

**HOUSING AUTHORITY OF THE  
CITY OF MILWAUKEE**

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

**FINANCIAL STATEMENTS**

December 31, 2010 and 2009

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# HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Housing Authority of the City of Milwaukee  
Milwaukee, Wisconsin

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Authority of the City of Milwaukee (the Authority), a component unit of the City of Milwaukee, Wisconsin, as of and for the years ended December 31, 2010 and 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Carver Park Tax Credit Limited Partnership, Highland Park Community, LLC, Cherry Court Development, LLC, Convent Hill, LLC, and Scattered Sites, LLC, which represent 79 percent, 101 percent and 93 percent, respectively, of the assets, net assets and operating revenues of the discretely presented component units of the Authority. 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 Carver Park Tax Credit Limited Partnership, Highland Park Community, LLC, Cherry Court Development, LLC, Convent Hill, LLC, and Scattered Sites, LLC is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Carver Park Tax Credit Limited Partnership, Highland Park Community, LLC, Cherry Court Development, LLC, Convent Hill, LLC, Scattered Sites, LLC, Scattered Sites II, LLC, and Olga Village, LLC, were not audited in accordance with *Governmental Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Authority as of December 31, 2010 and 2009, and the respective changes in financial position and in cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Commissioners  
Housing Authority of the City of Milwaukee

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2011 on our consideration of the Authority'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 as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). GASB reporting standards require the disclosure of three years of condensed financial information and financial analysis for both 2010 and 2009 in the management's discussion and analysis. Management has elected to exclude certain prior year information in the management's discussion and analysis that is required by the standards. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Schedule of Net Assets – Primary Government and the Combining Schedule of Revenues, Expenses and Changes in Net Assets – Primary Government 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 Schedule of Net Assets – Primary Government and the Combining Schedule of Revenues, Expenses and Changes in Net Assets – Primary Government 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. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Baker Tilly Vindow Krause, LLP*

Milwaukee, Wisconsin  
June 29, 2011

**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2010 and 2009  
(Unaudited)**

The management's discussion and analysis hereby presented, is designed to offer the reader a narrative overview and analysis of the financial activities of the Housing Authority of the City of Milwaukee (the Authority) for year ended December 31, 2010 and 2009. This discussion and analysis is designed to assist the reader in focusing on significant fiscal issues and to identify changes in the Authority's financial position.

**Financial Statement Overview**

The financial statements include the primary government and the Authority's component units. The financial statements are prepared on the accrual basis of accounting meaning that all expenses are recorded when incurred and all revenues are recognized when earned in accordance with accounting principals generally accepted in the United States of America.

**Statement of Net Assets**

The statement of net assets is similar to a balance sheet in corporate accounting. The statement of net assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets minus liabilities, equals net assets, formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as current (convertible into cash within one year), and non-current. The focus of the statement of net assets is to show a picture of the liquidity and health of the organization as of the end of the year.

The statement of net assets (the unrestricted net assets) is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net assets (formerly equity) are reported in three broad categories:

- Net assets invested in capital assets, net of related debt – this component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – this component of net assets consists of restricted assets where constraints are placed upon the assets by creditors (such as debt covenants), grantors, contributors, laws, and regulations, etc.
- Unrestricted net assets – consists of net assets that do not meet the definition of net assets invested in capital assets, net of related debt, or restricted net assets.

**Statement of Revenues, Expenses and Change in Net Assets**

The statement of revenues, expenses, and change in net assets is similar to an income statement in the corporate world. This statement includes operating revenues, such as rental income; operating expenses, such as administrative, utilities, maintenance, and depreciation; and non-operating revenue and expenses, such as grant revenue, investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the organization for the entire operating period.

**Statement of Cash Flows**

The statement of cash flows discloses net cash provided by, or used for operating activities, investing activities, non-capital financing activities, and from capital and related financing activities. This statement also portrays the health of the Authority in that current cash flows are sufficient to pay current liabilities.

**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2010 and 2009  
(Unaudited)**

**FINANCIAL ANALYSIS**

**Statement of Net Assets**

The following table reflects a condensed summary of net assets (in thousands) as of December 31, 2010 and 2009:

	2010	2009
<b>Assets</b>		
Cash and Investments	\$ 19,820	\$ 27,504
Receivables	18,662	7,749
Prepays expenses	872	819
Total Current Assets	39,354	36,072
Capital assets, net of depreciation	143,396	138,324
Investments with fiscal agent	1,153	1,303
Notes receivable from Component Units	30,759	28,724
Other assets	6,702	5,362
Total Assets	221,364	209,785
<b>Liabilities</b>		
Current liabilities	13,594	13,784
Long-term debt	11,641	11,820
Total Liabilities	25,235	25,604
<b>Net Assets</b>		
Invested in capital assets, net of related debt	132,423	128,114
Restricted	5,113	5,849
Unrestricted	58,593	50,218
Total Net Assets	\$ 196,129	\$ 184,181

**Financial Analysis for the Years Ended December 31, 2010 and December 31, 2009**

In 2010, current assets increased by approximately \$3.3M. While cash and investments have decreased by \$7.7M over the year, current receivables have increased by \$10.9M due to Construction loans from Scattered Sites II, LLC and Olga Village, LLC. Notes receivable increased with the addition of loans to the annual tax credit project. Overall total assets increased by over \$11.5M.

In 2010, current liabilities decreased by \$.2M. This is primarily due to a smaller amount due to the City at year end, and the deferred revenue that was recorded at year end was significantly less than 2009. In 2010, total net assets increased from \$184.2M to \$196.1M or 6.5%.



**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2010 and 2009  
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**Capital Assets**

At year end, the Housing Authority of the City of Milwaukee had over \$143 million invested in capital assets as reflected in the following schedule.

	<u>2010</u>	<u>2009</u>
Land	\$ 36,776,177	\$ 36,885,745
Buildings	314,101,538	320,463,600
Furniture, Equipment-Administration	2,680,710	2,608,859
Construction in Progress	16,216,897	3,178,876
Accumulated Depreciation	<u>(226,379,083)</u>	<u>(224,813,492)</u>
Total	<u>\$ 143,396,239</u>	<u>\$ 138,323,588</u>

This year's major additions were:

Capital Improvement Projects	
Site Improvements which included a green roof for the Family Resource Center	\$ 807,140
Equipment Purchases	150,538

**Long-Term Debt Obligations**

Mortgage Revenue Bond obligations decreased by \$643,342 in 2010, which was due to payments made on the bonds.

**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Statement of Revenue, Expenses, and Changes in Net Assets**

The following schedule compares the revenues and expenses (in thousands) for the current and previous fiscal year:

Revenues:	2010	2009
Tenant revenue	\$ 16,980	\$ 17,479
Operating subsidies and grants	53,938	50,727
Capital contributions	20,704	8,361
Development fee	978	948
Investment income	1,490	1,362
Other revenue	2,116	2,411
Gain/(Loss) on disposal of assets	(403)	(1,507)
Total revenue	95,803	79,781
<b>Expenses:</b>		
Housing assistance payments	33,374	32,585
Administrative and general expenses	23,744	25,816
Utilities	5,573	5,844
Maintenance	12,468	12,709
Depreciation	8,094	8,552
Interest and amortization expense	602	648
Total expense	83,855	86,154
Increase (decrease) in net assets	\$ 11,948	\$ (6,373)

**Financial Analysis for Years Ended December 31, 2010 and December 31, 2009**

In 2010, the Housing Authority had an overall increase in net assets of \$11.9M, compared to a decrease in net assets of about \$6.3M in 2009.

Revenues increased by \$16.0M in 2010, due to more grants received for ARRA and Capital Fund Expenditures and the developer fees earned. Tenant revenue decreased due to the Becher Court relocations.

In 2010, the Housing Authority experienced a decrease in total expenses of about \$2.3M. Housing Assistance Payments increased about 2.5% or \$.8M as we tried to maximize our lease up percentage for the Housing Choice Voucher Program. Administrative and general experienced a decrease due to a reduction in expenses for Asset Management Fees, Contract Services, Worker's compensation, Collection Losses and a \$1.2M contribution made to the Greater Milwaukee endowment fund in 2009 resulted in a drop in contracts and training expenses in 2010.

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**Factors Affecting the Financial Health of the Authority**

▪ **Federal funding from the U.S. Department of Housing and Urban Development**

The Authority relies on HUD Operating Fund subsidy, Capital funds and special grant programs including Resident Opportunities and Self-Sufficiency (ROSS) grants to support its public housing operations. HUD funding for operating subsidy and Capital Fund is anticipated at less than full eligibility. While HACM developed its 2011 budget anticipating these funding allocations, unanticipated increases in operating costs including utility and water expense, could result in the need to adjust program services. Funding under the American Recovery & Reinvestment Act (Stimulus) will enable HACM to address part of its backlog of capital improvements needs.

In addition to the projected Operating and Capital Funds, HACM is a "decliner" agency under the Operating Fund Rule currently being implemented. HACM has met the reporting milestones under the "Stop Loss" provisions of the rule capping the reduction in subsidy eligibility through 2010 and has appealed HUD's Year 4 Stop Loss denial. HUD has yet to notify the Authority if the appeal has been accepted. In the event that HUD would determine that HACM submissions do not meet requirements, HACM will be funded on the HUD established project expense level. The 2011 budget was developed on this assumption.

HACM also receives significant funding from HUD under the Section 8 Housing Choice Voucher program. Projections for 2011 indicate that HUD may prorate the distribution of Administrative Fees to 78% of eligibility. This reduction could impact the ability of HACM to fully lease up to the authorized program level and could result in adjustments in services.

▪ **Local Labor Issues**

Wage rates increased modestly in 2010, but fringe benefit costs, especially health insurance, continue to increase significantly. HACM may need to seek additional employee co-payment or look for alternative health insurance and retirement benefit providers.

▪ **Local Economic Conditions**

The downturn in the housing market has had an impact on HACM's homeownership program. Significant foreclosure activity has increased the supply of available property affordable to low income buyers. HACM is now focusing their efforts on acquiring, rehabbing, selling foreclosed properties to qualified clients. However, lack of access to mortgage financing has significantly reduced home sales. Rising construction costs have also had a negative impact on HACM's development program of new, single family, market rate homes.

▪ **Utility Rates and Supply Costs**

Utility costs continue to increase despite significant investment in energy efficient modernization. Rates have increased moderately and consumption has been reduced.

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▪ **Quality of Available Housing**

HACM has continued to make significant investments in the redevelopment of its public housing portfolio. HACM has received more than \$120 million in HUD HOPE VI grants to redevelop Hillside Terrace, Parklawn, Lapham Park, Townhomes at Carver Park, Highland Gardens, Highland Homes and Scattered Sites public housing. In addition, HACM received Low Income Housing Tax Credits (LIHTC) allocations to redevelop the Cherry Court elderly/disabled housing development and completed the \$20 million mixed-finance redevelopment of the Convent Hill development. An additional \$8 million tax credit allocation will also allow HACM to replace 24 obsolete scattered sites units with new energy efficient single-family homes. HACM also received a \$10.4 million HUD formula grant under the American Recovery and Reinvestment Act (ARRA) which will fund capital improvements at all of HACM's highrise public housing developments and a \$7.9 million competitive ARRA grant to fund accessibility improvements at the 200-unit Lapham Park development for seniors.

ARRA funds and LIHTC funding were also being used to construct a 37-unit midrise at Olga Village scheduled for occupancy in Fall 2010. The Housing Authority was fortunate to receive over \$8 million of LIHTC in 2010 to support the redevelopment of Westlawn and new construction at Olga Village. This award of tax credits was extremely unusual and related to approximately \$30 million of disaster credits that the Wisconsin Economic Development Authority (WHEDA) received in 2010. These disaster credits are no longer available to WHEDA, so there will be fewer tax credit dollars to award to eligible projects in the future.

HACM will continue to incorporate "green" technology and universal design within all redevelopment projects.

While the funding for HOPE VI has been reduced, HACM will continue to apply as these resources are made available to address needed redevelopment of additional scattered sites as well as its Westlawn family public housing development. In 2010, HACM received a \$7.6 million LIHTC allocation to redevelop the eastern half of Westlawn. The funding will allow HACM to build 250 rental units after the demolition of the 332 old public housing units. The whole redevelopment plan of the east side calls for the construction of 365 replacement units. These will be a combination of affordable and market rate units.

The quality and cost of housing in the private market directly impacts HACM's Section 8 Housing Choice Voucher program. Rental rates have largely been stable, however, the availability of large units remains limited.

▪ **Continued Capital Improvement**

HACM continues to implement its 5-year Capital Fund modernization plan supported by a comprehensive needs assessment that was completed in 2008.

▪ **Agency Performance**

HACM is a "Standard Performer" under HUD's Public Housing Assessment System (PHAS), and a "High Performer" under the Section Eight (8) Management Assessment Program (SEMAP).

**Financial Contact**

The individual to be contacted regarding this report is Rick Koffarnus, Accounting Manager, of the Housing Authority of the City of Milwaukee at 414-286-5872. Specific requests may be submitted to Fernando Aniban, Chief Financial Officer or Antonio M. Pérez, Executive Director-Secretary, Housing Authority of the City of Milwaukee, 809 North Broadway, Milwaukee, Wisconsin 53202.