



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

Financial Statements  
and Other Financial Information

December 31, 2001 and 2000

(With Independent Auditors' Reports Thereon)

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

**Table of Contents**

|  | <b>Page</b> |
|--|-------------|
| Independent Auditors' Report   | 1           |
| Financial Statements:  |             |
| Balance Sheets   | 2           |
| Statements of Revenue and Expenses   | 4           |
| Statements of Changes in Fund Equity   | 5           |
| Statements of Cash Flows   | 6           |
| Notes to Financial Statements  | 8           |
| Other Financial Information:   |             |
| Independent Auditors' Report on Other Financial Information  | 22          |
| Combining Balance Sheet  | 23          |
| Combining Statement of Revenue and Expense   | 25          |
| Computation of Residual Receipts and Accruing Annual Contributions –<br>Low Income Housing Program | 26          |



777 East Wisconsin Avenue  
Milwaukee, WI 53202

## Independent Auditors' Report

The Board of Commissioners  
Housing Authority of the City of Milwaukee:

We have audited the accompanying balance sheets of the Housing Authority of the City of Milwaukee (Authority), a component unit of the City of Milwaukee, Wisconsin, as of December 31, 2001 and 2000, and the related statements of revenue and expenses, changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Carver Park Tax Credit Limited Partnership, the only component unit of the Authority, as of and for the year ended December 31, 2001. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Carver Park Tax Credit Limited Partnership, is based solely on the report 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. 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 report of the other auditors provide a reasonable basis for our opinion.

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

As discussed in note 1, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 5, 2002 on our consideration of the Authority's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**KPMG LLP**

April 5, 2002



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is  
a member of KPMG International, a Swiss association.

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

Balance Sheets

December 31, 2001 and 2000

| Assets  | 2001               |                |                         | 2000               |                |                         |
|---|--------------------|----------------|-------------------------|--------------------|----------------|-------------------------|
|   | Primary government | Component unit | Total (memorandum only) | Primary government | Component unit | Total (memorandum only) |
| Current assets:   |                    |                |                         |                    |                |                         |
| Cash and cash equivalents (note 2)                        | \$ 11,160,376      | 41,112         | 11,201,488              | 12,064,861         | —              | 12,064,861              |
| Investments (note 2)                                      | 5,798,078          | —              | 5,798,078               | 8,289,650          | —              | 8,289,650               |
| Accounts receivable                                       | 395,681            | —              | 395,681                 | 572,840            | —              | 572,840                 |
| Due from component unit, including land lease receivables | 5,573,993          | —              | 5,573,993               | 3,660,585          | —              | 3,660,585               |
| Accounts receivable – HUD                                 | 5,433,682          | —              | 5,433,682               | 13,926,358         | —              | 13,926,358              |
| Development reserves                                      | —                  | 1,000,490      | 1,000,490               | —                  | —              | —                       |
| Prepaid expenses and other current assets                 | 1,991,943          | 1,852          | 1,993,795               | 1,637,427          | —              | 1,637,427               |
| Total current assets                                      | 30,353,753         | 1,043,454      | 31,397,207              | 40,151,721         | —              | 40,151,721              |
| Land, buildings, and equipment:                           |                    |                |                         |                    |                |                         |
| Land and land improvements                                | 38,881,510         | 976,374        | 39,857,884              | 38,120,015         | 450,000        | 38,570,015              |
| Buildings and improvements                                | 258,999,834        | 17,045,386     | 276,045,220             | 241,427,269        | —              | 241,427,269             |
| Equipment   | 3,546,556          | 68,291         | 3,614,847               | 3,761,433          | —              | 3,761,433               |
| Rehabilitation/construction in progress                   | 38,353,374         | —              | 38,353,374              | 39,916,149         | 3,615,910      | 43,532,059              |
| Less accumulated depreciation                             | 339,781,274        | 18,090,051     | 357,871,325             | 323,224,866        | 4,065,910      | 327,290,776             |
|   | (136,935,441)      | (217,130)      | (137,152,571)           | (122,387,189)      | —              | (122,387,189)           |
| Total land, buildings, and equipment                      | 202,845,833        | 17,872,921     | 220,718,754             | 200,837,677        | 4,065,910      | 204,903,587             |
| Debt amortization funds:                                  |                    |                |                         |                    |                |                         |
| Cash and investments with fiscal agent (note 2)           | 7,121,732          | —              | 7,121,732               | 9,316,869          | —              | 9,316,869               |
| Other assets:   |                    |                |                         |                    |                |                         |
| Loans receivable  | 30,000             | —              | 30,000                  | 40,000             | —              | 40,000                  |
| Notes and land lease receivable from component unit       | 6,942,326          | —              | 6,942,326               | 405,325            | —              | 405,325                 |
| Financing fees, net                                       | —                  | 2,970          | 2,970                   | —                  | —              | —                       |
| Restricted cash (note 2)                                  | 1,008,193          | 34,846         | 1,043,039               | 1,221,468          | —              | 1,221,468               |
| Total assets  | \$ 248,301,837     | 18,954,191     | 267,256,028             | 251,973,060        | 4,065,910      | 256,038,970             |

See accompanying notes to financial statements.

2001

2000

| Liabilities and Fund Equity                              | 2001                |                   |                         | 2000                |                  |                         |
|--|---------------------|-------------------|-------------------------|---------------------|------------------|-------------------------|
|  | Primary government  | Component unit    | Total (memorandum only) | Primary government  | Component unit   | Total (memorandum only) |
| <b>Current liabilities:</b>                              |                     |                   |                         |                     |                  |                         |
| Accounts payable   | 5,038,102           | 1,229,514         | 6,267,616               | 4,618,207           | —                | 4,618,207               |
| Tenant security deposits                                 | 1,008,193           | 36,747            | 1,044,940               | 1,221,468           | —                | 1,221,468               |
| Accrued liabilities                                      | 2,214,066           | 38,590            | 2,252,656               | 3,281,377           | —                | 3,281,377               |
| Due to City of Milwaukee                                 | 1,005,481           | —                 | 1,005,481               | 2,482,135           | —                | 2,482,135               |
| Deferred credit – HUD                                    | 1,077,351           | —                 | 1,077,351               | 9,052,868           | —                | 9,052,868               |
| Current portion of notes payable                         | —                   | 18,606            | 18,606                  | —                   | —                | —                       |
| Current portion of advance from RACM (note 4)            | 4,300,000           | —                 | 4,300,000               | 860,000             | —                | 860,000                 |
| Due to primary government, including land lease payable  | —                   | 5,573,993         | 5,573,993               | —                   | 3,660,585        | 3,660,585               |
| Deferred revenue   | —                   | 5,507             | 5,507                   | 1,716,979           | —                | 1,716,979               |
| <b>Total current liabilities</b>                         | <b>14,643,193</b>   | <b>6,902,957</b>  | <b>21,546,150</b>       | <b>23,233,034</b>   | <b>3,660,585</b> | <b>26,893,619</b>       |
| <b>Long-term debt (note 3):</b>                          |                     |                   |                         |                     |                  |                         |
| Mortgage revenue bonds payable                           | 6,594,313           | —                 | 6,594,313               | 8,982,972           | —                | 8,982,972               |
| Notes payable  | —                   | 1,477,625         | 1,477,625               | —                   | —                | —                       |
| <b>Total long-term debt</b>                              | <b>6,594,313</b>    | <b>1,477,625</b>  | <b>8,071,938</b>        | <b>8,982,972</b>    | <b>—</b>         | <b>8,982,972</b>        |
| <b>Other long-term liabilities and deferred credits:</b> |                     |                   |                         |                     |                  |                         |
| Notes and land lease payable to primary government       | —                   | 6,942,326         | 6,942,326               | —                   | 405,325          | 405,325                 |
| Other liabilities  | —                   | 3,861,000         | 3,861,000               | —                   | —                | —                       |
| Advance from RACM (note 4)                               | 3,663,167           | —                 | 3,663,167               | 498,491             | —                | 498,491                 |
| <b>Total other long-term liabilities</b>                 | <b>3,663,167</b>    | <b>10,803,326</b> | <b>14,466,493</b>       | <b>498,491</b>      | <b>405,325</b>   | <b>903,816</b>          |
| <b>Total liabilities</b>                                 | <b>24,900,673</b>   | <b>19,183,908</b> | <b>44,084,581</b>       | <b>32,714,497</b>   | <b>4,065,910</b> | <b>36,780,407</b>       |
| <b>Fund equity (note 5):</b>                             |                     |                   |                         |                     |                  |                         |
| Contributed capital:                                     |                     |                   |                         |                     |                  |                         |
| City of Milwaukee  | 3,500,000           | —                 | 3,500,000               | 3,500,000           | —                | 3,500,000               |
| RACM   | 1,485,840           | —                 | 1,485,840               | 1,485,840           | —                | 1,485,840               |
| Donations  | 243,412,337         | —                 | 243,412,337             | 243,412,337         | —                | 243,412,337             |
| <b>Total contributed capital</b>                         | <b>3,500,000</b>    | <b>—</b>          | <b>3,500,000</b>        | <b>3,500,000</b>    | <b>—</b>         | <b>3,500,000</b>        |
| Retained earnings:                                       |                     |                   |                         |                     |                  |                         |
| Reserved   | 14,821,742          | —                 | 14,821,742              | 17,061,719          | —                | 17,061,719              |
| Accumulated deficit                                      | (39,818,755)        | (229,717)         | (40,048,472)            | (46,201,333)        | —                | (46,201,333)            |
| <b>Total fund equity</b>                                 | <b>(24,997,013)</b> | <b>(229,717)</b>  | <b>(25,226,730)</b>     | <b>(29,139,614)</b> | <b>—</b>         | <b>(29,139,614)</b>     |
| <b>Total liabilities and fund equity</b>                 | <b>223,401,164</b>  | <b>(229,717)</b>  | <b>223,171,447</b>      | <b>219,258,563</b>  | <b>—</b>         | <b>219,258,563</b>      |
| <b>Total liabilities and fund equity</b>                 | <b>248,301,837</b>  | <b>18,954,191</b> | <b>267,256,028</b>      | <b>251,973,060</b>  | <b>4,065,910</b> | <b>256,038,970</b>      |

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

Statements of Revenue and Expenses

Years ended December 31, 2001 and 2000

|  | 2001               |                |                         | 2000               |                |                         |
|--|--------------------|----------------|-------------------------|--------------------|----------------|-------------------------|
|  | Primary government | Component unit | Total (memorandum only) | Primary government | Component unit | Total (memorandum only) |
| Operating revenue:                             |                    |                |                         |                    |                |                         |
| Rentals  | \$ 14,787,203      | 116,635        | 14,903,838              | 14,374,601         | —              | 14,374,601              |
| Other  | 1,665,225          | 12,506         | 1,677,731               | 712,081            | —              | 712,081                 |
| Total operating revenue                        | 16,452,428         | 129,141        | 16,581,569              | 15,086,682         | —              | 15,086,682              |
| Operating expenses:                            |                    |                |                         |                    |                |                         |
| Housing assistance payments                    | 18,292,028         | —              | 18,292,028              | 17,015,463         | —              | 17,015,463              |
| Administrative and other                       | 15,867,684         | 51,414         | 15,919,098              | 15,249,429         | —              | 15,249,429              |
| Utilities                                      | 4,738,878          | 8,328          | 4,747,206               | 4,257,084          | —              | 4,257,084               |
| Ordinary maintenance                           | 7,826,476          | 3,856          | 7,830,332               | 6,518,431          | —              | 6,518,431               |
| Nonroutine maintenance                         | 2,590,888          | —              | 2,590,888               | 2,557,363          | —              | 2,557,363               |
| Depreciation                                   | 15,022,933         | 217,142        | 15,240,075              | 17,042,477         | —              | 17,042,477              |
| Total operating expenses                       | 64,338,887         | 280,740        | 64,619,627              | 62,640,247         | —              | 62,640,247              |
| Operating loss                                 | (47,886,459)       | (151,599)      | (48,038,058)            | (47,553,565)       | —              | (47,553,565)            |
| Nonoperating revenues (expenses):              |                    |                |                         |                    |                |                         |
| Federal and state grants and subsidies         | 53,666,431         | —              | 53,666,431              | 30,926,604         | —              | 30,926,604              |
| Investment income                              | 1,776,730          | 603            | 1,777,333               | 2,418,041          | —              | 2,418,041               |
| Interest subsidy to RACM                       | (185,070)          | —              | (185,070)               | (305,778)          | —              | (305,778)               |
| Interest expense                               | (687,048)          | (53,721)       | (740,769)               | (813,881)          | —              | (813,881)               |
| Loss on disposal of fixed assets               | (197,371)          | —              | (197,371)               | (6,978,045)        | —              | (6,978,045)             |
| Expense due to assumption of RACM liability    | (2,568,009)        | —              | (2,568,009)             | —                  | —              | —                       |
| Other  | (176,603)          | (25,000)       | (201,603)               | 130,529            | —              | 130,529                 |
| Net nonoperating revenues (expenses)           | 51,629,060         | (78,118)       | 51,550,942              | 25,377,470         | —              | 25,377,470              |
| Net income (loss) before capital contributions | 3,742,601          | (229,717)      | 3,512,884               | (22,176,095)       | —              | (22,176,095)            |
| Capital contributions                          | 400,000            | —              | 400,000                 | 29,385,791         | —              | 29,385,791              |
| Net income (loss)                              | 4,142,601          | (229,717)      | 3,912,884               | 7,209,696          | —              | 7,209,696               |
| Fund equity at January 1                       | 219,258,563        | —              | 219,258,563             | 212,048,867        | —              | 212,048,867             |
| Fund equity (deficit) at December 31           | \$ 223,401,164     | (229,717)      | 223,171,447             | 219,258,563        | —              | 219,258,563             |

See accompanying notes to financial statements.

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

Statements of Changes in Fund Equity  
Years ended December 31, 2001 and 2000

|  | Contributed capital |                         |             | Retained earnings |                                | Total primary government fund equity | Component unit | Total fund equity |
|--|---------------------|-------------------------|-------------|-------------------|--------------------------------|--------------------------------------|----------------|-------------------|
|  | City of Milwaukee   | Redevelopment Authority | Donations   | Reserved          | Accumulated earnings (deficit) |                                      |                |                   |
| Balance (deficit) at December 31, 1999 | \$ 3,500,000        | 1,485,840               | 214,687,104 | 17,543,676        | (25,167,753)                   | 212,048,867                          | —              | 212,048,867       |
| Capital contributions                  | —                   | —                       | 29,385,791  | —                 | —                              | 29,385,791                           | —              | 29,385,791        |
| Net loss                               | —                   | —                       | —           | —                 | (22,176,095)                   | (22,176,095)                         | —              | (22,176,095)      |
| Increase (decrease) in reserves        | —                   | —                       | (660,558)   | (481,957)         | 1,142,515                      | —                                    | —              | —                 |
| Balance (deficit) at December 31, 2000 | 3,500,000           | 1,485,840               | 243,412,337 | 17,061,719        | (46,201,333)                   | 219,258,563                          | —              | 219,258,563       |
| Net income (loss)                      | —                   | —                       | —           | —                 | 4,142,601                      | 4,142,601                            | (229,717)      | 3,912,884         |
| Increase (decrease) in reserves        | —                   | —                       | —           | (2,239,977)       | 2,239,977                      | —                                    | —              | —                 |
| Balance (deficit) at December 31, 2001 | \$ 3,500,000        | 1,485,840               | 243,412,337 | 14,821,742        | (39,818,755)                   | 223,401,164                          | (229,717)      | 223,171,447       |

See accompanying notes to financial statements.

| 2000                  |                   |                               |
|-----------------------|-------------------|-------------------------------|
| Primary<br>government | Component<br>unit | Total<br>(memorandum<br>only) |
| (47,553,565)          | —                 | (47,553,565)                  |
| 17,042,477            | —                 | 17,042,477                    |
| 734,221               | —                 | 734,221                       |
| 395,938               | —                 | 395,938                       |
| 5,000                 | —                 | 5,000                         |
| 505,533               | —                 | 505,533                       |
| 944,186               | —                 | 944,186                       |
| (3,615,910)           | 3,615,910         | —                             |
| 686,076               | —                 | 686,076                       |
| 6,776,914             | —                 | 6,776,914                     |
| 23,474,435            | 3,615,910         | 27,090,345                    |
| (24,079,130)          | 3,615,910         | (20,463,220)                  |
| 30,926,604            | —                 | 30,926,604                    |
| (827,917)             | —                 | (827,917)                     |
| (305,778)             | —                 | (305,778)                     |
| 130,529               | —                 | 130,529                       |
| 29,923,438            | —                 | 29,923,438                    |
| 18,568,062            | —                 | 18,568,062                    |
| (29,213,814)          | (4,065,910)       | (33,279,724)                  |
| 334,993               | —                 | 334,993                       |
| (1,707,935)           | —                 | (1,707,935)                   |
| (813,881)             | —                 | (813,881)                     |
| (59,939)              | —                 | (59,939)                      |
| 1,744,580             | —                 | 1,744,580                     |
| (11,147,934)          | (4,065,910)       | (15,213,844)                  |
| (450,000)             | 450,000           | —                             |
| (12,376,093)          | —                 | (12,376,093)                  |
| 11,753,103            | —                 | 11,753,103                    |
| 2,418,041             | —                 | 2,418,041                     |
| 1,345,051             | 450,000           | 1,795,051                     |
| (3,958,575)           | —                 | (3,958,575)                   |
| 17,244,904            | —                 | 17,244,904                    |
| 13,286,329            | —                 | 13,286,329                    |
| 12,064,861            | —                 | 12,064,861                    |
| 1,221,468             | —                 | 1,221,468                     |
| 13,286,329            | —                 | 13,286,329                    |



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

Notes to Financial Statements

December 31, 2001 and 2000

**(1) Summary of Significant Accounting Policies**

The Housing Authority of the City of Milwaukee (Authority) is a discretely presented component unit of the City of Milwaukee, Wisconsin and is a separate body, corporate and politic, which was established in 1944. The Authority is directed by five commissioners who are appointed by the Mayor and confirmed by the Common Council for staggered five-year terms. The City of Milwaukee includes the Authority as a component unit enterprise fund in its comprehensive annual financial report due to the appointment of the commissioners and because the daily operations of the Authority are managed by City employees.

The financial statements of the Authority include the accounts of the five enterprise funds listed below:

|                                       |                           |
|---------------------------------------|---------------------------|
| Low Income Housing Program            | Veterans Housing Projects |
| Rental Assistance Voucher Program     | General (Enterprise) Fund |
| Rental Assistance Certificate Program |                           |

The Low Income Housing Program manages approximately 3,850 dwelling units in 17 housing developments and approximately 520 units of scattered sites. The U.S. Department of Housing and Urban Development (HUD) provides funding in the form of subsidies for this program. Southlawn Park, which is part of the General Fund, also receives subsidies from HUD.

The rental assistance programs had 4,665 units under contract at the end of 2001. The Authority provides rental assistance to low-income families under these programs. HUD provides funding in the form of subsidies for this program.

In addition to the above programs, the Authority also owns and manages three housing developments which are not federally subsidized. The Veterans Housing Projects, consisting of 968 units, include Northlawn, Southlawn, and Berryland. These projects were constructed in 1949-1950 to meet housing needs for the area's veterans. These projects were financed without the use of federal funds, relying principally on revenue bonds. Veterans Housing Projects receive no subsidy from any governmental agency. Rental revenues, which are fixed by unit size, are used to pay all expenses. Applicants for these projects must meet income criteria set by the Authority.

The General Fund was established in accordance with Resolution Number 896, adopted December 7, 1954. The General Fund was created to hold, invest, and disburse monies which may accrue to the Authority free and clear of all liens, charges, and encumbrances as a result of its operation, management, and control of the various Veterans Housing Projects. In addition to the above, the General Fund is also used to account for all financial transactions of the Authority other than those reflected in Low Income Housing, Rent Assistance Programs, or the Veterans Housing Projects.

In February 1999, the Authority entered into a limited partnership with Friends of Housing Corporation named Carver Park, LLC. (Carver Park) (formerly Lapham Park, LLC). The Authority has a 51% ownership, while Friends of Housing Corporation has 49%. During 2000, Carver Park entered into a limited partnership named Carver Park Tax Credit Limited Partnership (formerly Lapham Park Tax Credit Limited Partnership) (the Partnership). The general partner of the Partnership is Carver Park, with the Authority as the initial limited partner. The main purpose of the Partnership is to receive tax credits from Wisconsin Housing and Economic Development Authority (WHEDA) that can be sold on the open market

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

Notes to Financial Statements

December 31, 2001 and 2000

to equity investors to aid in the payment of construction costs at Carver Park. The tax credits are estimated to be worth approximately \$9.8 million. Because the Authority has the ability to "impose its will" on the Partnership, under GASB Statement No. 14 the Partnership is shown as a discretely presented component unit, while the Authority is considered the primary government. The Partnership's operating agreement calls for the Partnership to dissolve on December 31, 2050.

Carver Park has constructed and is operating two low-income housing apartment properties located in Milwaukee, Wisconsin, jointly called Carver Park Townhomes. The first property (hereafter referenced as Carver I) consists of 19 buildings totaling 64 units. The second property (hereafter referenced as Carver II) consists of 16 buildings totaling 58 units. The properties were placed in service during 2001.

***Basis of Accounting***

The Authority maintains its accounts in accordance with accounting principles generally accepted in the United States of America. The financial statements are prepared on an accrual basis of accounting which recognizes revenues in the accounting period in which they are earned and measurable, and expenses in the period incurred, if measurable.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of the Authority's cash accounts, deposits in the Wisconsin State Local Government Investment Pool, and investments with an original maturity of three months or less.

***Investments***

Investments consist primarily of certificates of deposit and government securities which are collateralized under a general depository agreement. Investments are reported at fair value.

Investments of public funds are restricted by state statutes. Available investments are limited to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association.
- Bonds or securities of any county, city, drainage district, VTAE district, village, town, or school district of the State of Wisconsin.
- Bonds or securities issued or guaranteed by the federal government.
- The State Local Government Investment Pool.

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

***Accounts Receivable – HUD***

Accounts receivable – HUD represent receivables due from the federal agency for program expenses incurred by the Authority for which reimbursement has not been made.

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

Notes to Financial Statements

December 31, 2001 and 2000

***Restricted Cash***

Restricted cash consists of tenant security deposits and proceeds received from the sale of properties that had been financed by HUD. The proceeds are restricted for use in development projects.

***Cash and Investments with Fiscal Agent***

Cash and investments with fiscal agent are amounts placed in trust under the direction of the trustees and are available only for debt retirement or the original purpose of the borrowings.

***Inventories***

Inventories are stated at the lower of average cost or market.

***Land, Buildings, and Equipment***

Land, buildings, and equipment are stated at cost. Expenditures for ordinary and extraordinary maintenance and repairs are charged against income as incurred, while betterments and additions are capitalized at year end. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which are equipment (5 years) and buildings (40 years). Donated assets are stated at cost, which approximates fair value at time of donation. Interest expense is not capitalized on rehabilitation in progress.

Rental property of Carver Park is stated at cost. Depreciation of rental property is computed principally by the straight-line and declining balance methods based upon the following estimated useful lives of the assets:

|                           | <u>Years</u> |
|---------------------------|--------------|
| Land improvements         | 15           |
| Building                  | 27.5         |
| Furnishings and equipment | 5            |

***Reserved Retained Earnings***

Reserved retained earnings are funds restricted for the operation of the federally subsidized programs and the purchase, maintenance, and repair of buildings and equipment.

***Federal Grants and Subsidies***

Grants and subsidies received for debt service purposes, operating purposes, or that are to be used for either operating or capital expenditures at the discretion of the Authority are recognized as nonoperating revenue in the accounting period they are earned and become measurable. Resources restricted for the acquisition or construction of capital assets are recorded as contributed capital.

***Other liabilities***

Other liabilities includes the limited partners' equity in Carver Park.

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

Notes to Financial Statements

December 31, 2001 and 2000

***GASB Pronouncements***

As permitted by accounting principles generally accepted in the United States of America, except as noted below, the Authority has elected to apply only FASB, APB, and ARB materials issued on or before November 30, 1989 to the financial statements of the Authority.

In 2001, the Authority adopted the provisions of Statement No. 33 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Non-Exchange Transactions*. This provision requires the Authority to record all contributions from HUD as nonoperating revenue. In 2000 and prior, the Authority recorded the contributions from HUD for property, plant, and equipment as contributed capital.

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

***Reclassifications***

Certain 2000 amounts have been reclassified to conform with the 2001 presentation.

**(2) Deposits and Investments**

The Authority’s deposits and investments at December 31, 2001 and 2000 are categorized to give an indication of the level of risk assumed by the entity.

**(a) Bank Deposits**

|              | 2001                   |          |          |                  | Carrying<br>amount |
|--------------|------------------------|----------|----------|------------------|--------------------|
|              | Bank balances category |          |          | Total            |                    |
|              | 1                      | 2        | 3        |                  |                    |
| Authority:   |                        |          |          |                  |                    |
| Deposits     | \$ 1,681,795           | —        | —        | 1,681,795        | (1,126,270)        |
| Petty cash   | —                      | —        | —        | —                | 1,212              |
| Total        | \$ <u>1,681,795</u>    | <u>—</u> | <u>—</u> | <u>1,681,795</u> | <u>(1,125,058)</u> |
| Carver Park: |                        |          |          |                  |                    |
| Deposits     | \$ 1,091,848           | —        | —        | 1,091,848        | 41,112             |
|              | \$ <u>1,091,848</u>    | <u>—</u> | <u>—</u> | <u>1,091,848</u> | <u>41,112</u>      |

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

Notes to Financial Statements

December 31, 2001 and 2000

|            |    | 2000                   |   |   |           |         |
|------------|----|------------------------|---|---|-----------|---------|
|            |    | Bank balances category |   |   | Carrying  |         |
|            |    | 1                      | 2 | 3 | Total     | amount  |
| Deposits   | \$ | 3,473,510              | — | — | 3,473,510 | 693,679 |
| Petty cash |    | —                      | — | — | —         | 1,350   |
| Total      | \$ | 3,473,510              | — | — | 3,473,510 | 695,029 |

Deposits in local and area banks and savings and loans are insured by the limits of federal depository insurance (\$100,000) and state deposit guarantees (\$400,000). As of the balance sheet date, Carver Park balances of cash at a financial banking institution exceeded the federally insured limit of \$100,000 by \$991,848.

Category 1 includes deposits that are insured or collateralized with securities held by the Authority or its agent in the Authority's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name.

(b) *Investments*

|                         |    | 2001     |   |           |           |            |
|-------------------------|----|----------|---|-----------|-----------|------------|
|                         |    | Category |   |           | Carrying  |            |
|                         |    | 1        | 2 | 3         | Total     | amount     |
| Authority:              |    |          |   |           |           |            |
| Federal Home Loan       |    |          |   |           |           |            |
| Mortgage Corporation    | \$ | —        | — | 1,959,117 | 1,959,117 | 1,959,117  |
| Federal Home Loan       |    |          |   |           |           |            |
| Bank notes              | \$ | —        | — | 2,085,631 | 2,085,631 | 2,085,631  |
| Federal National        |    |          |   |           |           |            |
| Mortgage Association    |    | —        | — | 1,991,153 | 1,991,153 | 1,991,153  |
| Certificates of deposit |    | 440,989  | — | —         | 440,989   | 440,989    |
| Uncategorized:          |    |          |   |           |           |            |
| Cash and investments    |    |          |   |           |           |            |
| with fiscal agent       |    | —        | — | —         | —         | 7,014,261  |
| State Local             |    |          |   |           |           |            |
| Government              |    |          |   |           |           |            |
| Investment Pool         |    | —        | — | —         | —         | 12,798,244 |
| Total                   | \$ | 440,989  | — | 6,035,901 | 6,476,890 | 26,289,395 |

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

Notes to Financial Statements

December 31, 2001 and 2000

|  | 2000              |          |                  | Total            | Carrying<br>amount |
|--|-------------------|----------|------------------|------------------|--------------------|
|  | Category          |          |                  |                  |                    |
|  | 1                 | 2        | 3                |                  |                    |
| Federal Home Loan Bank notes           | \$ —              | —        | 3,875,189        | 3,875,189        | 3,875,189          |
| Federal National Mortgage Association  | —                 | —        | 2,032,903        | 2,032,903        | 2,032,903          |
| Certificates of deposit                | 431,551           | —        | —                | 431,551          | 431,551            |
| Bonds/equities                         | —                 | —        | 2,579,942        | 2,579,942        | 2,579,942          |
| Uncategorized:                         |                   |          |                  |                  |                    |
| Cash and investments with fiscal agent | —                 | —        | —                | —                | 9,316,869          |
| State Local Government Investment Pool | —                 | —        | —                | —                | 11,961,365         |
| Total                                  | \$ <u>431,551</u> | <u>—</u> | <u>8,488,034</u> | <u>8,919,585</u> | <u>30,197,819</u>  |

Category 1 includes investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered securities held by counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered securities held by the counterparty, or by its trust department or agent, but not in the Authority's name.

Investments with the fiscal agent are amounts placed in trust for the Authority's debt retirement.

In accordance with the Authority's investment policy, the Authority invests in mortgage-backed securities, which are included in the Federal Home Loan Bank and Federal National Mortgage Association investments. These securities are reported at fair value in the balance sheet and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated. The Authority invests in mortgage-backed securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

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

Notes to Financial Statements

December 31, 2001 and 2000

**(3) Long-term Debt**

Principal maturities of current and long-term debt are as follows:

|                         | <u>Interest<br/>rate</u> | <u>Final<br/>maturity<br/>date</u> | <u>2001</u>         | <u>2000</u>      |
|-------------------------|--------------------------|------------------------------------|---------------------|------------------|
| Bonds payable:          |                          |                                    |                     |                  |
| Mortgage revenue bonds  | Varies                   | 01/01/2019                         | \$ 2,740,830        | 3,662,906        |
| Mortgage revenue bonds  | Varies                   | 12/01/2022                         | 3,853,483           | 5,320,066        |
|                         |                          |                                    | 6,594,313           | 8,982,972        |
| Less current maturities |                          |                                    | —                   | —                |
|                         |                          |                                    | <u>\$ 6,594,313</u> | <u>8,982,972</u> |

Future debt payments required as of December 31, 2001 are as follows:

|            | <u>Principal</u>    | <u>Interest</u> | <u>Total</u>     |
|------------|---------------------|-----------------|------------------|
| 2002       | \$ —                | —               | —                |
| 2003       | —                   | —               | —                |
| 2004       | —                   | —               | —                |
| 2005       | —                   | —               | —                |
| 2006       | —                   | —               | —                |
| Thereafter | 6,594,313           | —               | 6,594,313        |
|            | <u>\$ 6,594,313</u> | <u>—</u>        | <u>6,594,313</u> |

***Mortgage Revenue Bonds***

The Authority entered into a trust indenture with the Marine Trust Company regarding \$25,000,000 Single Family Mortgage Revenue Bonds (GNMA collateralized home mortgage revenue bond program) Series 1987 on December 1, 1987. The bond proceeds were used to purchase fully modified pass-through mortgage-backed securities (GNMA certificates) guaranteed by the Government National Mortgage Association. The securities are backed by qualifying mortgage loans on residences located in the City of Milwaukee originated by lenders participating in the home mortgage revenue bond program. The GNMA certificates are pledged for the payment of principal and interest on the bonds. Under the GNMA collateralized home mortgage revenue bond program, the interest payable on the bonds is equivalent to the interest earnings on the GNMA certificates plus interest earnings on investments in the various trust funds, less any fees paid. As a result, the Authority does not recognize any income or expense from the bond issue. The bonds are redeemed as mortgage payments are received. Bonds redeemed with these mortgage repayments totaled \$922,076 in 2001 and \$823,098 in 2000. The bonds are scheduled to mature January 1, 2021. Bonds outstanding at December 31, 2001 and 2000 totaled \$2,740,830 and \$3,662,906, respectively.

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

Notes to Financial Statements

December 31, 2001 and 2000

The Authority entered into a trust indenture with the First Bank Trust Company regarding \$25,000,000 Single Family Mortgage Revenue Bonds (GNMA collateralized home mortgage revenue bond program) Series 1989 on June 1, 1989. The terms of this indenture are similar to the terms of the 1987 Mortgage Revenue Bonds previously described. The bonds are scheduled to mature December 1, 2022. Bonds redeemed totaled \$1,466,594 in 2001 and \$884,836 in 2000. Bonds outstanding at December 31, 2001 and 2000 totaled \$3,853,483 and \$5,320,066, respectively.

The entire principal outstanding on both issues has been reflected as thereafter in the schedule of future debt payments due to the nature of the agreement between the trustee and the Authority. As principal payments on the debt are based upon mortgage repayments, current annual classification of this information is not available.

***Conduit Debt Obligations***

From time to time, the Authority has issued revenue bonds to provide assistance for private-sector entities to obtain financing for the acquisition, construction, or rehabilitation of housing units and for the retirement of existing debt associated with housing units. The bonds are secured by the property financed and are payable solely from payments received on the underlying loans. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The aggregate amount of all revenue bonds outstanding (excluding the job opportunity bonds) was approximately \$56,491,000 and \$57,618,000 at December 31, 2001 and 2000, respectively.

***Capital Lease***

During 2000, the Authority entered into two ground leases with the Partnership for a portion of the land at Carver Park. The terms of the leases are for 50 years each. Base annual rent is \$15,220 for the first lease and \$14,235 for the second, payable in advance on the first of each and every lease year. After the 50 years, the Partnership has the right to purchase the leased premises for \$1.00 for each lease. This ground lease is considered a capital lease, and thus shown as an asset on the Partnership's balance sheet at its present value of \$450,000, discounted at 6.74%. During 2001, the Authority reclassified the two ground leases into notes payable.



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

Notes to Financial Statements

December 31, 2001 and 2000

Future lease payments required as of December 31, 2000 are as follows:

|                 | <b>Payments</b> |
|-----------------|-----------------|
| 2002            | \$ 29,455       |
| 2003            | 29,455          |
| 2004            | 29,455          |
| 2005            | 29,455          |
| 2006            | 29,455          |
| Thereafter      | 1,296,020       |
| Subtotal        | 1,443,295       |
| Less:           |                 |
| Current portion | 44,675          |
| Interest        | 993,295         |
|                 | \$ 405,325      |

During 2001, the land lease payable was refinanced with the use of notes payable to the Authority.

***Carver Park Mortgage Notes Payable***

Mortgage notes payable consist of the following.

A mortgage note payable to Firststar Bank. The loan requires monthly payments of \$6,274, including interest at 8% through September 24, 2011. The interest rate then converts to 2% in excess of the LIBOR rate determined by the Bank on September 25, 2011. The note is due October 25, 2016. The loan is collateralized by Carver I rental property.

A mortgage note payable to M&I Community Development Corporation. The loan requires monthly payments of interest only at 8% through November 1, 2011. The interest rate then converts to 2.25% in excess of the five-year LIBOR Swap Curve rate published by *The Wall Street Journal*. The note is due November 1, 2016. The loan is collateralized by Carver II rental property.

A mortgage note (Land note) payable to the Authority, the managing member of the general partner. The loan requires annual payments of \$12,956, including interest at 5.31% to the extent of available cash flow. The note is due December 31, 2050. The loan is collateralized by Carver I land.

A mortgage note (Land note) payable to the Authority. The loan requires annual payments of \$12,931, including interest at 5.31% to the extent of available cash flow. The note is due December 31, 2051. The loan is collateralized by Carver II land.

A mortgage note (HOPE VI note) payable to the Authority. The loan requires interest-only payments compounding at 5.31% to the extent of available cash flow. Accrued interest payable was \$17,729 at December 31, 2001. The note is due November 15, 2041. The loan is collateralized by Carver I rental property.

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

Notes to Financial Statements

December 31, 2001 and 2000

A mortgage note (HOPE VI note) payable to the Authority. The loan requires interest-only payments compounding at 5.31% to the extent of available cash flow. Accrued interest payable was \$10,947 at December 31, 2001. The note is due November 15, 2041. The loan is collateralized by Carver II rental property.

A mortgage note (Predevelopment note) payable to the Authority. The loan is non-interest bearing. The note is due November 15, 2046. The loan is collateralized by Carver I rental property.

A mortgage note (Predevelopment note) payable to the Authority. The loan is non-interest bearing. The note is due November 15, 2046. The loan is collateralized by Carver II rental property.

A mortgage note (Development fee note) payable to the Authority. The loan is non-interest bearing. The note is due the earlier of the sale of Carver I or November 15, 2017. The loan is collateralized by Carver I rental property.

A mortgage note (Development fee note) payable to the Authority. The loan is non-interest bearing. The note is due the earlier of the sale of Carver II or November 15, 2017. The loan is collateralized by Carver II rental property.

|                                       |              |
|---------------------------------------|--------------|
| Firstar Bank                          | \$ 746,231   |
| M&I Community Development Corporation | 750,000      |
| HACM (Carver I Land note)             | 223,633      |
| HACM (Carver II Land note)            | 224,220      |
| HACM (Carver I HOPE VI note)          | 2,649,224    |
| HACM (Carver II HOPE VI note)         | 1,635,755    |
| HACM (Carver I Predevelopment note)   | 704,970      |
| HACM (Carver II Predevelopment note)  | 504,524      |
| HACM (Carver I Development fee note)  | 500,000      |
| HACM (Carver II Development fee note) | 500,000      |
|                                       | <hr/>        |
|                                       | 8,438,557    |
| Less current maturities               | <hr/>        |
|                                       | 18,606       |
|                                       | <hr/>        |
|                                       | \$ 8,419,951 |
|                                       | <hr/> <hr/>  |

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

Notes to Financial Statements

December 31, 2001 and 2000

Repayment of principal on the mortgage notes payable as of December 31, 2001 is as follows:

| Year ending December 31: |    |           |
|--------------------------|----|-----------|
| 2002                     | \$ | 18,606    |
| 2003                     |    | 19,918    |
| 2004                     |    | 21,536    |
| 2005                     |    | 23,260    |
| 2006                     |    | 25,090    |
| Thereafter               |    | 8,330,147 |
|                          | \$ | 8,438,557 |

**(4) Pledge of Veterans Revenues and Collateral Agreement**

Under a cooperative agreement between the Authority and the Redevelopment Authority of the City of Milwaukee (RACM), the Authority has pledged revenues of the Veterans Housing Projects for payment of the debt service on the remaining job opportunity bonds issued and outstanding by RACM at December 31, 1998. Also, the Authority has made the assets of the Veterans Housing Projects available as collateral. In 1996, RACM issued bonds (1996 Series) for \$7,785,000 in order to defease the 1988A Series bonds. The outstanding balance at December 31, 2001 and 2000 was \$3,845,000 and \$4,705,000, respectively. During 2001, the Authority borrowed an additional \$2,000,000 from the proceeds of the Job Opportunity Bonds and another \$3,000,000 from RACM for general operations. The Authority also assumed additional liability in 2001 of \$2,568,009, which brought the amount pledged for the Job Opportunity Bonds to the total amount outstanding on the bonds. The advance from RACM at December 31, 2001 and 2000 of \$7,963,167 and \$1,358,491, respectively, represents the future bond principal payments to be made by the Authority on behalf of RACM, less proceeds held by RACM for future debt service payments. During the years ended December 31, 2001 and 2000, the Authority paid on behalf of RACM \$1,048,405 and \$1,133,695, respectively, of principal and interest payments due on the RACM bonds. RACM made no advances for project modernization in 2001 or 2000.

Future debt payments required on the bonds are as follows:

|      | Principal    | Interest | Total     |
|------|--------------|----------|-----------|
| 2002 | \$ 900,000   | 179,000  | 1,079,000 |
| 2003 | 940,000      | 138,500  | 1,078,500 |
| 2004 | 980,000      | 95,260   | 1,075,260 |
| 2005 | 1,025,000    | 49,200   | 1,074,200 |
|      | \$ 3,845,000 | 461,960  | 4,306,960 |

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

Notes to Financial Statements

December 31, 2001 and 2000

**(5) Reserved Retained Earnings and Other Contributed Capital**

Reserved retained earnings are funds restricted for the operation of the federally subsidized programs and the purchase, maintenance, and repair of buildings and equipment. During 2001 and 2000, reserved retained earnings were decreased by \$2,239,979 and \$481,957, respectively, and accumulated earnings increased by the corresponding amount.

Contributed capital – private donations consists of the following as of December 31, 2001 and 2000:

|  | 2001           | 2000        |
|--|----------------|-------------|
| HUD debt forgiveness (1988)  | \$ 60,862,228  | 60,862,228  |
| HUD contributions for modernization and development  | 179,478,694    | 179,078,694 |
| Building and improvements contributed from the Silver Spring<br>Neighborhood Center (SSNC) | 972,989        | 972,989     |
| Other private donations  | 2,498,426      | 2,498,426   |
|  | \$ 243,812,337 | 243,412,337 |

**(6) Related Party Transactions**

The majority of individuals who work for the Authority are employees of the City of Milwaukee. Wages and related fringe benefits are paid by the City of Milwaukee and reimbursed by the Authority. Wages and related fringe benefits reimbursed to the City by the Authority were approximately \$5,356,000 and \$5,807,000 in 2001 and 2000, respectively. In addition, the Authority paid the City approximately \$1,672,000 and \$1,841,000 for administrative services and overhead expenses during 2001 and 2000, respectively.

In accordance with an agreement with the City of Milwaukee, the Authority makes payments in lieu of property taxes to the City equal to 10% of the Authority's net shelter rental income. The payments in lieu of property taxes for 2001 and 2000 were \$1,011,948 and \$918,338, respectively. These amounts are included in accrued liabilities at December 31, 2001 and 2000, respectively, as amounts are remitted to the City in the year subsequent to the year the shelter income was earned.

Carver Park entered into a management agreement with Friends of Housing, Inc. (Friends), a member of the general partner, for a management fee equal to \$21.30 per unit. The management fees incurred under this agreement totaled \$6,305 for the year ended December 31, 2001. Accrued management fees were \$1,917 at December 31, 2001.

Carver Park entered into two development agreements to pay development fees to the Authority totaling \$500,000 each. The Carver Park agreement requires the Authority to jointly and severally fund operating deficits incurred during the operating guaranty period in the form of an operating expense loan, not to exceed \$400,000. Operating expense loans shall bear interest at 8% and be subordinated to the mortgage notes payable. There have been no operating expense loans made to the Partnership as of December 31, 2001. The guarantee amount reduces to \$200,000 on the later to occur of the second anniversary of the Development Obligation Date or the achievement by the Partnership on or after the second anniversary of the Development Obligation Date of a Debt Service Coverage Ratio of at least 1.05. The guarantee further

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

Notes to Financial Statements

December 31, 2001 and 2000

reduces to zero on the later to occur of the third anniversary of the Development Obligation Date or the achievement by the Partnership on or after the third anniversary of the Development Obligation Date of a Debt Service Coverage Ratio of at least 1.05.

The Authority has also guaranteed the amount of the low-income housing tax credits to be generated by the two projects and total development costs. Total operating deficit tax credit and development cost guarantees shall not exceed \$800,000.

The Authority has the option to purchase the assets of the Partnership after one 15-year credit compliance period. The purchase price is the minimum purchase price amount of \$1.00 as defined in Section 42 of the Internal Revenue Code.

**(7) Retirement Plan and Other Postemployment Benefits**

Substantially all full-time employees of the Authority are participants in the City of Milwaukee "Employees' Retirement System," a cost-sharing, multiple-employer defined benefit plan. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The City Charter assigns the authority to establish and amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the City. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 200 East Wells Street, Room 610, Milwaukee, WI 53202.

The Authority contributes both the employee and employer share of the required contribution. The employees' share of the annual contribution is 5.5% of their annual salary exclusive of overtime, while the employer's share is calculated based upon an actuarial valuation made at the beginning of each fiscal year. The City Charter assigns the authority to establish and amend contribution requirements. The Authority's contribution to the System for the years ending December 31, 2001 and 2000 was \$327,804 and \$288,258, respectively.

The City provides postemployment medical and life insurance coverage for substantially all retirees. Such benefits are recorded when paid. These costs are recorded in the City of Milwaukee general fund and are reimbursed by the Authority. For 2001 and 2000, there were approximately 4,900 City employees enrolled to receive these benefits. The City paid approximately \$16.7 million and \$14.7 million in 2001 and 2000, respectively, toward medical and life insurance for its retirees. The Authority's share of these expenses is less than 0.25%.

**(8) Insurance**

The Authority is a member of the Housing Authority Risk Retention Group (Group), which provides general liability, public official, and lead-based paint insurance to participating public housing authorities throughout the United States. There are approximately 663 members in the Group. Total premiums paid in 2001 and 2000 by the Group were approximately \$26 million and \$15 million, respectively. The Authority's share of the premiums was \$204,000 and \$160,000 in 2001 and 2000, respectively, for general liability, public official, and lead-based paint insurance. The Authority's maximum insurance coverage ranges from \$500,000 for lead-based paint to \$5 million for general liability. Management believes that the number of outstanding claims and potential claims outstanding do not materially affect the financial position of the Authority. The Authority is also a member of the Housing Authority Property Insurance

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

Notes to Financial Statements

December 31, 2001 and 2000

Agency, which provides property insurance to participating public housing authorities throughout the United States. The Agency has approximately 731 members. Total premiums paid in 2001 and 2000 by the Agency were approximately \$24 million and \$16 million, respectively. The Authority's share of the premiums was \$218,000 and \$193,399 for property and builders' risk insurance, respectively. The Authority's maximum insurance coverage is \$257,987,000 for property. Management believes that the number of outstanding claims and potential claims outstanding does not materially affect the financial position of the Authority.

**(9) Litigation**

There are several pending lawsuits in which the Authority is involved. Management believes that the potential claims against the Authority resulting from such litigation will not materially affect the financial position of the Authority.

**(10) Commitments and Contingencies**

Carver Park anticipates signing two Land Use Restriction Agreements with Wisconsin Housing and Economic Development Authority as a condition to receiving allocations of low-income housing tax credits. Under this agreement, Carver Park must continuously comply with Section 42 and other applicable sections of the Internal Revenue Code (IRC). The agreement places restrictions on rents and the minimum percent of units that shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If Carver Park fails to comply with this agreement or with the IRC, it may be ineligible for low-income housing tax credits, and the members may be required to recapture a portion of the tax credits previously claimed on their income tax returns. In addition, noncompliance may require an adjustment to the contributions made by the Investor Limited Partner. Carver Park is obligated to recertify tenant eligibility annually.

In connection with the HPC notes with the Authority, Carver Park entered into Affordable Housing Program Recapture Agreements. Provisions of these agreements require the Partnership to rent 27 and 24 units to low-income persons and 27 and 24 units to very-low income persons in Carver I and Carver II, respectively.

In connection with the HOPE VI and Predevelopment notes with the Authority, Carver Park has entered into Regulatory and Operating Agreements (R&O Agreements) with the Authority. Provisions of the agreements require Carver Park to maintain 27 and 24 units as public housing units in Carver I and Carver II, respectively. Carver Park shall use its best efforts to achieve and maintain tiers of persons with income of 30%, 50%, and 60% of county median incomes residing in the public housing units. With regards to the public housing units, the Authority is to pay operating subsidies to Carver Park equal to primarily the allowable expense level determined by HUD annually, less rents received from tenants residing in the public housing units. The agreements expire on December 31, 2041. No operating subsidies were earned for the year ended December 31, 2001.

**OTHER FINANCIAL INFORMATION**



777 East Wisconsin Avenue  
Milwaukee, WI 53202

**Independent Auditors' Report on  
Other Financial Information**

The Board of Commissioners  
Housing Authority of the City of Milwaukee:

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying other financial information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. As described in note 1, the accompanying other financial information was prepared in conformity with accounting practices prescribed by or permitted by the U.S. Department of Housing and Urban Development (HUD), which is a comprehensive method of accounting other than accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in our audit of the 2001 financial statements and, in our opinion, is fairly stated in all material respects on the basis of accounting described in note 1, in relation to the 2001 financial statements taken as a whole after considering the combining adjustments described on pages 23 and 25, and the Computation of Residual Receipts and Accruing Annual Contributions – Low Income Housing Program on page 26.

**KPMG LLP**

April 5, 2002





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

Combining Balance Sheet

December 31, 2001

| Assets   | General Fund  | Low Income Housing Program | Rent Assistance Certificate Program | Rent Assistance Voucher Program | Veterans Housing Projects | Combining adjustments | Combining total |
|--|---------------|----------------------------|-------------------------------------|---------------------------------|---------------------------|-----------------------|-----------------|
| <b>Current assets:</b>                                   |               |                            |                                     |                                 |                           |                       |                 |
| Cash and cash equivalents                                | \$ 1,160,606  | 8,464,509                  | 744,516                             | 664,695                         | 126,050                   | —                     | 11,160,376      |
| Investments  | —             | 5,798,078                  | —                                   | —                               | —                         | —                     | 5,798,078       |
| Accounts receivable                                      | 33,875        | 322,070                    | —                                   | —                               | 39,736                    | —                     | 395,681         |
| Due from component unit, including land lease receivable | 5,573,993     | —                          | —                                   | —                               | —                         | —                     | 5,573,993       |
| Accounts receivable - HUD                                | 490,738       | 3,743,646                  | 1,199,298                           | —                               | —                         | —                     | 5,433,682       |
| Prepaid expenses and other current assets                | 4,899         | 248,306                    | —                                   | 1,590,844                       | 147,894                   | —                     | 1,991,943       |
| Due from other funds                                     | 4,605,421     | —                          | 41,667                              | —                               | 2,644,606                 | (7,291,694) (a)       | —               |
| Total current assets                                     | 11,869,532    | 18,576,609                 | 1,985,481                           | 2,255,539                       | 2,958,286                 | (7,291,694)           | 30,353,753      |
| <b>Land, buildings, and equipment:</b>                   |               |                            |                                     |                                 |                           |                       |                 |
| Land   | 481,194       | 35,707,466                 | —                                   | —                               | 2,692,850                 | —                     | 38,881,510      |
| Buildings and improvements                               | 338,200       | 223,907,230                | —                                   | —                               | 34,754,404                | —                     | 258,999,834     |
| Equipment  | 22,806        | 3,205,412                  | 72,933                              | —                               | 245,405                   | —                     | 3,546,556       |
| Rehabilitation in progress                               | —             | 38,353,374                 | —                                   | —                               | —                         | —                     | 38,353,374      |
| Total land, buildings, and equipment                     | 842,200       | 301,173,482                | 72,933                              | —                               | 37,692,659                | —                     | 339,781,274     |
| Less accumulated depreciation                            | (132,834)     | (111,749,892)              | (41,153)                            | —                               | (25,011,562)              | —                     | (136,935,441)   |
| Total land, buildings, and equipment                     | 709,366       | 189,423,590                | 31,780                              | —                               | 12,681,097                | —                     | 202,845,833     |
| <b>Debt amortization funds:</b>                          |               |                            |                                     |                                 |                           |                       |                 |
| Cash and investments with fiscal agent                   | 7,121,732     | —                          | —                                   | —                               | —                         | —                     | 7,121,732       |
| <b>Other assets:</b>                                     |               |                            |                                     |                                 |                           |                       |                 |
| Loans receivable   | 30,000        | —                          | —                                   | —                               | —                         | —                     | 30,000          |
| Notes and land lease receivable from component unit      | 1,000,001     | 5,942,325                  | —                                   | —                               | —                         | —                     | 6,942,326       |
| Restricted cash  | 1,965         | 726,711                    | —                                   | —                               | 279,517                   | —                     | 1,008,193       |
| Total assets   | \$ 20,732,596 | 214,669,235                | 2,017,261                           | 2,255,539                       | 15,918,900                | (7,291,694)           | 248,301,837     |

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

Combining Balance Sheet  
December 31, 2001

|  | General Fund  | Low Income Housing Program | Rent Assistance Certificate Program | Rent Assistance Voucher Program | Veterans Housing Projects | Combining adjustments | Combining total |
|--|---------------|----------------------------|-------------------------------------|---------------------------------|---------------------------|-----------------------|-----------------|
| <b>Liabilities and Fund Equity (Deficit)</b>             |               |                            |                                     |                                 |                           |                       |                 |
| <b>Current liabilities:</b>                              |               |                            |                                     |                                 |                           |                       |                 |
| Accounts payable   | \$ 517,233    | 4,093,834                  | 9,747                               | 67,674                          | 349,614                   | —                     | 5,038,102       |
| Tenant security deposits                                 | 1,965         | 726,711                    | —                                   | —                               | 279,517                   | —                     | 1,008,193       |
| Accrued liabilities                                      | 58,569        | 1,487,837                  | —                                   | 141,955                         | 525,705                   | —                     | 2,214,066       |
| Deferred revenue   | —             | —                          | —                                   | —                               | —                         | —                     | —               |
| Deferred credits - HUD                                   | —             | —                          | —                                   | 1,077,351                       | —                         | —                     | 1,077,351       |
| Current portion of advance from RACM                     | 3,000,000     | —                          | —                                   | —                               | 1,300,000                 | —                     | 4,300,000       |
| Due to City of Milwaukee                                 | —             | 867,749                    | —                                   | 102,343                         | 35,389                    | —                     | 1,005,481       |
| Due to other funds                                       | 2,686,272     | 1,529,201                  | —                                   | 1,525,110                       | 1,551,111                 | (7,291,694) (a)       | —               |
| Total current liabilities                                | 6,264,039     | 8,705,332                  | 9,747                               | 2,914,433                       | 4,041,336                 | (7,291,694)           | 14,643,193      |
| <b>Long-term debt:</b>                                   |               |                            |                                     |                                 |                           |                       |                 |
| Bonds payable  | 6,594,313     | —                          | —                                   | —                               | —                         | —                     | 6,594,313       |
| Total long-term debt                                     | 6,594,313     | —                          | —                                   | —                               | —                         | —                     | 6,594,313       |
| <b>Other long-term liabilities and deferred credits:</b> |               |                            |                                     |                                 |                           |                       |                 |
| Advance from RACM  | —             | —                          | —                                   | —                               | —                         | —                     | —               |
| Total other long-term liabilities                        | —             | —                          | —                                   | —                               | 3,663,167                 | —                     | 3,663,167       |
| Total liabilities  | 12,858,352    | 8,705,332                  | 9,747                               | 2,914,433                       | 7,704,503                 | (7,291,694)           | 24,900,673      |
| <b>Fund equity:</b>                                      |               |                            |                                     |                                 |                           |                       |                 |
| Contributed capital:                                     |               |                            |                                     |                                 |                           |                       |                 |
| City of Milwaukee  | —             | —                          | —                                   | —                               | 3,500,000                 | —                     | 3,500,000       |
| RACM   | —             | —                          | —                                   | —                               | 1,485,840                 | —                     | 1,485,840       |
| Donations  | 411,871       | 242,733,569                | —                                   | —                               | 266,897                   | —                     | 243,412,337     |
|  | 411,871       | 242,733,569                | —                                   | —                               | 5,252,737                 | —                     | 248,398,177     |
| Retained earnings:                                       |               |                            |                                     |                                 |                           |                       |                 |
| Reserved   | 1,633,214     | 11,871,688                 | 1,975,734                           | (658,894)                       | —                         | —                     | 14,821,742      |
| Accumulated earnings (deficit)                           | 5,829,159     | (48,641,354)               | 31,780                              | —                               | 2,961,660                 | —                     | (39,818,755)    |
|  | 7,462,373     | (36,769,666)               | 2,007,514                           | (658,894)                       | 2,961,660                 | —                     | (24,997,013)    |
| Total fund equity (deficit)                              | 7,874,244     | 205,963,903                | 2,007,514                           | (658,894)                       | 8,214,397                 | —                     | 223,401,164     |
| Total liabilities and fund equity (deficit)              | \$ 20,732,596 | 214,669,235                | 2,017,261                           | 2,255,539                       | 15,918,900                | (7,291,694)           | 248,301,837     |

(a) Elimination of due to/from other Authority funds.

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

Combining Statement of Revenue and Expense  
Year ended December 31, 2001

|   | General Fund        | Low Income Housing Program | Rent Assistance Certificate Program | Rent Assistance Voucher Program | Veterans Housing Projects | Combining adjustments | Combining total     |
|---|---------------------|----------------------------|-------------------------------------|---------------------------------|---------------------------|-----------------------|---------------------|
| <b>Operating revenue:</b>                             |                     |                            |                                     |                                 |                           |                       |                     |
| Rentals   | \$ 21,333           | 10,222,614                 | —                                   | —                               | 4,543,256                 | —                     | 14,787,203          |
| Other   | 1,021,721           | 541,154                    | —                                   | —                               | 102,350                   | —                     | 1,665,225           |
| <b>Total operating revenue</b>                        | <b>1,043,054</b>    | <b>10,763,768</b>          | <b>—</b>                            | <b>—</b>                        | <b>4,645,606</b>          | <b>—</b>              | <b>16,452,428</b>   |
| <b>Operating expenses:</b>                            |                     |                            |                                     |                                 |                           |                       |                     |
| Housing assistance payments                           | —                   | —                          | 1,924,349                           | 16,367,679                      | —                         | —                     | 18,292,028          |
| Administrative and other                              | 1,572,363           | 10,122,759                 | 35,754                              | 2,273,699                       | 1,863,109                 | —                     | 15,867,684          |
| Utilities   | 5,884               | 4,458,174                  | —                                   | —                               | 274,820                   | —                     | 4,738,878           |
| Ordinary maintenance                                  | 91,331              | 6,754,661                  | —                                   | —                               | 980,484                   | —                     | 7,826,476           |
| Nonroutine maintenance                                | 698                 | 2,121,055                  | —                                   | —                               | 469,135                   | —                     | 2,590,888           |
| Depreciation  | 19,867              | 13,879,777                 | 66                                  | —                               | 1,123,223                 | —                     | 15,022,933          |
| <b>Total operating expenses</b>                       | <b>1,690,143</b>    | <b>37,336,426</b>          | <b>1,960,169</b>                    | <b>18,641,378</b>               | <b>4,710,771</b>          | <b>—</b>              | <b>64,338,887</b>   |
| <b>Operating loss</b>                                 | <b>(647,089)</b>    | <b>(26,572,658)</b>        | <b>(1,960,169)</b>                  | <b>(18,641,378)</b>             | <b>(65,165)</b>           | <b>—</b>              | <b>(47,886,459)</b> |
| <b>Nonoperating revenues (expenses):</b>              |                     |                            |                                     |                                 |                           |                       |                     |
| Federal and state grants and subsidies                | 1,388,223           | 31,231,793                 | 2,346,942                           | 18,699,473                      | —                         | —                     | 53,666,431          |
| Investment income                                     | 1,220,325           | 507,607                    | —                                   | —                               | 48,798                    | —                     | 1,776,730           |
| Interest subsidy to RACM                              | —                   | —                          | —                                   | —                               | (185,070)                 | —                     | (185,070)           |
| Interest expense                                      | (687,048)           | —                          | —                                   | —                               | —                         | —                     | (687,048)           |
| Loss on disposal of fixed assets                      | (3,251)             | (195,794)                  | —                                   | —                               | 1,674                     | —                     | (197,371)           |
| Expense due to assumption of RACM liability           | —                   | —                          | —                                   | —                               | (2,568,009)               | —                     | (2,568,009)         |
| Other   | —                   | (176,603)                  | —                                   | —                               | —                         | —                     | (176,603)           |
| <b>Net nonoperating revenues (expenses)</b>           | <b>1,918,249</b>    | <b>31,367,003</b>          | <b>2,346,942</b>                    | <b>18,699,473</b>               | <b>(2,702,607)</b>        | <b>—</b>              | <b>51,629,060</b>   |
| <b>Net income (loss) before capital contributions</b> | <b>1,271,160</b>    | <b>4,794,345</b>           | <b>386,773</b>                      | <b>58,095</b>                   | <b>(2,767,772)</b>        | <b>—</b>              | <b>3,742,601</b>    |
| <b>Capital contributions</b>                          | <b>(2,244,606)</b>  | <b>—</b>                   | <b>—</b>                            | <b>—</b>                        | <b>2,644,606</b>          | <b>—</b>              | <b>400,000</b>      |
| <b>Net income (loss)</b>                              | <b>(973,446)</b>    | <b>4,794,345</b>           | <b>386,773</b>                      | <b>58,095</b>                   | <b>(123,166)</b>          | <b>—</b>              | <b>4,142,601</b>    |
| <b>Fund equity (deficit) at January 1</b>             | <b>8,847,690</b>    | <b>201,169,558</b>         | <b>1,620,741</b>                    | <b>(716,989)</b>                | <b>8,337,563</b>          | <b>—</b>              | <b>219,258,563</b>  |
| <b>Fund equity (deficit) at December 31</b>           | <b>\$ 7,874,244</b> | <b>205,963,903</b>         | <b>2,007,514</b>                    | <b>(658,894)</b>                | <b>8,214,397</b>          | <b>—</b>              | <b>223,401,164</b>  |

See explanation of adjustments on combining balance sheet information, page 24.

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

Computation of Residual Receipts and Accruing Annual Contributions –  
Low Income Housing Program

Year ended December 31, 2001

**Annual  
contribution  
contract  
C-6135**

---

Computation of residual receipts:

Operating receipts:

|  |               |
|--|---------------|
| Operating income                                   | \$ 11,228,848 |
| HUD operating subsidy                              | 9,791,937     |
| Receipts from nonexpendable equipment not replaced | <u>14,247</u> |

|                          |                   |
|--------------------------|-------------------|
| Total operating receipts | <u>21,035,032</u> |
|--------------------------|-------------------|

Operating expenditures

20,975,620

Capital expenditures:

|  |               |
|--|---------------|
| Replacement of nonexpendable equipment               | 130,835       |
| Property betterments and additions                   | 87,859        |
| Prior years' adjustments affecting residual receipts | <u>44,105</u> |

|                            |                |
|----------------------------|----------------|
| Total capital expenditures | <u>262,799</u> |
|----------------------------|----------------|

|                                 |                   |
|---------------------------------|-------------------|
| Provision for operating reserve | <u>20,772,233</u> |
|---------------------------------|-------------------|

|                            |                           |
|----------------------------|---------------------------|
| Annual contribution earned | \$ <u><u>(59,412)</u></u> |
|----------------------------|---------------------------|