

**WISCONSIN CENTER DISTRICT**  
**Milwaukee, Wisconsin**

**FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

## **TABLE OF CONTENTS**

	<b>PAGE</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT DISCUSSION AND ANALYSIS</b>	3
<b>FINANCIAL STATEMENTS</b>	
Statements of Net Assets	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	11
Notes to Financial Statements	13
<b>ADDITIONAL INFORMATION</b>	
Schedule of Progress Funding	39
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	40

## **Independent Auditors' Report**

Board of Directors  
Wisconsin Center District  
Milwaukee, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying statements of net assets of Wisconsin Center District (the District), as of December 31, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and with Government Auditing Standards, issued by the Comptroller General of the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of



significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2012 and 2011 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated March 8, 2013 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 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 the audit.

**Other Information**

The management discussion and analysis on pages 3 through 7 and the schedule of funding progress on page 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Coleman & Williams, Ltd.*

Milwaukee, Wisconsin  
March 8, 2013

## **WISCONSIN CENTER DISTRICT**

### Management's Discussion and Analysis

Years ended December 31, 2012 and 2011

(Unaudited)

The Wisconsin Center District (the District) is a political subdivision, unit of local government body corporate and politic, and municipality existing under the laws of the State of Wisconsin. The District is a "local exposition district" created under, and with the taxing powers described in 1993 Wisconsin Act 263. As management, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2012.

### **Financial Highlights**

#### **Year Ended December 31, 2012**

- The liabilities of the District exceeded its assets at December 31, 2012 by \$46,138,055 (net assets-deficit). Of this amount, \$8,333,716 is restricted for debt service and \$(1,724,708) is associated with investments in capital assets, net of related debt. This leaves a deficit of \$52,747,063 for unrestricted net assets.
- The District's December 31, 2012 total net asset balance of \$(46,138,055) reflected a decrease of \$388,730 from December 31, 2011 balance of \$(45,749,325).

#### **Year Ended December 31, 2011**

- The liabilities of the District exceeded its assets at December 31, 2011 by \$45,749,325 (net assets-deficit). Of this amount, \$6,640,603 is restricted for debt service and \$(678,855) is associated with investments in capital assets, net of related debt. This leaves a deficit of \$51,711,073 for unrestricted net assets.
- The District's December 31, 2011 total net asset balance of \$(45,749,325) reflected an increase of \$51,512 from December 31, 2010 balance of \$(45,800,837).

### **Overview of the Financial Statements**

The District follows enterprise fund reporting; accordingly the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Financial statements offer short and long-term financial information about the activities and operations of the District. These statements are presented in a manner similar to a private business.

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise four components: 1) statements of net assets, 2) statements of revenues, expenses, and changes in net assets, 3) statements of cash flows and 4) notes to the basic financial

statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The statements of net assets present information on all of the District'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 District is improving or deteriorating. Additionally, unrestricted net assets represent amounts available for spending at the District's discretion. Such information may be useful in evaluating near-term financing requirements.

The statements of revenues, expenses, and changes in net assets present information showing how the 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 future fiscal periods (e.g., uncollected space and equipment rental revenues, labor service revenues).

The statements of cash flows, using the direct method, present information on the District's increase/decrease in cash resulting from operating activities, non-capital financing activities, capital and related financing activities and investing activities.

The statements of net assets, statements of revenues, expenses and changes in net assets and statements of cash flows can be found on pages 8-12 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 13-38 of this report.

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. In the case of the District, assets were less than liabilities by \$46,138,055 at the close of the most recent fiscal year. This compares to \$45,749,325 at the close of the previous year.

### Condensed Statement of Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 40,015,267	37,649,229	33,738,560
Capital assets	<u>158,263,017</u>	<u>163,526,728</u>	<u>169,179,046</u>
Total assets	<u>\$ 198,278,284</u>	<u>201,175,957</u>	<u>202,917,606</u>
Current liabilities	\$ 13,751,697	12,386,714	11,959,833
Long-term liabilities	<u>230,664,642</u>	<u>234,538,573</u>	<u>236,758,610</u>
Total liabilities	<u>244,416,339</u>	<u>246,925,287</u>	<u>248,718,443</u>
Net assets			
Invested in capital assets, net of related debt	(1,724,708)	(678,855)	(3,529,111)
Restricted	8,333,716	6,640,603	3,616,579
Unrestricted	<u>(52,747,063)</u>	<u>(51,711,073)</u>	<u>(45,888,305)</u>
Total net assets	<u>\$ (46,138,055)</u>	<u>(45,749,325)</u>	<u>(45,800,837)</u>

A significant portion of the District's net assets, \$(1,724,708) ((\$678,855) at December 31, 2011) is reflected in its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses those capital assets to provide services; consequently, those assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves will not be used to liquidate these liabilities.

In addition, \$8,333,716 of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets. This unrestricted net asset balance is a deficit of \$52,747,063 (\$51,711,073 at December 31, 2011). The deficit in unrestricted net assets can be broken down into two components. The first component is an accumulation of interest costs on capital appreciation bonds, approximately \$50,404,000 (\$49,777,000 at December 31, 2011). The second component is the accumulation of surpluses and deficits, excluding interest expense on capital appreciation bonds, since the creation of the District, approximately \$2,323,000 in net deficit (\$1,934,000 at December 31, 2011).

### Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues:			
Rental and labor service revenues	\$ 5,332,954	5,468,539	5,972,690
Other	6,774,225	6,991,462	7,085,472
Total operating revenues	<u>12,107,179</u>	<u>12,460,001</u>	<u>13,058,162</u>
Operating expenses:			
Allocated operating expenses	8,240,539	8,232,744	7,674,272
Unallocated operating expenses	11,478,554	10,456,191	8,666,944
Depreciation and amortization	7,689,554	7,470,291	7,366,208
Total operating expenses	<u>27,408,647</u>	<u>26,159,226</u>	<u>23,707,424</u>
Nonoperating income (expenses):			
Net tax revenue	26,516,807	25,413,250	21,032,550
Bond amortization and interest expense	(12,575,567)	(12,632,604)	(12,704,930)
Other	971,498	970,091	976,845
Net nonoperating income (expense)	<u>14,912,738</u>	<u>13,750,737</u>	<u>9,304,465</u>
Increase (decrease) in net assets	(388,730)	51,512	(1,344,797)
Net assets – beginning of year	<u>(45,749,325)</u>	<u>(45,800,837)</u>	<u>(44,456,040)</u>
Net assets – end of year	<u>\$ (46,138,055)</u>	<u>(45,749,325)</u>	<u>(45,800,837)</u>

## Year Ended December 31, 2012

The 2012 total operating revenues of \$12,107,179 reflects a decrease of \$352,822 (or 2.8%) when compared to the 2011 total amount of \$12,460,001. This reduction in revenue is primarily attributable to the inability to continue the robust business level of 2011 in entertainment and national conventions opportunities.

The 2012 total operating expenses of \$27,408,647 reflects an increase of \$1,249,421 (or 4.8%) when compared to the 2011 amount of \$26,159,226. This increase is primarily attributable to an increase in the compensation plan for Visit Milwaukee.

The 2012 net non-operating income of \$14,912,738 reflects an increase of \$1,162,001 (or 8.5%) when compared to the 2011 amount of \$13,750,737. This change is primarily attributable to increased net tax revenues.

## Year Ended December 31, 2011

The 2011 total operating revenues of \$12,460,001 reflects a decrease of \$598,161 (or 4.6%) when compared to the 2010 total amount of \$13,058,162. This reduction in revenue is primarily attributable to The inability to continue the robust business level of 2010 in entertainment and national conventions opportunities.

The 2011 total operating expenses of \$26,159,226 reflects an increase of \$2,451,802 (or 10.3%) when compared to the 2010 amount of \$23,707,424. This increase is primarily attributable to an increase in the compensation plan for Visit Milwaukee and the production of Winterfest.

The 2010 net non-operating income of \$13,750,737 reflects an increase of \$4,446,272 (or 47.8%) when compared to the 2010 amount of \$9,304,465. This change is primarily attributable to the 2011 increase in net tax revenue of \$4,380,700 which relates to a hotel tax increase and also to economic rebound.

## Capital Asset and Debt Administration

**Capital assets.** The District's investment in capital assets as of December 31, 2012, amounts to \$158,263,017 (net of accumulated depreciation). At December 31, 2011, the investment was \$163,526,727. Capital assets include land, buildings, improvements, and machinery and equipment. The total decrease in the District's capital assets from 2011 to 2012 was \$5,263,710 (or 3.3%). This decrease was a result of the District recording depreciation on its capital assets.

A summary of capital Assets as of December 31, 2012, 2011, and 2010 is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 22,958,953	22,958,953	22,958,953
Buildings and improvements, net	133,545,921	139,475,647	145,251,788
Machinery and equipment, net	<u>1,758,143</u>	<u>1,092,127</u>	<u>968,305</u>
Total	<u>\$ 158,263,017</u>	<u>163,526,727</u>	<u>169,179,046</u>

Additional information on the District's capital assets can be found in note 6 on pages 25-26 of this report.

**Long-term debt.** At December 31, 2012, the District had total bonded debt outstanding of \$191,101,140 (net of unamortized bond premiums, discounts, and losses on refunding), of which \$4,471,734 is current. At December 31, 2011, the District had total bonded debt outstanding of \$194,649,384, of which \$3,548,244 was current. This debt represents bonds secured by specified future tax collections of the District. In addition, the District had \$50,404,227 in accrued interest at December 31, 2012 (\$49,777,343 at December 31, 2011) related to the capital appreciation bonds.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Bonded debt outstanding	\$ 191,101,140	194,649,384	197,753,821
Unamortized premium, discount and loss on refunding	<u>(2,479,850)</u>	<u>(2,780,817)</u>	<u>(3,092,187)</u>
Subtotal	188,621,290	191,868,567	194,661,634
Accumulated accretion	<u>50,404,227</u>	<u>49,777,343</u>	<u>48,821,915</u>
Total	<u>239,025,517</u>	<u>241,645,910</u>	<u>243,483,549</u>
Current portion			
Bonded debt	(4,471,734)	(3,548,244)	(3,104,438)
Accumulated accretion	<u>(4,516,844)</u>	<u>(4,516,983)</u>	<u>(4,240,562)</u>
	<u>(8,988,578)</u>	<u>(8,065,227)</u>	<u>(7,345,000)</u>
Long-term portion	<u>\$ 230,036,939</u>	<u>233,580,683</u>	<u>236,138,549</u>

Additional information on the District's long-term debt can be found in note 9 on pages 28-31 of this report.

### Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Wisconsin Center District, 400 West Wisconsin Avenue, Milwaukee, WI 53203.

**WISCONSIN CENTER DISTRICT  
STATEMENTS OF NET ASSETS  
December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,509,736	\$ 2,299,095
Accounts receivable, less allowance for doubtful accounts of \$67,011 in 2012 and \$55,342 in 2011	584,005	1,153,923
Tax revenues receivable	6,018,253	3,772,160
Loans receivable, current portion	42,920	50,872
Prepaid expenses and other current assets	53,233	63,380
Total current assets	<u>8,208,147</u>	<u>7,339,430</u>
Noncurrent assets		
Restricted cash and cash equivalents	29,383,498	27,730,433
Restricted interest receivable	380,172	380,169
Loans receivable, less current portion	424,240	471,157
Financing costs, net of accumulated amortization of \$2,139,215 in 2012 and \$1,836,870 in 2011	1,619,210	1,728,040
Capital assets		
Non-depreciable	22,958,953	22,958,953
Depreciable	<u>135,304,064</u>	<u>140,567,775</u>
Total noncurrent assets	<u>190,070,137</u>	<u>193,836,527</u>
Total assets	<u>198,278,284</u>	<u>201,175,957</u>
<b>Liabilities</b>		
Current liabilities		
Obligation under capital lease, current portion	204,255	79,497
Current installments of bonds payable	9,090,000	8,010,000
Accounts payable	1,149,736	673,581
Accrued expenses	848,831	1,170,330
Accrued interest expense	-	55,227
Concession improvement deposits	715,000	845,000
Deferred revenue	1,743,875	1,553,079
Total current liabilities	<u>13,751,697</u>	<u>12,386,714</u>
Long-term liabilities		
Obligation under capital lease, less current portion	627,703	957,890
Bonds payable, net, less current portion	<u>230,036,939</u>	<u>233,580,683</u>
Total long-term liabilities	<u>230,664,642</u>	<u>234,538,573</u>
Total liabilities	<u>244,416,339</u>	<u>246,925,287</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(1,724,708)	(678,855)
Restricted for debt service	8,333,716	6,640,603
Unrestricted (deficit)	<u>(52,747,063)</u>	<u>(51,711,073)</u>
Deficiency in net assets	<u>\$ (46,138,055)</u>	<u>\$ (45,749,325)</u>

The accompanying notes are an integral part of the financial statements.

**WISCONSIN CENTER DISTRICT  
STATEMENTS OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating revenue		
Space rentals	\$ 3,282,516	\$ 3,201,475
Equipment rentals	1,028,320	961,708
Commission on concession sales	2,799,880	3,149,020
Labor service revenue	1,022,118	1,305,356
Advertising revenue	1,412,616	1,276,463
Information technology revenue	722,230	788,133
Box office revenue	518,504	554,715
Parking revenue	584,132	581,258
Other	<u>736,863</u>	<u>641,873</u>
Total operating revenue	<u>12,107,179</u>	<u>12,460,001</u>
Operating expenses		
Allocated expenses		
Wages	3,286,553	3,396,153
Utilities	1,885,511	1,941,189
Building maintenance and repairs	1,259,648	1,226,832
Ticket expenses	86,752	82,468
Other	<u>1,722,075</u>	<u>1,586,102</u>
Total allocated operating expenses	<u>8,240,539</u>	<u>8,232,744</u>
Unallocated expenses		
Administrative salaries and wages	2,147,840	1,883,343
Employee benefits	2,249,533	2,097,976
Advertising and promotion	5,977,627	5,522,420
Legal services	23,959	43,034
Insurance	525,645	460,846
Professional services	107,068	31,400
Depreciation	7,689,554	7,470,291
Other	<u>446,882</u>	<u>417,172</u>
Total unallocated operating expenses	<u>19,168,108</u>	<u>17,926,482</u>
Total operating expenses	<u>27,408,647</u>	<u>26,159,226</u>
Operating loss	<u>\$ (15,301,468)</u>	<u>\$ (13,699,225)</u>

The accompanying notes are an integral part of the financial statements.

**WISCONSIN CENTER DISTRICT  
STATEMENTS OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Nonoperating income (expense)		
Tax revenue		
Additional room tax revenue	\$ 10,482,184	\$ 9,938,361
Basic room tax revenue	4,908,284	4,698,986
Food and beverage tax revenue	9,405,832	8,901,044
Rental car tax revenue	2,414,379	2,539,854
	<u>27,210,679</u>	<u>26,078,245</u>
State of Wisconsin administrative fee	(693,872)	(664,995)
Net tax revenue	<u>26,516,807</u>	<u>25,413,250</u>
Other income	971,498	970,091
Bond amortization and interest expense	(12,575,567)	(12,632,604)
Federal grant revenue - transit study	(121,662)	(3,397,869)
Expenditures - transit study	<u>121,662</u>	<u>3,397,869</u>
Total nonoperating income (expense)	<u>14,912,738</u>	<u>13,750,737</u>
Change in net assets	(388,730)	51,512
Deficiency In net assets, beginning of year	<u>(45,749,325)</u>	<u>(45,800,837)</u>
Deficiency in net assets, end of year	<u>\$ (46,138,055)</u>	<u>\$ (45,749,325)</u>

The accompanying notes are an integral part of the financial statements.

**WISCONSIN CENTER DISTRICT  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Receipts from customers	\$ 12,867,893	\$ 12,432,324
Payments to suppliers	(11,678,860)	(11,249,372)
Payments to employees	(8,005,425)	(7,132,968)
Net cash used in operating activities	<u>(6,816,392)</u>	<u>(5,950,016)</u>
Cash flows from noncapital financing activities		
Receipts from additional room tax	8,236,091	9,978,212
Receipts from basic room tax	4,908,284	4,698,986
Receipts from food and beverage tax	9,405,833	8,901,044
Receipts from rental car tax	2,414,379	2,539,854
Federal grant and other donations for transit study	121,662	(3,397,869)
Transit study expenditures	(121,662)	3,397,869
Payment of tax collection administrative fee	(693,872)	(664,995)
Net cash provided by noncapital financing activities	<u>24,270,715</u>	<u>25,453,101</u>
Cash flows from capital and related financing activities		
Principal payment on bonds payable	(2,938,244)	(3,104,438)
Interest paid on bonds payable	(12,047,464)	(11,256,975)
Payment on capital lease agreement	(205,429)	(186,308)
Capital assets purchased	(2,425,844)	(1,663,313)
Net cash used in capital and related financing activities	<u>(17,616,981)</u>	<u>(16,210,854)</u>
Cash flows from investing activities		
Interest income	971,495	969,991
Payments received on loans receivable	54,869	51,991
Net cash provided by investing activities	<u>1,026,364</u>	<u>1,021,902</u>
Increase (decrease) in cash and cash equivalents	863,706	4,314,132
Cash and cash equivalents, beginning of year	<u>30,029,528</u>	<u>25,715,396</u>
Cash and cash equivalents, end of year	<u>\$ 30,893,234</u>	<u>\$ 30,029,528</u>

(continued)

**WISCONSIN CENTER DISTRICT  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income (loss) to net cash used in operating activities		
Operating loss	\$ (15,301,468)	\$ (13,699,225)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	7,689,554	7,470,291
Change in operating assets and liabilities		
Accounts receivable	569,918	247,779
Prepaid expenses and other assets	10,147	(44,813)
Accounts payable and other liabilities	345,452	205,952
Concession improvement deposits	<u>(130,000)</u>	<u>(130,000)</u>
Net cash used in operating activities	<u>\$ (6,816,397)</u>	<u>\$ (5,950,016)</u>
Reconciliation of cash and cash equivalents to the statement of net assets		
Unrestricted cash and cash equivalents		
Box office cash and cash equivalents	\$ 803,133	\$ 407,592
Other operating cash and cash equivalents	<u>706,603</u>	<u>1,891,503</u>
Total unrestricted cash and cash equivalents	1,509,736	2,299,095
Restricted cash and cash equivalents	<u>29,383,498</u>	<u>27,730,433</u>
Cash and cash equivalents, end of year	<u>\$ 30,893,234</u>	<u>\$ 30,029,528</u>
Noncash investing, capital and financing activities		
Acquisition of assets through capital lease	<u>\$ -</u>	<u>\$ 154,839</u>

The accompanying notes are an integral part of the financial statements.

**WISCONSIN CENTER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Wisconsin Center District (the District) is a political subdivision, unit of local government body corporate and politic, municipality existing under the laws of the State of Wisconsin. The District is a “local exposition district” created under, and with the taxing powers described in 1993 Wisconsin Act 263. The District is a separate unit of government, distinct from the City and County of Milwaukee and from the State of Wisconsin. The District’s geographical boundaries include Milwaukee County and portions of some cities and villages that are not within Milwaukee County. The District was created to assume ownership of certain existing convention facilities and to construct an expansion of such facilities.

On July 31, 1995, the City of Milwaukee and the Milwaukee Exposition and Convention Center and Arena (MECCA) transferred all real and personal property of MECCA (net assets totaling \$17,441,794) to the District. The District accepted operating responsibility and assignment of all contracts in effect with respect to the MECCA property including an agreement to fund the operations of the Greater Milwaukee Convention and Visitors Bureau, now known as Visit Milwaukee, which shares responsibility for marketing the District’s facilities.

The facilities conveyed to the District were located at and around 500 West Kilbourn Avenue in downtown Milwaukee and included three distinct facilities for public gatherings, private meetings, conventions, trade shows, and other expositions: (1) the Milwaukee Auditorium (now known as the Milwaukee Theatre), originally constructed in 1908 with approximately 38,000 square feet of space used for performing arts presentations, (2) an 11,000-12,000 seat arena now known as the U.S. Cellular Arena (the Arena), constructed in 1952 with approximately 44,000 square feet of flat surface space used primarily for sporting events and concerts, and (3) a convention center (the Convention Hall), built in 1974 with approximately 350,000 gross square feet of space, including meeting rooms, three large exhibit halls, and a ballroom.

In 1999, the District constructed a convention center, now known as the Delta Center, to significantly enhance the economies of the City of Milwaukee, Milwaukee County, and the State of Wisconsin, and allow the District to compete effectively with other regional, national, and international convention facilities for convention and business meetings by providing more and higher quality space and upgraded convention center amenities.

**Reporting Entity**

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

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Reporting Entity** (continued)

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

Based upon the required criteria, the District has no component units and is not considered a component unit of any other government.

### **Basis of Accounting**

The financial statements of the District are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to governmental entities. The accounts of the District, which are organized as an enterprise fund, are used to account for the District's activities that are financed and operated in a manner similar to a private business enterprise.

Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include sales tax revenue and grants. Revenue from derived tax revenue (i.e. basic room tax, additional room tax, local food and beverage tax, and local rental car tax) is recorded in the period when the underlying transaction has occurred. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed to the extent those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District also has the option of following subsequent private-sector standards. The District has elected not to follow subsequent private-sector standards.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash Equivalents**

The District considers deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Restricted Assets**

Certain resources have been classified as restricted assets on the statement of net assets because their use is limited by applicable bank agreements and bond covenants. See notes on restricted cash and cash equivalents for additional disclosures.

**Capital Assets**

The District recorded original capital assets including land, buildings, and equipment, along with related improvements, at the net book value of the assets at the effective date of transfer from the City and MECCA. Subsequent additions to land, buildings, and equipment over \$500 and with an estimated life longer than 2 years are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<b><u>Building</u></b>	<b><u>Improvements</u></b>	<b><u>Furniture, Machinery, and Equipment</u></b>
Delta Center	50 years	10-20 years	5-20 years
Milwaukee Theatre	20 years	8-20 years	5-20 years
U.S. Cellular Arena	50 years	5-22 years	5-20 years

The District's policy is to capitalize interest incurred on bond obligations relating to construction in progress during the course of the project. There was no interest capitalized in 2012 and 2011.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Net Assets**

**Invested in Capital Assets, net of Related Debt** - consists of capital assets, net of accumulated depreciation and related debt on those capital assets.

**Restricted** - consists of net assets that are restricted by outside parties or by law through constitutional provisions or enabling legislation. Wisconsin State Statute restricts certain assets for debt service purposes. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources when they are needed.

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

### **Classification of Revenue**

The District has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions. Nonoperating revenues include interest income on investments and activities that have characteristics of non-exchange transactions including federal, state, and local grants and tax revenues.

### **Operating Expenses**

The District reports operating expenses as allocated and unallocated. Expenses reported as allocated are specific costs allocated to events. The District has not allocated employee benefits, but rather reports all benefit costs as unallocated.

### **Financing Costs**

Financing costs consist primarily of legal services, bond insurance policies, surety bonds, refinancing costs, and bond guarantee fees incurred related to the various bond issues. Financing costs are amortized using the straight-line method over the lives of the various bond issues.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Deferred Revenue**

Deferred revenue represents advertising and naming rights revenue received prior to being earned. The revenue is recognized as earned over the period of the respective contract.

### **Use of Estimates**

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

## **NOTE 2 - MARKETING AND PROMOTIONAL AGREEMENT**

The District has an agreement with Visit Milwaukee through 2015 which provided that the District would fund Visit Milwaukee at 50% of the net Additional Hotel Room Tax collections for the year ( with the exception for hardship ) in exchange for advertising and promotion services directly benefiting the District.

The District paid \$5,835,049 and \$5,371,101 to Visit Milwaukee related to this agreement in 2012 and 2011, respectively.

## **NOTE 3 - TAX REVENUE**

Pursuant to its limited taxing authority, the District is authorized to impose the following taxes:

### **Basic Room Tax**

The District imposes the Basic Room Tax at the rate of 2.5 % on the gross receipts derived from the rental of rooms and lodging to transients by hotelkeepers, motel operators, and other persons furnishing accommodations available to the public. The Basic Room Tax is imposed on all such lodging within Milwaukee County. Under the Authorizing Legislation, the District Board adopted a resolution providing that if the balance in the Junior Debt Service Reserve Fund is less than the applicable special debt service reserve fund requirement, the Basic Room Tax will become 3% as of the succeeding January 1, April 1, July 1, or October 1 and such tax rate is irrevocable if any bonds issued by the District and secured by a special debt service reserve fund are outstanding.

### **NOTE 3 - TAX REVENUE (continued)**

#### **Basic Room Tax** (continued)

In 2010, the District Board voted to increase the Basic Room Tax from 2% to 2.5%. The increase was effective January 1, 2011.

The District may impose the Basic Room Tax at a rate not to exceed 3% by a vote of a majority of the District Board.

#### **Additional Room Tax**

The District imposes the Additional Room Tax at the rate of 7% on the gross receipts derived from the rental of rooms and lodging to transients by hotelkeepers, motel operators, and other persons furnishing accommodations available to the public. The tax is imposed on all such lodging within the City of Milwaukee. Under the Authorizing Legislation, the District has no authority to increase the 7% Additional Room Tax rate.

#### **Local Food and Beverage Tax**

The District imposes the Local Food and Beverage Tax at the rate of 0.25% on the gross receipts derived from the sales of food and beverages that are subject to the Wisconsin sales or use tax. The tax is imposed on all such sales within Milwaukee County. Under the Authorizing Legislation, the District may increase the rate of the Local Food and Beverage Tax from 0.25% to 0.50% by a vote of a majority of the authorized members of the District Board.

The District Board adopted a resolution providing that if the balance in the Junior Debt Service Reserve Fund is less than the applicable special debt service reserve fund requirement, the Local Food and Beverage Tax rate will become 0.50% as of the next succeeding January 1, April 1, July 1, or October 1 and such tax rate is irrevocable if any bonds issued by the District and secured by a special debt service reserve fund are outstanding.

**NOTE 3 - TAX REVENUE (continued)**

**Local Food and Beverage Tax** (continued)

In December 2009, the District Board voted to increase the Local Food and Beverage Tax from 0.25% to 0.50%. The increase was effective July 1, 2010.

**Local Rental Car Tax**

The District imposes the Local Rental Car Tax at the rate of 3% on the gross receipts derived from the rental (for a period of 30 days or less) on motor vehicles designed and used primarily for carrying persons, by establishments engaged in business within Milwaukee County which are primarily engaged in the short-term rental of passenger cars without drivers.

Under the Authorizing Legislation, the maximum rate for the Local Rental Car Tax is 4%. The tax rate can increase to 4% only if the State of Wisconsin makes a payment to restore the District's Junior Debt Service Reserve Fund under Section 229.50(7) of the Wisconsin Statute and the District Board then votes to increase such tax rate.

These District taxes are imposed on a seller's taxable receipts. Each of the District's taxes are collected, administered, and enforced for the District by the Wisconsin Department of Revenue (the Department). Each taxpayer is required to report its liability for District taxes to the Department, and remit the full amount of such taxes, on or before the last day of the month following the end of such taxpayer's reporting period. The Department is required to remit to the District the tax amounts collected, less a 2.55% statutory deduction which is retained by the Department to cover its administrative expenses. The District has entered into an agreement with the Department under which the Department will remit the net amounts collected, less the statutory deduction, by the 20th of each month.

All tax proceeds, except the Additional Room Tax, are restricted for the District's debt service on its bond obligations. The proceeds of the Additional Room Tax may be used for any lawful purpose of the District once sufficient restricted tax revenues are available on deposit to meet the current year debt obligations.

#### NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits and investments are presented in the financial statements as follows:

	<u>2012</u>	<u>2011</u>
Cash	\$ 8,238	\$ (2,678)
Demand Deposits	1,501,498	2,301,773
Money Market Funds	10,660,717	9,966,348
Guaranteed Investment Contract	<u>18,722,781</u>	<u>17,764,085</u>
Totals	<u>\$ 30,893,234</u>	<u>\$ 30,029,528</u>
Unrestricted	1,509,736	2,299,095
Restricted	<u>29,383,498</u>	<u>27,730,433</u>
Totals	<u>\$ 30,893,234</u>	<u>\$ 30,029,528</u>

#### Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District does not have a formal policy addressing this type of deposit risk.

As of December 31, 2012 and 2011, the District's carrying value of the deposits was \$1,501,498 and \$2,301,773, as compared to bank balances of \$1,509,736 and \$2,299,095, respectively. The bank balances of \$1,352,143 and \$993,737 at December 31, 2012 and 2011 respectively, were covered by federal depository insurance.

## **NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

### **Investment Policy**

The District has not adopted a formal investment policy; however, the District invests in accordance with Wisconsin State Statute 66.0603. Under state statute, investments are limited to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association which is authorized to transact business in the state if the time deposits mature in not more than 3 years;
- Bonds or securities of any county, city, village, town, drainage district, technical college district, or school district of the state;
- Bonds or securities issued or guaranteed by the Federal government;
- Any security which matures within not more than 7 years, if that security has a rating which is the highest or 2<sup>nd</sup> highest rating category assigned by Standard & Poor's Corporation, Moody's Investors Service, or similar rating agency;
- Securities of an open-end management investment company or investment trust, if the company or trust does not charge a sales load, is registered under the investment company act of 1940, and if the portfolio is limited to bonds and securities issued by the federal government, bonds that are guaranteed as to principal and interest by the federal government,
- Repurchase agreements that are fully collateralized by bonds or securities of the federal government,
- The state local government investment pool.

### **Credit Risk**

Credit risk is the risk that, an issuer or other counterparty to an investment will not fulfill its obligations to the District. The District does not have a formal policy addressing this type of investment risk.

The District invests in guaranteed investment contracts (GIC); these types of investments are not rated by rating agencies such as Moody's Investor Service, Standard & Poor's or Fitch Ratings. As of December 31, 2012 and 2011, the District had \$18,722,781 and \$17,764,085, respectively, in these types of investments.

#### NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

##### Credit Risk (continued)

The District invests in money market funds that consist solely of U.S. treasury obligations. These types of investments are explicitly guaranteed by the U.S. government and are not considered subjected to credit risk. As of December 31, 2012 and 2011, the District had \$10,660,717 and \$9,966,348, respectively, in these types of investments.

##### Concentration of Credit Risk

Concentration of credit risk refers to risk of loss attributed to the District investments in a single issuer. The District does not have a formal policy addressing this type of investment risk. As of December 31, 2012 and 2011, the issuers with significant concentrations were:

<u>Issuer</u>	<u>2012</u>	<u>2011</u>
First American Government Obligated Fund	40%	27%
J.P. Morgan Chase	9%	9%
Prudential	51%	54%

#### NOTE 5 - RESTRICTED ASSETS

Restricted assets consist of money market investment funds and guaranteed investment contracts and are summarized as follows:

	<u>2012</u>	<u>2011</u>
Project Fund Construction Account	\$ 708	\$ 708
Junior Debt Service Reserve Fund	15,047,488	15,047,488
Revenue Fund Restricted Tax Revenues Account	8,159,890	6,471,794
Senior Principal Account	30	993,756
Surplus Account - Bonds	134	-
Bonds 1999 Interest Account	42	-
Principal Account - B Bonds	88	-
Bonds-Capital Maintenance	926,745	-
Milwaukee Theatre Renovation Project Fund	88	88
Milwaukee Theatre Renovation Debt Service Reserve Fund	2,748,285	2,716,599
Operating Reserve	2,500,000	2,500,000
	<u>\$ 29,383,498</u>	<u>\$ 27,730,433</u>

**NOTE 5 - RESTRICTED ASSETS (continued)**

Pursuant to the terms of the General Resolution for the 1996 Series A and Series B bonds, the District maintains the required trust funds, which are held and administered by the bond trustee. The District's management assures the District is in compliance with the terms of the General Resolution.

**Project Fund Construction Account**

The trustee disburses funds from the account upon receipt of a requisition or certificate of a District representative specifying that the amount requisitioned will be applied to pay or reimburse the District for payment and cost of the Project costs financed from the proceeds of the applicable series of Bonds.

**Junior Debt Service Reserve Fund**

An initial deposit to the Junior Debt Service Reserve Fund was made by the bond trustee from the proceeds of each series of Junior Bonds in an amount sufficient to satisfy the Junior Debt Service Reserve Fund requirement. If on any payment date the amount on deposit in the Junior Debt Service Reserve Fund is less than the requirement, the bond trustee is to promptly notify the District and withdraw from other funds in the following order: (a) the Revenue Fund Restricted Tax Revenues Account; (b) the Revenue Fund Unrestricted Tax Revenues Account; (c) the Special Redemption Fund; (d) the Project Fund Construction Account in order to cover the amount of the deficiency.

**Revenue Fund Restricted Tax Revenues Account**

All tax revenue restricted for the District's debt service on bond obligations are deposited into this account, including the Basic Room Tax, Local Food and Beverage Tax, and Local Rental Car Tax.

**Senior Principal Account**

Amounts deposited into the Principal Account are for making principal payments on the Series 1996A Senior Dedicated Tax Revenue Bonds. The account is funded by transfer from the Revenue Fund Restricted Tax Revenue Account.

**NOTE 5 - RESTRICTED ASSETS (continued)**

**Junior Interest Account**

A semi-annual transfer is made from the Revenue Fund Restricted Tax Revenues Account into this account for the semi-annual interest payment on the Junior Bonds. Interest income derived from the investment of amounts on deposit in this account remain in the account and are credited against the amount next due to be transferred from the Revenue Fund. On each interest payment date, the trustee withdraws from this account an amount sufficient to pay the interest coming due on the Junior Bonds.

**Milwaukee Theatre Renovation Project Fund**

The trustee disburses funds from the account upon receipt of a requisition or certificate of a District Representative specifying that the amount requisitioned will be applied to pay or reimburse the District for payment and cost of the project financed from the proceeds of the 2001 Variable Rate Demand Revenue Bonds.

**Milwaukee Theatre Renovation Debt Service Reserve Fund**

An initial deposit to the credit of the Milwaukee Theatre Renovation Debt Service Reserve Fund was made by the bond trustee from the proceeds of the 2001 Variable Rate Demand Revenue Bonds in an amount sufficient to satisfy the Milwaukee Theatre Renovation Debt Service Fund reserve requirement. If on any payment date the amount on deposit in the Milwaukee Theatre Renovation Debt Service Fund is less than the requirement, the bond trustee is to promptly notify the District and withdraw from other sources in the following order: (a) the Revenue Fund Restricted Tax Revenues Account; (b) US Bank, as guarantors in order to cover the deficiency.

**Operating Reserve Account**

This account was established and required by the 1996 bond issuance.

## NOTE 6 - CAPITAL ASSETS

The District's capital assets are comprised of the following:

	<b>Balance January 1, 2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2012</b>
Capital assets not being depreciated:				
Land	\$ 22,958,953	\$ -	\$ -	\$ 22,958,953
Capital assets being depreciated:				
Buildings and improvements	219,455,748	1,271,643	-	220,727,391
Furniture, machinery, and equipment	17,908,597	1,154,200	-	19,062,797
Total capital assets being depreciated	<u>237,364,345</u>	<u>2,425,843</u>	<u>-</u>	<u>239,790,188</u>
Less accumulated depreciation for:				
Buildings and improvements	80,219,529	6,961,940	-	87,181,469
Furniture, machinery, and equipment	16,577,040	727,614	-	17,304,654
Total accumulated depreciation	<u>96,796,569</u>	<u>7,689,554</u>	<u>-</u>	<u>104,486,123</u>
Total capital assets being depreciated, net	<u>140,567,776</u>	<u>(5,263,712)</u>	<u>-</u>	<u>135,304,064</u>
Total capital assets, net	<u>\$ 163,526,727</u>	<u>\$ (5,263,712)</u>	<u>\$ -</u>	<u>\$ 158,263,015</u>

**NOTE 6 - CAPITAL ASSETS (continued)**

	<b>Balance January 1, 2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2011</b>
Capital assets not being depreciated:				
Land	\$ 22,958,953	\$ -	\$ -	\$ 22,958,953
Capital assets being depreciated:				
Buildings and improvements	218,606,215	849,533	-	219,455,748
Furniture, machinery, and equipment	16,940,156	968,441	-	17,908,597
Total capital assets being depreciated	<u>235,546,371</u>	<u>1,817,974</u>	<u>-</u>	<u>237,364,345</u>
Less accumulated depreciation for:				
Buildings and improvements	73,354,428	6,865,101	-	80,219,529
Furniture, machinery, and equipment	15,971,850	605,190	-	16,577,040
Total accumulated depreciation	<u>89,326,278</u>	<u>7,470,291</u>	<u>-</u>	<u>96,796,569</u>
Total capital assets being depreciated, net	<u>146,220,093</u>	<u>(5,652,319)</u>	<u>-</u>	<u>140,567,774</u>
Total capital assets, net	<u>\$ 169,179,046</u>	<u>\$ (5,652,319)</u>	<u>\$ -</u>	<u>\$ 163,526,727</u>

## **NOTE 7 - CONCESSION IMPROVEMENT DEPOSITS**

The District executed a caterer contract with Levy Premium Foodservice Limited Partnership (Levy) for 2003 through 2008. Under this contract, the District paid a flat annual fee of \$125,000 during each of the first two years and \$150,000 during each of the last three years. In addition, Levy retains a variable annual incentive fee equal to 2% of gross sales from concession and catering revenue collected. The District renewed the contract with Levy effective July 1, 2008 through June 30, 2015. Under this renewed contract, the District pays a flat annual fee of \$165,000 per year. Levy retains a variable incentive fee equal to 2% of gross revenues for the first, second and third contract years, and an amount equal to 3% of gross revenues for the fourth, fifth, sixth and seventh contract years.

The 2003 contract also required Levy to deposit \$1,500,000 with the District for capital improvements, which has been reported as concession improvement deposits. The District recognizes this deposit as revenue on a monthly basis on a 120 month amortization period. At the time of the contract renewal, there was an unamortized balance of \$750,000 on the original deposit made by Levy. The new contract required an additional deposit of \$550,000 to be made to the District. The resulting deposit of \$1,300,000 is recognized as revenue on a monthly basis on a 120 month amortization period beginning in July, 2008. A minimum of \$100,000 of this deposit is to be used to upgrade concession stands. As of December 31, 2012 and 2011, the District has \$715,000 and \$845,000 remaining on deposit, respectively.

## **NOTE 8 - OBLIGATION UNDER CAPITAL LEASE**

The District is obligated under a Municipal Master Lease Agreement (Lease Agreement), which financed certain components of the U.S. Cellular Arena renovation project, including painting of superstructure and main equipment, concourse areas, purchasing a new scoreboard, refurbishing existing seating and purchasing new seating. A final payment of \$1,117,000 was due March 1, 2004. The Lease Agreement was renegotiated, the \$1,117,000 was refinanced and an additional \$233,000 was drawn on the Lease Agreement to finance certain additional equipment. The Lease Agreement bears interest at a variable rate (3.26% and 3.15% effective rate in 2012 and 2011, respectively) with monthly principal payments of \$7,500 and a final payment of \$900,000 on February 1, 2014. The interest rate was calculated at 3.00% plus the one month LIBOR rate quoted by Lessor from Telerate page 3750.

**NOTE 8 - OBLIGATION UNDER CAPITAL LEASE (continued)**

During 2010, the District entered into a capital lease agreement related to communication equipment. The lease agreement requires monthly payments of \$985 at an interest rate of 7.63%. Final payment is due in April 2013.

In addition, the District is obligated on a capital lease agreement related to outdoor signage. The lease agreement requires monthly payments of \$7,514 at an interest rate of 7.75%. Final payment is due in October, 2014.

Aggregate maturities for the years subsequent to December 31, 2012 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	234,696
2014	212,789
2015	131,915
Total minimum lease payments	579,400
Less: amount representing interest	(100,587)
Present value of minimum lease payments	<u>\$ 478,813</u>

**NOTE 9 - LONG-TERM DEBT**

In February 1996, the District issued \$63,455,548 in Senior Dedicated Tax Revenue Bonds, Series 1996A (1996 Senior Bonds) and \$121,540,000 in Junior Dedicated Tax Revenue Bonds, Series 1996B (1996 Junior Bonds). The bonds are special, limited obligations of the District payable from and secured by a pledge of tax revenues, bond proceeds, and certain of the funds and other monies held under the General Resolution.

The 1996 Senior Bonds are capital appreciation bonds and bear interest compounded semi-annually on each June 15 and December 15 at approximate yields ranging from 3.90% to 5.80%. Installments of the bonds mature on December 15 of each year through 2027. Interest on each installment is payable only at maturity. The bonds are insured by MBIA Insurance Corporation and not subject to optional redemption prior to maturity.

**NOTE 9 - LONG-TERM DEBT (continued)**

In February 1999, the District issued \$125,775,000 in Junior Dedicated Tax Revenue Refunding Bonds, Series 1999 (1999 Junior Bonds). The 1999 Junior Bonds were issued in order to refund the outstanding balance of the 1996 Junior Bonds and also, to pay costs of issuance of the 1999 Junior Bonds. The bonds mature on December 15 of each year commencing 2012 and ending 2027. The bonds bear interest ranging from 4.25% to 5.25%. Interest on the bonds is payable semi-annually on June 15 and December 15. These bonds are insured by Financial Security Assurance, Inc. and are not subject to redemption prior to the stated maturity.

The difference between the reacquisition price on the 1999 Junior Bonds and the net carrying amount of the old debt is reflected as an accounting loss of \$9,460,975, which is recognized as a reduction to long-term debt and amortized using the bonds outstanding method, which approximates an effective interest method, as a component of interest expense through the year 2027. The unamortized balance of the accounting loss at December 31, 2012 and 2011 was approximately \$3,724,510 and \$4,132,468, respectively.

The Junior Debt Service Reserve Fund, which secures the 1999 Junior Bonds, has been established as a “special debt service reserve fund” under Wisconsin Statutes. The District Board has adopted resolutions which provide that the rates for two of the District taxes (the Basic Room Tax and the Local Food and Beverage Tax) will increase in the event the amount on deposit in the Junior Debt Service Reserve Fund is less than the Junior Debt Service Reserve Fund requirement on any payment date.

In June 2001, the District issued \$30,000,000 in Variable Rate Demand Revenue Bonds, Series 2001A. The Bonds are special, limited obligations of the District payable from and secured by a pledge of tax revenues and certain of the funds and other monies held under the indenture. The Milwaukee Theatre Renovation Debt Service Reserve Fund, which secures the Series 2001A Bonds, has been established as a “special debt service reserve fund” under Wisconsin Statutes. The interest rate on these bonds was 0.10% and 0.28% at December 31, 2012 and 2011, respectively. The interest rate is the lesser of a) 10% or b) the minimum rate which, in the judgment of the remarketing agent, under prevailing market conditions, taking into account the current rates for debt securities comparable in term, security and creditworthiness to the bonds maturing on such date, would enable the bonds maturing to be sold at a price of par. The bonds mature on December 15, 2026.

The underwriters’ discount on the 1996 Senior Bonds is being amortized over the life of the 1996 Senior Bonds (32 years). The bond premium and underwriters’ discount on the 1999

**NOTE 9 - LONG-TERM DEBT (continued)**

Junior Bonds is being amortized over the life of the 1999 Junior Bonds (29 years). The underwriters' discount on the Series 2001A Bonds is being amortized over the life of the Series 2001A Bonds (26 years).

In August 2003, the District issued \$7,804,892 in Senior Dedicated Tax Revenue Refunding Bonds, Series 2003A. These bonds are capital appreciation bonds and bear interest compounded semi-annually on each June 15 and December 15 at approximate yields ranging from 5.73% to 5.76%. Installments of the bonds mature on December 15 of 2028 through 2032. Interest on each installment is payable only at maturity. The bonds are insured by Financial Security Assurance, Inc. and are not subject to optional redemption prior to maturity.

The difference between the reacquisition price on the 2003 Refunding Bonds and the net carrying amount of the old debt is reflected as an accounting loss of \$2,145,164, which is recognized as a reduction to long-term debt and amortized on a bonds outstanding method, which approximates an effective interest method, as a component of interest expense through the year 2027. The unamortized balance of the accounting loss was approximately \$879,282 and \$996,519 at December 31, 2012 and 2011, respectively.

Outstanding long-term debt as of December 31, 2012 and 2011 consists of the following:

	<u>January 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2012</u>	<u>Due within one year</u>
Senior Dedicated Tax Revenue Bonds, Series 1996A	\$ 31,069,492	\$ -	\$ 2,938,244	\$ 28,131,248	\$ 2,781,734
Reclassification	(356,359)	-	-	(356,359)	-
Accumulated accretion	45,334,770	4,517,190	4,461,756	45,390,204	4,618,266
	<u>76,047,903</u>	<u>4,517,190</u>	<u>7,400,000</u>	<u>73,165,093</u>	<u>7,400,000</u>
Senior Dedicated Tax Revenue Refunding Bonds, Series 2003	7,804,892	-	-	7,804,892	-
Reclassification	356,359	-	-	356,359	-
Accumulated accretion	4,387,345	728,099	-	5,115,444	-
	<u>12,548,596</u>	<u>728,099</u>	<u>-</u>	<u>13,276,695</u>	<u>-</u>
Junior Dedicated Tax Revenue Refunding Bonds, Series 1999	125,775,000	-	610,000	125,165,000	1,690,000
Variable Rate Demand Revenue Bonds, Series 2001A	30,000,000	-	-	30,000,000	-
Add (subtract) unamortized amounts for:					
Premiums	2,637,613	-	260,347	2,377,266	-
Discounts	(289,442)	-	(36,180)	(253,262)	-
Loss on refunding	(5,128,987)	-	(525,134)	(4,603,853)	-
Total unamortized amounts	<u>(2,780,816)</u>	<u>-</u>	<u>(300,967)</u>	<u>(2,479,849)</u>	<u>-</u>
Total	<u>\$ 241,590,683</u>	<u>\$ 5,096,023</u>	<u>\$ 7,709,033</u>	<u>\$ 239,126,939</u>	<u>\$ 9,090,000</u>

**NOTE 9 - LONG-TERM DEBT (continued)**

	<b>Balance January 1, 2011</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2011</b>	<b>Due within one year</b>
Senior Dedicated Tax Revenue Bonds, Series 1996A	\$ 34,173,930	\$ -	\$ 3,104,438	\$ 31,069,492	\$ 2,938,244
Reclassification	-	\$ (356,359)	-	(356,359)	-
Accumulated accretion	44,874,236	4,701,096	4,240,562	45,334,770	4,461,756
	<u>79,048,166</u>	<u>4,344,737</u>	<u>7,345,000</u>	<u>76,047,903</u>	<u>7,400,000</u>
Senior Dedicated Tax Revenue Refunding Bonds, Series 2003	7,804,892	-	-	7,804,892	-
Reclassification	-	356,359	-	356,359	-
Accumulated accretion	3,668,382	718,963	-	4,387,345	-
	<u>11,473,274</u>	<u>1,075,322</u>	<u>-</u>	<u>12,548,596</u>	<u>-</u>
Junior Dedicated Tax Revenue Refunding Bonds, Series 1999	125,775,000	-	-	125,775,000	610,000
Variable Rate Demand Revenue Bonds, Series 2001A	30,000,000	-	-	30,000,000	-
Add (subtract) unamortized amounts for:					
Premiums	2,899,229	-	261,616	2,637,613	-
Discounts	(328,034)	-	(38,592)	(289,442)	-
Loss on refunding	(5,663,382)	-	(534,395)	(5,128,987)	-
Total unamortized amounts	<u>(3,092,187)</u>	<u>-</u>	<u>(311,371)</u>	<u>(2,780,816)</u>	<u>-</u>
<b>Total</b>	<u><u>\$ 243,204,253</u></u>	<u><u>\$ 5,420,059</u></u>	<u><u>\$ 7,033,629</u></u>	<u><u>\$ 241,590,683</u></u>	<u><u>\$ 8,010,000</u></u>

Aggregate maturities for the years subsequent to December 31, 2012 are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	9,090,000	6,649,163	15,739,163
2014	9,855,000	6,560,438	16,415,438
2015	10,695,000	6,431,551	17,126,551
2016	11,605,000	6,258,563	17,863,563
2017 - 2021	74,775,000	26,865,753	101,640,753
2022 - 2026	128,455,000	14,149,728	142,604,728
2027 - 2031	50,920,000	750,225	51,670,225
2032	7,310,000	-	7,310,000
Total	<u>302,705,000</u>	<u>67,665,420</u>	<u>370,370,420</u>
Unamortized premium	2,377,264		
Unamortized discount	(253,261)		
Unamortized loss on refunding	(4,603,853)		
Unamortized (future) accretion	<u>(61,098,211)</u>		
Total	<u><u>\$ 239,126,939</u></u>		

## **NOTE 10 - RETIREMENT PLAN**

All full-time employees and some part-time employees of the District are participants in the City of Milwaukee Employees' Retirement System, a cost-sharing multiple-employer defined benefit pension plan. All employees who work 1,040 hours are eligible to participate in the Employees' Retirement System. The Employees' Retirement System also provides death and disability benefits. A full description of all benefits provided by the Employees' Retirement System is contained in Chapter 36 of the City Charter. The Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 200 East Wells Street, Room 610, Milwaukee, Wisconsin 53202. All reports can be found online at [www.cmers.com](http://www.cmers.com).

Contribution rates are established by the City of Milwaukee Charter. The employees' share of the annual pension contribution is 5.5% of annual salaries, exclusive of overtime. Due to Act 10, the employee share is paid by the employee, except for those employees covered by unexpired union contracts, their employee share is still paid by the District. The District is charged for its share of the annual contribution based on actual salaries. The District's covered compensation, which included most employees for the years ended December 31, 2012 and 2011, was approximately \$3,732,700 and \$3,568,700, respectively; the employer's total payroll was \$5,031,405 and \$4,826,072, respectively. The District's share of the annual contribution including the employees' share paid by the District was approximately \$344,849 and \$105,265 in 2012 and 2011, respectively.

Employees of the District are eligible to participate in the District's deferred compensation plan. Contributions by employees of the District to the plan during 2012 and 2011 were \$169,434 and \$173,850, respectively.

## **NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS**

The District participates in the City of Milwaukee healthcare plan. The City is self-insured for benefits under the plan. The plan provides other postemployment benefits (OPEB) to its retirees for health insurance. The plan provides for benefits based on several employee groups. For purposes of the plan, the District's employees are classified as "general City of Milwaukee employees".

## **NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (continued)**

### **Plan Description**

The City of Milwaukee's plan is a single-employer defined benefit healthcare plan administered by both the City of Milwaukee and Milwaukee's Employee Retirement System (MERS) and United Health Care. The City of Milwaukee provides medical insurance benefits for substantially all retirees in accordance with terms set forth in labor contracts or by Common Council resolution. Retirees are eligible to enroll in any of the group plans offered by the City of Milwaukee to its active employees. Currently, a PPO plan, (aka the Basic Plan) and an EPO plan, (aka a Health Maintenance Organization (HMO) plan) are offered to active employees.

The plan provides full health insurance coverage to "general City of Milwaukee employees" who retire at age 55, but less than age 65, with 30 years of creditable service or age 60, but less than age 65, with 15 years of creditable service until the age of 65. Management employees retiring beginning in 2004 at age 55, but less than 65, pay a portion of health insurance the same manner as active management employees, currently 12%.

After attaining the age of 65 and having completed a minimum of 15 years of creditable service, all retirees are eligible to enroll in a "subsidized plan" for medical insurance. Under the PPO Plan or Basic Plan, the employer contributes 25% of the cost and the retiree pays 75% of the cost and 100% of the major medical rate. Under the HMO Plan, the employer contributes a 25% subsidy of the applicable EPO cost or HMO premium.

### **Funding Policy**

The contribution of plan members and the employer are established and may be amended by the City of Milwaukee Common Council. The required contribution is based on pay-as-you-go financing. For the year ended December 31, 2012 and 2011, District and plan members receiving benefits paid approximately \$64,222 and \$103,400, respectively toward medical insurance for retirees.

### **Annual OPEB Costs and Net OPEB Obligation**

The City of Milwaukee's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Annual OPEB Costs and Net OPEB Obligation** (continued)

The District has estimated its portion of the expense and ARC based on the number of District retirees as a percentage of total retirees in the City of Milwaukee General Employees classification.

The following table show the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan (pay-as-you-go basis), and the changes in the District's net OPEB obligation:

	<b><u>2012</u></b>	<b><u>2011</u></b>
Annual Required Contribution (ARC)	\$ 90,540	\$ 85,610
Interest on Net OPEB Obligation	8,381	4,542
Adjustment to ARC	<u>(7,112)</u>	<u>(3,854)</u>
Annual OPEB Cost	91,808	86,298
Contribution made	<u>(64,222)</u>	<u>(103,400)</u>
Increase in net OPEB Obligation	27,586	(17,102)
Net OPEB obligation - beginning of year	<u>21,466</u>	<u>38,568</u>
Net OPEB obligation - end of year	<u><u>\$ 49,052</u></u>	<u><u>\$ 21,466</u></u>

The OPEB obligation is included in accrued expenses on the Statement of Net Assets. The District's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and 2011 were as follows:

<b><u>Year</u></b> <b><u>Ended</u></b>	<b><u>Annual</u></b> <b><u>OPEB Cost</u></b>	<b><u>Percentage of</u></b> <b><u>Annual OPEB</u></b> <b><u>Cost Contributed</u></b>	<b><u>Net</u></b> <b><u>OPEB</u></b> <b><u>Obligation</u></b>
12/31/2012	\$ 91,808	0.71%	\$ 46,052
12/31/2011	\$ 86,298	1.20%	\$ 21,466

## **NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (continued)**

### **Funded Status and Funding Progress**

The most recent actuarial valuation conducted by the City of Milwaukee was as of January 1, 2011.

The District has estimated its portion of the City of Milwaukee's actuarial accrued liability based on the number of District retirees as a percentage of total retirees in the City of Milwaukee General Employees classification. The actuarial accrued liability for benefits was \$1,034,794 and \$1,100,965 for December 31, 2012 and 2011, respectively, and the GASB value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,034,794 and \$1,100,965 for December 31, 2012 and 2011, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$3,732,700 and \$3,568,700 and the ratio of the UAAL to the covered payroll was 27.72 and 30.85 percent, for December 31, 2012 and 2011, respectively.

### **Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend amounts determined regarding the funded status of the plan and the annual required contributions of the Employer, and are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The retiree healthcare valuation was based on the projected unit credit (PUC) cost method. The PUC method produces an explicit normal cost and actuarial accrued liability. The normal costs and actuarial accrued liability are directly proportional to the employee's service. That is, the normal cost equals the present value of future benefits divided by projected service at retirement and the actuarial accrued liability equals the present value of benefits multiplied by the ratio of service at valuation date to projected service at retirements. Depending on the demographic characteristics of the current group and new entrants in the future, this method could produce stable annual costs, in the aggregate, when expressed as a percentage of pay.

The OPEB valuation uses a discount rate assumption of 4.5 percent based on the City of Milwaukee's projected short-term investment rate of return. The healthcare cost trends rate is 9.0 percent initially, and reduced by decrements to the ultimate rate of 4.5 percent after 10 years.

## NOTE 12 - ADVERTISING AGREEMENTS

The District has negotiated advertising agreements with several corporations for the right to advertise on the Arena's main and auxiliary scoreboards and the video walls of the Delta Center's Exhibit Halls. The original terms of these agreements require varying annual payments and have expiration dates ranging through 2014. The District has negotiated trade agreements with several corporations for miscellaneous advertising in promotional material in exchange for equipment and rate reductions. The District recognized advertising and naming rights revenues of \$1,412,616 and \$1,258,464 in 2012 and 2011, respectively, under the advertising and naming rights agreements.

Aggregate advertising and naming rights revenues under the agreements are as follows:

	<u>Advertising Rights</u>	<u>Naming Rights</u>	<u>Total</u>
2012	354,167	266,667	620,834
2013	375,000	100,000	475,000
2014	329,167	100,000	429,167
2015	270,833	83,333	354,166
Total	<u>\$ 1,329,167</u>	<u>\$ 550,000</u>	<u>\$ 1,879,167</u>

On March 1, 1998, the District entered into a Convention Center (the Center) Naming Rights Agreement (Agreement) with Midwest Airlines, Inc. (Midwest Airlines), Visit Milwaukee, and The Spirit of Milwaukee, Inc. (Spirit). Under the Agreement, Midwest Airlines obtained the right to name the newly constructed convention center and to promote its business through comprehensive signage and pertinent marketing activities in exchange for financial support and joint marketing initiatives through Spirit. Midwest Airlines is to pay a total of \$8.5 million to Spirit, payable in annual installments ranging from \$500,000 to \$750,000 through 2012. These funds are to be used to support those activities of Spirit, Visit Milwaukee, and the District that directly or indirectly promote the Center and enhance the Center facilities. It is understood that the funds are not intended to be used for ongoing or routine operating expenses of Visit Milwaukee or the District. Spirit pays one third of naming rights revenue to the District to be committed to Center facility enhancement and pays one third of naming rights revenue to Visit Milwaukee for marketing and promotional activities. Frontier Airlines assumed the naming rights upon acquisition of Midwest Airlines. Delta Airlines acquired the naming rights through negotiations with Frontier Airlines in 2012.

## **NOTE 12 - ADVERTISING AGREEMENTS (continued)**

On June 1, 2007, the District entered into a seven-year Arena Naming Rights Agreement (Arena Agreement) with United States Cellular Corporation (U.S. Cellular). Under the terms of the Arena Agreement, the District granted U.S. Cellular the right to change the name of the "Milwaukee Arena" to the "U.S. Cellular Arena," the right to promote its business through comprehensive signage and pertinent marketing activities in exchange for significant financial support, and the right to be the exclusive wireless telecommunications provider to the District. U.S. Cellular is to pay a total of \$2,450,000 to the District over the seven-year term of the agreement payable in annual installments ranging from \$310,000 to \$340,000.

## **NOTE 13 - RISK MANAGEMENT**

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

## **NOTE 14 - COMMITMENTS AND CONTINGENCIES**

### **Litigation**

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

### **Grant Program**

The District participates in a federally assisted grant program. The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the District included herein or on the overall financial position of the District at December 31, 2012.

## **NOTE 15 - SUBSEQUENT EVENTS**

In March 2013, the District issued \$28,235,000 Junior Dedicated Tax Revenue Refunding Bonds, Series 2013A. The proceeds from the sale of the Series 2013A Junior Bonds will be used to refund the District's Variable Rate Demand Revenue Bonds, Series 2001A, to fund a deposit to the Series Reserve Account of the Junior Debt Service Reserve Fund, and to pay costs of issuance. The Series 2013A Junior Bonds are special, limited obligations of the District payable from and secured by a pledge of tax revenues and certain of the funds and other monies held under the indenture. The interest rates are from 3.5%. The bonds mature on December 15, 2032.

Management evaluated subsequent events through March 8, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to March 8, 2013 that provide additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2012.

## **ADDITIONAL INFORMATION**

**WISCONSIN CENTER DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
OTHER POSTEMPLOYMENT BENEFITS  
RETIREE HEALTH INSURANCE  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Year Ending</b>	<b>Actuarial Valuation</b>	<b>GASB Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Unit Credit Actuary Method</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAAL as a Percentage of Covered Payroll</b>
12/31/2012	1/1/2011	\$ -	\$ 1,034,794	\$ 1,034,794	0.00%	\$ 3,732,700	27.72%
12/31/2011	1/1/2009	\$ -	\$ 1,100,965	\$ 1,100,965	0.00%	\$ 3,568,700	30.85%

**WISCONSIN CENTER DISTRICT  
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

Board of Directors  
Wisconsin Center District  
Milwaukee, Wisconsin

We have audited, in accordance with the 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, the financial statements of Wisconsin Center District (“the District”) as of and for the year ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated March 8, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District’s internal control over financial reporting as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

*A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during



our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Coleman & Williams, LTD.*

Milwaukee, Wisconsin  
March 8, 2013