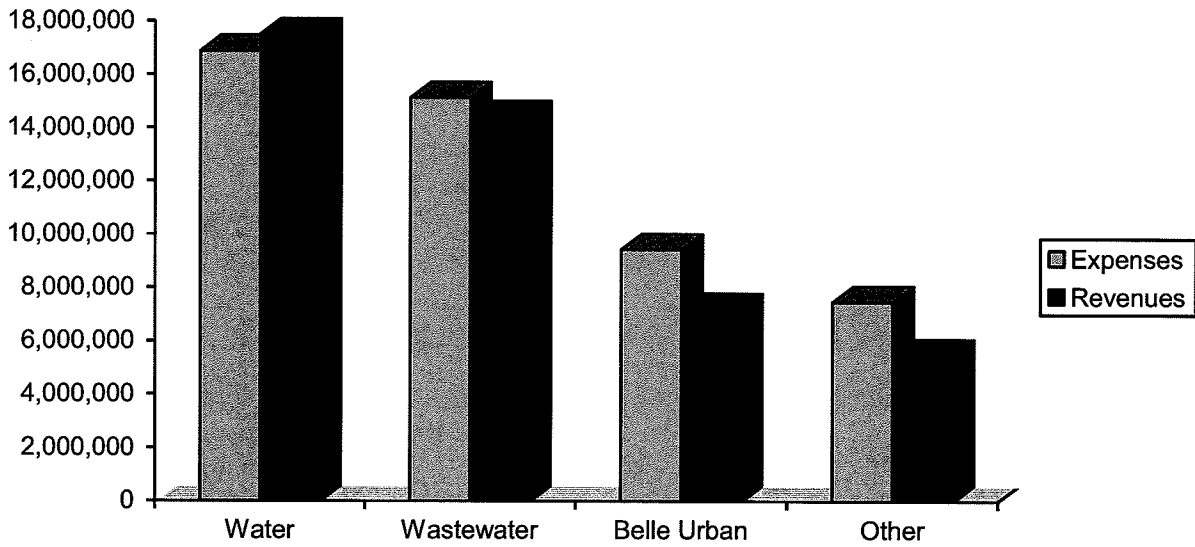
**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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**Business-type activities (continued)**

*Expenses and Program Revenues – Business-type Activities:*



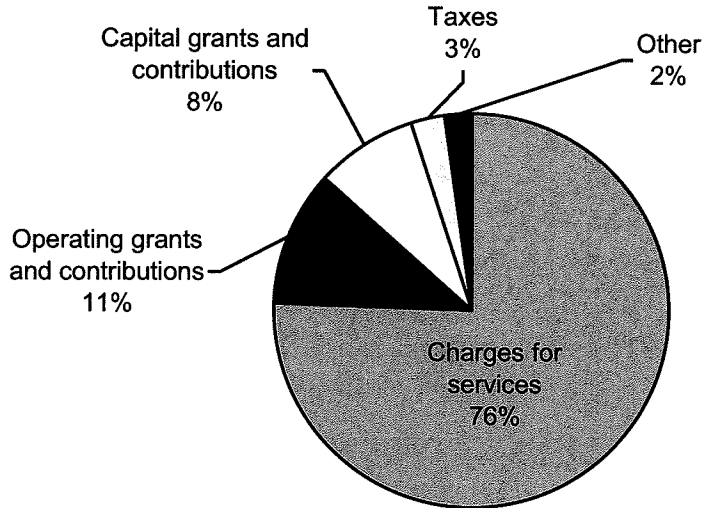
**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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**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 \$55,156,141. Approximately 47.5% of this amount \$26,187,094 constitutes unreserved fund balance which is available for spending at the government's discretion. Management has designated \$2,536,469 of governmental fund balance to be used in the 2009 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 \$23,437,572, while total fund balance totaled \$35,050,649. Unreserved-undesignated fund balance represents 29.4% of total general fund expenditures, while total fund balance represents 44% of total general fund expenditures.

**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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**Financial Analysis of the Government's Funds (continued)**

Although the general fund was budgeted to use \$2.46 million of fund balances during 2008, the general fund used just over \$91 thousand of fund balance for the year ended December 31, 2008. The resulting \$2.37 million positive variance is the result of both actual revenues exceeding budgeted amounts by \$327 thousand and actual expenditures under budgeted amounts by approximately \$2 million. The following details both the revenue and expenditures factors that contributed to the positive variance:

- Intergovernmental revenues were \$426,237 or 1.2% over the budget of \$34,803,803. The City, because of uncertainty at the state level, underestimated both exempt computer aid revenue and expenditure restraint revenue for 2008 by approximately \$312,000. In addition, the City received both federal and state reimbursement for overtime expended associated with gang activity of approximately \$91,000. Intergovernmental revenue gains were off-set by losses in license and permits and fines and forfeitures. Losses in those areas relate both to an overestimation of public safety fine revenue and the downturn in the economy.
- Expenditures in the general fund were approximately \$2 million, or 2.5% under the budget of \$81,688,919. With the exclusion of public works, all general fund expenditure categories were under budget in 2008.
  - The public safety and capital outlay categories contributed to the majority of the general fund expenditure results.
    - The public safety category was approximately \$1.2 million, or 2.8% under budget due to positions left unfilled for the majority of the year in both the police department and the fire department. In addition, an unexpected decrease in the health insurance costs in 2008 resulted in significant savings in public safety.
    - The capital outlay category was \$567,592 or 32.7% under budget due to orders for refuse trucks and front loaders that were placed later in the year than normal. Because there is significant lead time required for delivery of these items, the equipment purchases were encumbered at year end but not spent. The funds will be carried over to 2009 and spent in early 2009.
  - The public works department was \$269,031, or 2.2% over budget due primarily to excessive snow in early 2008 and then subsequent flooding in the spring of 2008. The snow and rain resulted in both additional salary and fringe costs for overtime as well as operating costs for the unexpected purchase of road salt and asphalt patch.
  - All of the other general fund categories were slightly under budget due primarily to the unexpected decrease in health insurance costs in 2008.

**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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**Financial Analysis of the Government's Funds (continued)**

The 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 \$1,717,705 and \$2,080,058 at the end of fiscal year 2008 and 2007, of which the majority is reserved for specific purposes. In 2008, fund balance decreased by \$362,353 in the HUD fund primarily as a result of the loans and grants made for the City's uptown redevelopment project of over \$200,000.

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 (deficits) in this fund totaled \$(3,762,995) and \$(5,396,687) at the end of fiscal year 2008 and 2007 due to expenditures exceeding tax incremental revenues for the majority of the districts. Tax increment sharing increased fund balances during 2008 and 2007 by \$1,633,692 and \$1,286,088 respectively.

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 at December 31, 2008 and 2007 of \$1,450,300 and \$1,342,683, all of which is reserved for the payment of debt service. The change in the fund balance during 2008 and 2007 was \$107,617 and \$534,015 respectively. The increase fund balance during 2008 was primarily the result of the transfer of unspent bond proceeds from previous years.

The Other governmental funds are non major 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 \$20,700,482 and \$21,109,566 in 2008 and 2007 respectively. Reserved fund balance is \$16,387,965 and \$13,440,100 in 2008 and 2007 and unreserved is \$4,312,517 and \$7,669,466 in 2008 and 2007. The fund balances of these funds decreased by \$409,084 during 2008.

**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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**Financial Analysis of the Government's Funds (continued)**

*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 2008 and 2007 amounted to \$1,825,407 and \$3,234,999, for the Wastewater utility \$6,257,555 and \$4,439,883, for the Belle urban system \$(2,182,397) and \$(1,713,267), and for the other enterprise funds \$(640,550) and \$666,765. The total change in net assets for the Water Utility for 2008 and 2007 was \$(1,109,936) and \$7,815,915 the Wastewater Utility \$(1,158,570) and \$406,649, for the Belle urban system \$(993,104) and \$(997,719), and for the Other Enterprise funds \$(1,071,166) and \$(602,354) 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, 2008 and 2007 amounts to \$260,129,523 and \$263,640,829 respectively, 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. As of December 31, 2008 and 2007, capital assets, net of accumulated depreciation totaled \$465,454,682 and \$467,148,440 respectively. Capital assets, net of accumulated depreciation decreased approximately \$1.7 million in 2008 and increased by \$11 during 2007. In decrease in 2008 occurred primarily in the business-type activities. The business-type activities capital assets decreased due primarily to depreciation expense exceeds additions in the Wastewater Utility.

**CITY OF RACINE**  
Racine, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited

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**Capital Asset and Debt Administration (continued)**

*Long-term debt* – At the end of 2008 and 2007, the City of Racine had total debt outstanding of \$243,789,810 and \$246,829,899. Of this amount, the debt backed by the full faith and credit of the government is \$103,870,000 and \$102,250,000 in 2008 and 2007 respectively. The remainder of the City's debt represents bonds secured solely by specified revenue sources (ie. revenue bonds). The City's total outstanding debt decreased by approximately \$3 million in 2008. The majority of the decrease in 2008 was a result of significant principal paid in both the Water and the Wastewater Utility.

|                                    | <u>Outstanding debt</u> |                       |
|------------------------------------|-------------------------|-----------------------|
|                                    | <u>2008</u>             | <u>2007</u>           |
| Governmental Activities:           |                         |                       |
| General obligation bonds and notes | \$ 103,870,000          | \$ 102,250,000        |
| Business-Type Activities:          |                         |                       |
| Revenue bonds                      | <u>139,919,810</u>      | <u>144,579,899</u>    |
| Total                              | <u>\$ 243,789,810</u>   | <u>\$ 246,829,899</u> |

**Economic Conditions and 2008 and 2009 Budget Outlook**

Due to the current economic conditions the City has seen several companies laying off workers. The City's unemployment rate remains significantly above the state and national average. In May of 2009, the City's unemployment rate is 16.1% compared to a state rate of 8.7% and a county rate of 10.2%.

The assessed value of the City has increased over the last several years with an 3.9% and 8.4% increase in 2008 and 2007 respectively. Due to current market conditions, the City is facing a potential reduction in the assessed value in 2009.

The City continues to carry a strong undesignated fund balance in the general fund and has developed internal policies to ensure that the balance remains above 20% of general fund expenditures. In addition, the City has implemented various planning tools and procedures to minimize tax rate fluctuations in future years, including 5 year planning for both capital and operational budgets.

Due to the budget issues at the state level, the City is anticipating no increase in the intergovernmental aids received from the state in 2009 and a reduction of intergovernmental aids in 2010. Due to a change in health care administrators, the implementation of a wellness program, and the creation of a free clinic, the City's health insurance cost decreased substantially in 2008. The City anticipates costs to increase about 5% from 2008 to 2009.

The City used slightly over \$2.6 million of general fund, debt service fund and other governmental fund balances to stabilize the 2009 tax rate. The 2009 City tax rate was \$10.74 per thousand. Due to the union contract negotiations, the use of fund balance in the 2009 budget, and increasing debt service requirements, reductions in state aids, and increased state mandates, difficult choices will have to be made in the preparation of the 2010 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. The financial report can be found at [www.cityofracine.org](http://www.cityofracine.org) 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.



## **BASIC FINANCIAL STATEMENTS**

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**CITY OF RACINE**

STATEMENT OF NET ASSETS  
December 31, 2008

|   | Primary Government      |                          |                       | Business Improvement District | Redevelopment Authority |
|---|-------------------------|--------------------------|-----------------------|-------------------------------|-------------------------|
|   | Governmental Activities | Business Type Activities | Total                 |                               |                         |
| <b>ASSETS</b>   |                         |                          |                       |                               |                         |
| Cash and investments                                      | \$ 60,888,412           | \$ 16,858,769            | \$ 77,747,181         | \$ 19,505                     | \$ 22,647               |
| Receivables (net of allowance for uncollectible accounts) | 65,529,403              | 11,057,560               | 76,586,963            | -                             | 450,000                 |
| Internal balances   | 3,733,733               | (3,733,733)              | -                     | -                             | -                       |
| Due from primary government                               | -                       | -                        | -                     | 214,087                       | -                       |
| Due from other governments                                | 2,400,732               | 3,462,384                | 5,863,116             | -                             | 196,000                 |
| Inventories   | 636,241                 | 1,009,590                | 1,645,831             | -                             | -                       |
| Prepaid items   | 42,614                  | 14,153                   | 56,767                | -                             | -                       |
| Deferred charges  | 854,108                 | 702,958                  | 1,557,066             | -                             | -                       |
| Advances to other funds                                   | 2,637,647               | (2,637,647)              | -                     | -                             | -                       |
| Advances to component unit                                | 894,313                 | -                        | 894,313               | -                             | -                       |
| Restricted assets   |                         |                          |                       |                               |                         |
| Cash and investments                                      | -                       | 18,629,043               | 18,629,043            | -                             | -                       |
| Accrued interest receivable                               | -                       | 76,305                   | 76,305                | -                             | -                       |
| Plant capacity, current portion                           | -                       | 2,423,775                | 2,423,775             | -                             | -                       |
| Plant capacity, long term                                 | -                       | 37,636,850               | 37,636,850            | -                             | -                       |
| Land held for resale                                      | 385,000                 | -                        | 385,000               | -                             | 1,387,375               |
| Capital assets  |                         |                          |                       |                               |                         |
| Land  | 23,326,295              | 6,283,961                | 29,610,256            | -                             | -                       |
| Construction in progress                                  | 11,670,797              | 4,383,822                | 16,054,619            | -                             | -                       |
| Other capital assets (net of accumulated depreciation)    | 141,420,188             | 278,369,619              | 419,789,807           | 7,228                         | -                       |
| <b>TOTAL ASSETS</b>                                       | <b>\$ 314,419,483</b>   | <b>\$ 374,537,409</b>    | <b>\$ 688,956,892</b> | <b>\$ 240,820</b>             | <b>\$ 2,056,022</b>     |
| <b>LIABILITIES</b>  |                         |                          |                       |                               |                         |
| Liabilities   |                         |                          |                       |                               |                         |
| Accounts payable  | \$ 3,934,039            | \$ 1,824,851             | \$ 5,758,890          | \$ 5,179                      | \$ 8,373                |
| Accrued compensation and other current liabilities        | 7,262,117               | 643,748                  | 7,905,865             | -                             | 800                     |
| Due to other governments                                  | 272,733                 | -                        | 272,733               | -                             | 196,000                 |
| Accrued interest payable                                  | 196,315                 | -                        | 196,315               | -                             | -                       |
| Unearned revenue  | 50,778,655              | 4,895,112                | 55,673,767            | 214,087                       | -                       |
| Liabilities payable from restricted assets                | -                       | -                        | -                     | -                             | -                       |
| Accrued interest payable                                  | -                       | 1,097,479                | 1,097,479             | -                             | -                       |
| Current portion of long term debt                         | -                       | 8,667,453                | 8,667,453             | -                             | -                       |
| Deferred capacity revenue, current portion                | -                       | 1,043,782                | 1,043,782             | -                             | -                       |
| Noncurrent liabilities                                    |                         |                          |                       |                               |                         |
| Plant capacity  | -                       | 43,845,670               | 43,845,670            | -                             | -                       |
| OPEB obligation   | 32,218,256              | 4,640,373                | 36,858,629            | -                             | -                       |
| Due within one year                                       | 7,238,928               | 1,305                    | 7,240,233             | -                             | -                       |
| Due in more than one year                                 | 100,756,054             | 133,167,475              | 233,923,529           | -                             | 894,313                 |
| <b>TOTAL LIABILITIES</b>                                  | <b>202,657,097</b>      | <b>199,827,248</b>       | <b>402,484,345</b>    | <b>219,266</b>                | <b>1,099,486</b>        |
| <b>NET ASSETS</b>   |                         |                          |                       |                               |                         |
| Invested in capital assets, net of related debt           | 99,868,904              | 160,260,619              | 251,306,834           | 7,228                         | -                       |
| Restricted  |                         |                          |                       |                               |                         |
| Debt service  | 1,253,985               | -                        | 1,253,985             | -                             | -                       |
| Permanent funds   | 3,227,986               | -                        | 3,227,986             | -                             | -                       |
| HUD loan program  | 9,735,430               | -                        | 9,735,430             | -                             | -                       |
| Water   | -                       | 3,544,565                | 3,544,565             | -                             | -                       |
| Wastewater  | -                       | 5,644,962                | 5,644,962             | -                             | -                       |
| Unrestricted  | (2,323,919)             | 5,260,015                | 11,758,785            | 14,326                        | 956,536                 |
| <b>TOTAL NET ASSETS</b>                                   | <b>\$ 111,762,386</b>   | <b>\$ 174,710,161</b>    | <b>\$ 286,472,547</b> | <b>\$ 21,554</b>              | <b>\$ 956,536</b>       |

