

**HOUSING AUTHORITY OF THE
CITY OF MILWAUKEE**

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2016

**HOUSING AUTHORITY OF THE
CITY OF MILWAUKEE**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Authority of the City of Milwaukee, Wisconsin, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of Milwaukee's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Carver Park Tax Credit Limited Partnership, Highland Park Community, LLC, Cherry Court Development, LLC, Convent Hill, LLC, Scattered Sites, LLC, Westlawn Renaissance, LLC, and Lapham Park, LLC, which represent 89 percent, 86 percent and 93 percent, respectively, of the assets, net position and revenues of the discretely presented component units of the Housing Authority of the City of Milwaukee. Those 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, Highland Park Community, LLC, Cherry Court Development, LLC, Convent Hill, LLC, Scattered Sites, LLC, Westlawn Renaissance, LLC, and Lapham Park, LLC, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Carver Park Tax Credit Limited Partnership, Highland Park Community, LLC, Cherry Court Development, LLC, Convent Hill, LLC, Scattered Sites, LLC, Scattered Sites II, LLC, Olga Village, LLC, Westlawn Renaissance, LLC, and Lapham Park, LLC, were not audited in accordance with *Government Auditing Standards*.

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

Auditors' Responsibility (continued)

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate discretely presented component units of the Housing Authority of the City of Milwaukee, Wisconsin, as of December 31, 2016 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Matters (continued)

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the City of Milwaukee's basic financial statements. The supplementary information as listed in the table of contents, which includes the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The PHA's statements and certifications of actual modernization costs as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017 on our consideration of the Housing Authority of the City of Milwaukee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority of the City of Milwaukee's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
September 28, 2017

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**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2016**

The management's discussion and analysis hereby presented, is designed to offer the reader a narrative overview and analysis of the financial activities of the Housing Authority of the City of Milwaukee (the Authority) for year ended December 31, 2016. This discussion and analysis is designed to assist the reader in focusing on significant fiscal issues and to identify changes in the Authority's Primary Government financial position.

Financial Statement Overview

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

Statement of Net Position

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

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

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

Statement of Revenues, Expenses and Change in Net Position

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

Statement of Cash Flows

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

See independent auditor's report

**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2016**

FINANCIAL ANALYSIS

Statement of Net Position

The following table reflects a condensed summary of net position (in thousands) as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Assets		
Cash and Investments	\$ 36,371	\$ 29,245
Receivables	3,224	2,956
Prepays expenses	<u>283</u>	<u>1,229</u>
 Total Current Assets	 39,878	 33,430
 Capital assets, net of depreciation	 100,278	 102,214
Investments with fiscal agent	9,274	11,075
Notes receivable from Component Units	60,796	61,933
Other assets	<u>13,595</u>	<u>12,544</u>
Total Assets	<u>223,821</u>	<u>221,196</u>
 Deferred Outflows of Resources		
Deferred outflows related to pensions	<u>5,571</u>	<u>2,309</u>
 Liabilities		
Current liabilities	12,470	11,546
Long-term debt	<u>28,887</u>	<u>25,371</u>
Total Liabilities	<u>41,357</u>	<u>36,917</u>
 Deferred Inflows of Resources	 <u>3,627</u>	 <u>-</u>
 Net Position		
Net Investment in Capital Assets	92,463	95,618
Restricted	3,273	3,189
Unrestricted	<u>88,672</u>	<u>87,781</u>
Total Net Position	<u>\$ 184,408</u>	<u>\$ 186,588</u>

See independent auditor's report

**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2016**

Financial Analysis for the Year Ended December 31, 2016 & 2015

In 2016, current assets increased by approximately \$6.4 million. Cash and investments increased by \$7.1 million over the year while Prepaid Expenses decreased \$946,000. Overall Total Assets increased \$2.6 million. Long-term Debt increased over \$3 million primarily due to the increase in the Net Pension Liability.

In 2015, current assets increased by approximately \$3.5 million. While cash and investments have increased by \$2.7 million over the year, prepaid expenses have also increased by \$715 thousand primarily due to a pension contribution paid at the end of the year. Investments with the Fiscal Agent increased due to the issue of a new Series 2015 Multifamily Housing Revenue Bonds. Overall total assets and deferred outflows of resources increased by over \$14 million.

Capital Assets

At year end, the Housing Authority of the City of Milwaukee had over \$337 million invested in capital assets as reflected in the following schedule. See Note II C for additional information on the Authority's capital assets.

	2016	2015
Land	\$ 35,522,589	\$ 35,580,163
Buildings	297,567,098	291,427,056
Furniture, Equipment-Administration	3,586,874	3,389,369
Construction in Progress	1,457,205	4,177,715
Accumulated Depreciation	(237,855,520)	(232,359,861)
 Total	 \$ 100,278,246	 \$ 102,214,442

This year's major additions were:

Capital Improvement Projects	
Northlawn, Southlawn & Berryland modernization and the Westlawn Maintenance Facility.	\$5,047,944
Equipment & Vehicle Purchases	636,994

Long-Term Debt Obligations

The Authority entered into a trust indenture with 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 \$10,842 in 2016.

See independent auditor's report

**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2016**

Long-Term Debt Obligations (continued)

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 the indenture are similar to the terms of the 1987 Mortgage Revenue Bonds as previously described.

In 2015 the Authority issued Multifamily Housing Revenue Bonds Series 2015A in the amount of \$13,635,000 to currently refund all outstanding Refunded Bonds (Series 2002), finance certain costs of renovation and improvements for the Authority's Berryland, Northlawn, Southlawn and Southlawn Park Housing Developments, fund the replacement reserve deposit and pay the costs of issuance of the Series 2015A and the refunding of the Refunded Bonds. The replacement reserve is required to be funded with monthly deposits of \$24,500.

Also in 2015 the Authority issued Series 2015B bonds in the amount of \$5,410,000 to finance certain costs of construction of market-rate housing in the City and pay the costs of issuance of the Series 2015B bonds.

See Note II E for additional information on the Authority's long-term obligations.

Mortgage Revenue Bonds	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/2016
Mortgage revenue bonds	12/1/1987	1/1/2021	Varies	\$ 25,000,000	\$ 23,593
Mortgage revenue bonds	6/1/1989	12/1/2022	Varies	25,000,000	102,713
Mortgage revenue bonds 2015A	3/2/2015	7/1/2035	0.64%	13,635,000	13,475,000
Mortgage revenue bonds 2015B	3/2/2015	7/1/2035	0.688%	5,410,000	4,640,000
					<u>\$ 18,241,306</u>

See independent auditor's report

**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2016**

Statement of Revenue, Expenses, and Changes in Net Position

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

	<u>2016</u>	<u>2015</u>
Revenues:		
Tenant revenue	\$ 17,393	\$ 17,607
Operating subsidies and grants	52,596	47,433
Capital contributions	3,219	4,108
Investment income	2,074	2,179
Other revenue	2,726	3,048
Gain/(Loss) on disposal of assets	88	(15)
Total revenue	<u>78,096</u>	<u>74,360</u>
Expenses:		
Housing assistance payments	34,414	33,494
Administrative and general expenses	24,296	21,694
Utilities	5,044	5,122
Maintenance	9,882	11,859
Depreciation	6,010	6,572
Interest and amortization expense	630	744
Total expense	<u>80,276</u>	<u>79,485</u>
Increase (decrease) in net position	<u>\$ (2,180)</u>	<u>\$ (5,125)</u>

Financial Analysis for Year Ended December 31, 2016

In 2016, the Housing Authority had an overall decrease in net position of \$2.2 million, compared to a decrease in net position of about \$5.1 million in 2015.

Revenues increased by about \$3.7 million in 2016, due to an increase in Grant Revenue.

In 2016, the Housing Authority experienced an increase in total expenses of about \$800 thousand. Housing Assistance Payments increased about \$920 thousand as we continue our efforts to increase lease ups in the Housing Choice Voucher Program. Administrative and general expenses increased about 12% or \$2.6 million, this was mostly due to increases in Outside Legal Expense, Architectural Fees and Tenant Services.

See independent auditor's report

**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2016**

Factors Affecting the Financial Health of the Authority

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

The Authority relies on HUD Operating Fund subsidy, Capital funds and special grant programs including Resident Opportunities and Self-Sufficiency (ROSS) grants to support its public housing operations. HUD funding for operating subsidy and Capital Fund is anticipated at less than full eligibility. While HACM developed its budget anticipating these funding allocations, unanticipated increases in operating costs including utility and water expense, could result in the need to adjust program services.

HACM also receives significant funding from HUD under the Section 8 Housing Choice Voucher program. HACM administers about 6,200 vouchers. Administrative fee funding for 2016 was 84% and future funding level is projected at around 77%. This reduction could impact the ability of HACM to fully lease up to the authorized program level and could result in adjustments in services.

▪ **Local Labor Issues**

Wage rates increased modestly in 2016, but fringe benefit costs, especially health insurance, continue to increase. HACM will continue to evaluate existing policies impacting employee benefits, to control long-term costs.

▪ **Local Economic Conditions**

Despite improvement in the local economy and employment rate, the housing market that HACM is targeting has not fully recovered and has had an impact on HACM's homeownership program. HACM is now focusing their efforts on assisting residents in preparing them for homeownership as part of the HACM's self-sufficiency program. Rising construction costs have also had a negative impact on HACM's development program of new, single family, market rate homes, including rehabilitation of existing units

▪ **Utility Rates and Supply Costs**

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

▪ **Quality of Available Housing**

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

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**HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended December 31, 2016**

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

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

In 2010, HACM received a \$7.6 million LIHTC allocation to redevelop the eastern half of Westlawn. The funding allowed HACM to build 250 rental units after the demolition of the 332 old public housing units. The whole redevelopment plan of the east side calls for the construction of 365 replacement units. These will be a combination of affordable and market rate units. In September 2015, HACM was awarded a \$30 million Choice Neighborhood Implementation grant by Housing and Urban Development. This neighborhood transformation initiative will leverage around \$250 million in investment in the area. HACM will continue to redevelop the west portion of the Westlawn development by constructing new mixed income housing units.

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

- **Continued Capital Improvement**
HACM continues to implement its 5-year Capital Fund modernization plan supported by a comprehensive Physical Needs Assessment that was completed in 2014.
- **Agency Performance**
HACM is a “Standard Performer” under HUD’s Public Housing Assessment System (PHAS), and a “High Performer” under the Section Eight (8) Management Assessment Program (SEMAP).

Financial Contact

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

See independent auditor’s report

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BASIC FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
STATEMENT OF NET POSITION
As of December 31, 2016

	Primary Government	Component Units	Totals
ASSETS			
Current Assets			
Cash and investments			
Unrestricted	\$ 28,117,099	\$ 1,300,572	\$ 29,417,671
Restricted - Other	7,120,831	-	7,120,831
Restricted - Tenant security deposits	1,133,100	448,047	1,581,147
Receivables			
HUD other projects	1,303,081	-	1,303,081
Tenants - dwelling rents	525,030	233,787	758,817
Allowance for doubtful accounts - dwelling rents	(72,022)	-	(72,022)
Miscellaneous	460,308	981	461,289
Current portion of notes receivable from Carver Park	1,000,000	-	1,000,000
Current portion of notes receivable from Highland Park	1,881	-	1,881
Accrued interest	5,103	-	5,103
Prepaid items	283,273	226,636	509,909
Total Current Assets	<u>39,877,684</u>	<u>2,210,023</u>	<u>42,087,707</u>
Noncurrent Assets			
Restricted Assets			
Cash and investments	9,273,831	-	9,273,831
Other investments			
Replacement reserve	-	1,380,371	1,380,371
Affordability and operating reserve	-	2,916,487	2,916,487
Deferred mortgage receivable	955,005	-	955,005
Capital Assets			
Land	35,522,589	7,059,727	42,582,316
Construction in progress	1,457,205	-	1,457,205
Other capital assets, net of accumulated depreciation	63,298,452	149,126,541	212,424,993
Other Assets			
Long-term interest receivable	12,640,084	-	12,640,084
Developer fee receivable	2,283,010	-	2,283,010
Notes receivable from Carver Park	6,424,698	-	6,424,698
Notes receivable from Highland Park	2,111,810	-	2,111,810
Notes receivable from Cherry Court	8,687,203	-	8,687,203
Notes receivable from Convent Hill	6,875,874	-	6,875,874
Notes receivable from Scattered Sites	2,318,300	-	2,318,300
Notes receivable from Scattered Sites II	1,107,578	-	1,107,578
Notes receivable from Olga Village	2,363,334	-	2,363,334
Notes receivable from Westlawn Renaissance	9,089,353	-	9,089,353
Notes receivable from Lapham Park	19,535,097	-	19,535,097
Tax credit fees, net	-	643,249	643,249
Total Noncurrent Assets	<u>183,943,423</u>	<u>161,126,375</u>	<u>345,069,798</u>
Total Assets	<u>223,821,107</u>	<u>163,336,398</u>	<u>387,157,505</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	<u>5,571,049</u>	<u>-</u>	<u>5,571,049</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
STATEMENT OF NET POSITION
As of December 31, 2016

	Primary Government	Component Units	Totals
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 4,185,897	\$ 156,931	\$ 4,342,828
Accrued wages and benefits	468,863	-	468,863
Other current liabilities	1,948,462	638,135	2,586,597
Accrued interest	311,683	163,216	474,899
Unearned revenue	2,500	340,287	342,787
Due to other governments	3,601,222	-	3,601,222
Current portion of bonds and notes payable	540,000	148,014	688,014
Current portion of compensated absences	278,090	-	278,090
Current portion of notes and land lease payable to primary government	-	1,001,881	1,001,881
Liabilities payable from restricted assets			
Tenant security deposits	1,133,100	448,047	1,581,147
	<u>12,469,817</u>	<u>2,896,511</u>	<u>15,366,328</u>
Total Current Liabilities			
Noncurrent Liabilities			
Development fee payable	-	2,283,010	2,283,010
Accrued interest	-	12,640,084	12,640,084
Long-Term Debt			
Mortgage revenue bonds payable	17,818,265	-	17,818,265
Notes payable	-	4,439,487	4,439,487
Other Liabilities			
Compensated absences	648,876	-	648,876
Net OPEB obligation	5,515,920	-	5,515,920
Net pension liability	4,904,000	-	4,904,000
Notes and land lease payable to primary government	-	58,498,937	58,498,937
	<u>28,887,061</u>	<u>77,861,518</u>	<u>106,748,579</u>
Total Noncurrent Liabilities			
	<u>41,356,878</u>	<u>80,758,029</u>	<u>122,114,907</u>
Total Liabilities			
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to HAP subsidy	3,233,466	-	3,233,466
Deferred inflows related to pensions	394,000	-	394,000
	<u>3,627,466</u>	<u>-</u>	<u>3,627,466</u>
Total deferred inflows			
NET POSITION			
Net investment in capital assets	92,462,599	89,814,939	182,277,538
Restricted			
Debt service	132,618	-	132,618
Replacement reserve	1,265,503	-	1,265,503
Home ownership program	1,802,075	-	1,802,075
Housing choice voucher program	73,374	-	73,374
Unrestricted (deficit)	88,671,643	(7,236,570)	81,435,073
	<u>\$ 184,407,812</u>	<u>\$ 82,578,369</u>	<u>\$ 266,986,181</u>
TOTAL NET POSITION			

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2016

	Primary Government	Component Units	Totals
OPERATING REVENUES			
Tenant Revenue			
Rentals	\$ 16,926,205	\$ 7,314,335	\$ 24,240,540
Other tenant revenue	466,932	171,798	638,730
HUD PHA grant revenue	52,596,096	-	52,596,096
Other operating revenue	2,465,188	-	2,465,188
	<u>72,454,421</u>	<u>7,486,133</u>	<u>79,940,554</u>
OPERATING EXPENSES			
Administrative	19,918,331	2,527,680	22,446,011
Tenant services	1,550,947	-	1,550,947
Utilities	5,044,457	1,077,511	6,121,968
Ordinary maintenance	8,473,239	2,726,511	11,199,750
Extraordinary maintenance	1,409,147	-	1,409,147
Protective services	21,338	-	21,338
Insurance premiums	1,218,242	-	1,218,242
Other general expenses	121,546	-	121,546
Casualty loss - non-capitalized	78,938	-	78,938
Payments in lieu of taxes	1,232,046	-	1,232,046
Bad debt - tenant rents	153,962	-	153,962
Housing assistance payments	34,414,342	-	34,414,342
Depreciation and amortization	6,009,825	5,742,721	11,752,546
	<u>79,646,360</u>	<u>12,074,423</u>	<u>91,720,783</u>
Operating Loss	<u>(7,191,939)</u>	<u>(4,588,290)</u>	<u>(11,780,229)</u>
NONOPERATING REVENUES (EXPENSES)			
Other government grants	260,919	-	260,919
Investment income	2,073,947	5,181	2,079,128
Gain (loss) on disposal of capital assets	88,440	7,366	95,806
Gain from forgiveness of accrued interest	-	66,540	66,540
Interest expense	(630,254)	(2,142,935)	(2,773,189)
	<u>1,793,052</u>	<u>(2,063,848)</u>	<u>(270,796)</u>
Income (Loss) Before Owner Distributions and Capital Contributions	(5,398,887)	(6,652,138)	(12,051,025)
OWNER DISTRIBUTIONS	-	(988)	(988)
CAPITAL CONTRIBUTIONS	3,218,426	-	3,218,426
Change in Net Position	<u>(2,180,461)</u>	<u>(6,653,126)</u>	<u>(8,833,587)</u>
NET POSITION - Beginning of Year	<u>186,588,273</u>	<u>89,231,495</u>	<u>275,819,768</u>
NET POSITION - END OF YEAR	<u>\$ 184,407,812</u>	<u>\$ 82,578,369</u>	<u>\$ 266,986,181</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	Primary Government	Component Units	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from tenants	\$ 17,083,221	\$ 7,510,313	\$ 24,593,534
Receipts of HUD PHA grants	53,022,964	-	53,022,964
Payments to suppliers	(18,623,496)	(6,590,487)	(25,213,983)
Payments for housing assistance	(34,414,342)	-	(34,414,342)
Payments to employees	(17,724,259)	-	(17,724,259)
Other receipts	6,829,227	141,908	6,971,135
Net Cash Flows From Operating Activities	<u>6,173,315</u>	<u>1,061,734</u>	<u>7,235,049</u>
CASH FLOWS FOR NON-CAPITAL RELATED FINANCING ACTIVITIES			
Other government grants received	233,134	-	233,134
Financing of deferred mortgages	16,574	-	16,574
Net Cash Flows From Non-Capital Related Financing Activities	<u>249,708</u>	<u>-</u>	<u>249,708</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Federal grants for capital acquisition	3,218,426	-	3,218,426
Acquisitions and modernization of capital assets	(4,104,787)	(138,578)	(4,243,365)
Principal paid on mortgage revenue bonds	(581,582)	(340,995)	(922,577)
Development and financing fees paid	-	(139,149)	(139,149)
Interest paid on long-term obligations	(632,986)	(1,047,352)	(1,680,338)
Owner distributions	-	(988)	(988)
Payments from component units or other entities related to component units for capital acquisition	1,951	-	1,951
Net Cash Flows From Capital and Related Financing Activities	<u>(2,098,978)</u>	<u>(1,667,062)</u>	<u>(3,766,040)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (deposits to) withdrawals from replacement reserves	-	(169,203)	(169,203)
Net (deposits to) withdrawals from affordability reserves	-	(1,596)	(1,596)
Net (deposits to) withdrawals from operating reserves	-	181,908	181,908
Net (deposits to) withdrawals from construction cash escrow	-	476,145	476,145
Sale of investments	1,801,635	-	1,801,635
Investment income	1,000,453	5,183	1,005,636
Net Cash Flows From Investing Activities	<u>2,802,088</u>	<u>492,437</u>	<u>3,294,525</u>
Net Change in Cash and Cash Equivalents	7,126,133	(112,891)	7,013,242
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>29,244,897</u>	<u>1,861,510</u>	<u>31,106,407</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 36,371,030</u>	<u>\$ 1,748,619</u>	<u>\$ 38,119,649</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	Primary Government	Component Units	Totals
RECONCILIATION OF OPERATING LOSS TO NET CASH			
FLOW FROM OPERATING ACTIVITIES:			
Operating loss	\$ (7,191,939)	\$ (4,588,290)	\$ (11,780,229)
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities			
Depreciation	6,009,825	5,742,721	11,752,546
Amortization of financing fees	-	7,284	7,284
Changes in assets, deferred outflows, liabilities and deferred inflows			
Tenant accounts receivable	(138,198)	158,973	20,775
Other accounts receivable	796,263	-	796,263
Development fees receivable	214,146	-	214,146
Prepaid expenses	945,978	(4,988)	940,990
Accounts payable	893,015	(280,267)	612,748
Other current liabilities	3,393,903	-	3,393,903
Accrued liabilities	83,815	9,186	93,001
Compensated absences	3,344	-	3,344
Tenant security deposits	(57,146)	(7,570)	(64,716)
Due to other governments	(12,336)	-	(12,336)
Pension related asset, liability, and deferrals	586,422	-	586,422
Unearned revenue	-	24,685	24,685
Net OPEB obligation	646,223	-	646,223
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 6,173,315	\$ 1,061,734	\$ 7,235,049
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
TO STATEMENT OF NET POSITION			
Unrestricted	\$ 28,117,099	\$ 1,300,572	\$ 29,417,671
Restricted - Other	7,120,831	-	7,120,831
Restricted - Tenant security deposits	1,133,100	448,047	1,581,147
TOTAL CASH AND CASH EQUIVALENTS	\$ 36,371,030	\$ 1,748,619	\$ 38,119,649
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Gain from forgiveness of accrued interest	\$ -	\$ 66,540	\$ 66,540
Gain on disposal of rental property	\$ -	\$ 7,366	\$ 7,366

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
COMBINING STATEMENT OF NET POSITION - COMPONENT UNITS
As of December 31, 2016

	Carver Park	Highland Park	Cherry Court	Convent Hill	Scattered Sites	Scattered Sites II	Olga Village	Westlawn Renaissance	Lapham Park	Totals
ASSETS										
Current Assets										
Cash and investments										
Unrestricted	\$ 83,831	\$ 38,830	\$ 100,381	\$ 23,854	\$ 26,320	\$ 152,458	\$ 11,940	\$ 636,811	\$ 226,147	\$ 1,300,572
Restricted - Tenant security deposits	63,434	43,048	46,613	26,569	7,303	13,430	10,636	159,136	77,878	448,047
Receivables										
Tenants - Dwelling rents	10,836	15,475	5,432	5,028	3,411	2,206	2,054	184,651	4,694	233,787
Miscellaneous	-	-	-	-	-	981	-	-	-	981
Prepaid items	23,835	21,323	23,454	1,157	17,284	5,794	15,577	56,574	61,638	226,636
Total Current Assets	<u>181,936</u>	<u>118,676</u>	<u>175,880</u>	<u>56,608</u>	<u>54,318</u>	<u>174,869</u>	<u>40,207</u>	<u>1,037,172</u>	<u>370,357</u>	<u>2,210,023</u>
Noncurrent Assets										
Restricted Assets										
Other investments										
Replacement reserve	51,825	111,522	235,856	153,897	73,335	53,532	54,356	357,675	288,373	1,380,371
Affordability and operating reserve	407,457	334,150	400,571	181,841	76,842	75,634	204,551	603,590	631,851	2,916,487
Capital Assets										
Land	772,096	142,500	1,012,646	745,168	203,111	136,671	573,017	2,637,572	836,946	7,059,727
Other capital assets, net of accumulated depreciation	7,573,025	7,789,148	12,659,755	9,553,664	4,488,076	5,421,542	10,456,182	63,596,896	27,588,253	149,126,541
Other Assets										
Tax credit fees, net	-	15,583	29,263	36,248	15,449	-	-	497,996	48,710	643,249
Total Noncurrent Assets	<u>8,804,403</u>	<u>8,392,903</u>	<u>14,338,091</u>	<u>10,670,818</u>	<u>4,856,813</u>	<u>5,687,379</u>	<u>11,288,106</u>	<u>67,693,729</u>	<u>29,394,133</u>	<u>161,126,375</u>
Total Assets	<u>8,986,339</u>	<u>8,511,579</u>	<u>14,513,971</u>	<u>10,727,426</u>	<u>4,911,131</u>	<u>5,862,248</u>	<u>11,328,313</u>	<u>68,730,901</u>	<u>29,764,490</u>	<u>163,336,398</u>

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
COMBINING STATEMENT OF NET POSITION - COMPONENT UNITS
As of December 31, 2016

	Carver Park	Highland Park	Cherry Court	Convent Hill	Scattered Sites	Scattered Sites II	Olga Village	Westlawn Renaissance	Lapham Park	Totals
LIABILITIES										
Current Liabilities										
Accounts payable	\$ 1,687	\$ 5,953	\$ 5,736	\$ 23,377	\$ 4,152	\$ -	\$ 13,156	\$ 100,000	\$ 2,870	\$ 156,931
Other current liabilities	81,313	39,938	42,298	-	11,427	19,790	2,035	277,336	163,998	638,135
Accrued interest	-	8,051	1,320	3,834	-	-	150,011	-	-	163,216
Unearned revenue	11,095	39,418	21,661	11,638	-	-	242	225,142	31,091	340,287
Current portion of bonds and notes payable	61,822	43,830	20,900	21,462	-	-	-	-	-	148,014
Current portion of notes and land lease payable to primary government	1,000,000	1,881	-	-	-	-	-	-	-	1,001,881
Liabilities payable from restricted assets										
Tenant security deposits	63,434	43,048	46,613	26,569	7,303	13,430	10,636	159,136	77,878	448,047
Total Current Liabilities	<u>1,219,351</u>	<u>182,119</u>	<u>138,528</u>	<u>86,880</u>	<u>22,882</u>	<u>33,220</u>	<u>176,080</u>	<u>761,614</u>	<u>275,837</u>	<u>2,896,511</u>
Noncurrent Liabilities										
Development fee payable	-	-	-	-	-	-	-	-	2,283,010	2,283,010
Accrued interest	5,282,689	1,678,869	2,632,595	1,391,335	637,970	740,267	141,677	42,771	91,911	12,640,084
Long-Term Debt										
Notes payable	138,701	1,411,611	836,893	888,878	-	-	1,163,404	-	-	4,439,487
Other Liabilities										
Notes and land lease payable to primary government	6,424,698	2,111,810	8,687,203	6,875,874	2,318,300	1,107,578	2,363,334	9,075,043	19,535,097	58,498,937
Total Noncurrent Liabilities	<u>11,846,088</u>	<u>5,202,290</u>	<u>12,156,691</u>	<u>9,156,087</u>	<u>2,956,270</u>	<u>1,847,845</u>	<u>3,668,415</u>	<u>9,117,814</u>	<u>21,910,018</u>	<u>77,861,518</u>
Total Liabilities	<u>13,065,439</u>	<u>5,384,409</u>	<u>12,295,219</u>	<u>9,242,967</u>	<u>2,979,152</u>	<u>1,881,065</u>	<u>3,844,495</u>	<u>9,879,428</u>	<u>22,185,855</u>	<u>80,758,029</u>
NET POSITION (DEFICIT)										
Net investment in capital assets	719,900	4,362,516	4,127,405	2,512,618	2,372,887	4,450,635	7,502,461	57,159,425	8,890,102	92,097,949
Unrestricted (deficit)	(4,799,000)	(1,235,346)	(1,908,653)	(1,028,159)	(440,908)	(469,452)	(18,643)	1,692,048	(1,311,467)	(9,519,580)
TOTAL NET POSITION (DEFICIT)	<u>\$ (4,079,100)</u>	<u>\$ 3,127,170</u>	<u>\$ 2,218,752</u>	<u>\$ 1,484,459</u>	<u>\$ 1,931,979</u>	<u>\$ 3,981,183</u>	<u>\$ 7,483,818</u>	<u>\$ 58,851,473</u>	<u>\$ 7,578,635</u>	<u>\$ 82,578,369</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - COMPONENT UNITS
 For the Year Ended December 31, 2016

	Carver Park	Highland Park	Cherry Court	Convent Hill	Scattered Sites	Scattered Sites II	Olga Village	Westlawn Renaissance	Lapham Park	Totals
OPERATING REVENUES										
Tenant revenue										
Rentals	\$ 899,563	\$ 840,330	\$ 851,656	\$ 582,155	\$ 192,949	\$ 221,969	\$ 270,965	\$ 2,134,816	\$ 1,319,932	\$ 7,314,335
Other tenant revenue	14,504	23,714	17,919	7,549	5,632	3,669	6,289	62,632	29,890	171,798
Total Operating Revenues	914,067	864,044	869,575	589,704	198,581	225,638	277,254	2,197,448	1,349,822	7,486,133
OPERATING EXPENSES										
Administrative	308,974	240,561	294,207	125,938	77,225	109,338	79,728	800,260	491,449	2,527,680
Utilities	124,029	168,140	183,871	-	24,431	46,465	63,950	236,639	229,966	1,077,511
Ordinary maintenance	344,345	281,766	247,178	346,155	82,173	59,806	123,701	815,467	425,920	2,726,511
Depreciation and amortization	630,097	520,192	458,641	529,322	153,534	167,426	366,343	2,090,538	826,628	5,742,721
Total Operating Expenses	1,407,445	1,210,659	1,183,897	1,001,415	337,363	383,035	633,722	3,942,904	1,973,983	12,074,423
Operating Loss	(493,378)	(346,615)	(314,322)	(411,711)	(138,782)	(157,397)	(356,468)	(1,745,456)	(624,161)	(4,588,290)
NONOPERATING REVENUES (EXPENSES)										
Gain on disposal of rental property	-	-	-	-	-	-	-	7,366	-	7,366
Gain from forgiveness of accrued interest	66,540	-	-	-	-	-	-	-	-	66,540
Investment income	58	54	1,599	328	120	100	260	1,409	1,253	5,181
Interest expense	(516,297)	(286,466)	(374,935)	(259,541)	(82,389)	(126,955)	(53,486)	(377,118)	(65,748)	(2,142,935)
Total Nonoperating Revenues (Expenses)	(449,699)	(286,412)	(373,336)	(259,213)	(82,269)	(126,855)	(53,226)	(368,343)	(64,495)	(2,063,848)
Loss Before Owner Distributions and Capital Contributions	(943,077)	(633,027)	(687,658)	(670,924)	(221,051)	(284,252)	(409,694)	(2,113,799)	(688,656)	(6,652,138)
OWNER DISTRIBUTIONS										
Change in Net Position	(943,077)	(633,027)	(688,646)	(670,924)	(221,051)	(284,252)	(409,694)	(2,113,799)	(688,656)	(6,653,126)
NET POSITION (DEFICIT) - Beginning of Year	\$ (3,136,023)	\$ 3,760,197	\$ 2,907,398	\$ 2,155,383	\$ 2,153,030	\$ 4,265,435	\$ 7,893,512	\$ 60,965,272	\$ 8,267,291	\$ 89,231,495
NET POSITION (DEFICIT) - END OF YEAR	\$ (4,079,100)	\$ 3,127,170	\$ 2,218,752	\$ 1,484,459	\$ 1,931,979	\$ 3,981,183	\$ 7,483,818	\$ 58,851,473	\$ 7,578,635	\$ 82,578,369

See accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS
For the Year Ended December 31, 2016

	Carver Park	Highland Park	Cherry Court	Convent Hill	Scattered Sites	Scattered Sites II	Olga Village	Westlawn Renaissance	Lapham Park	Totals
Cash flows from operating activities										
Receipts from tenants	\$ 907,698	\$ 827,559	\$ 851,239	\$ 578,154	\$ 193,994	\$ 229,380	\$ 273,328	\$ 2,295,901	\$ 1,353,060	\$ 7,510,313
Payments to suppliers	(808,443)	(684,780)	(750,220)	(478,619)	(193,597)	(220,341)	(278,651)	(1,900,280)	(1,275,556)	(6,590,487)
Other receipts (payments)	14,504	23,714	17,919	7,549	5,632	3,669	6,289	62,632	-	141,908
Net cash flows from operating activities	113,759	166,493	118,938	107,084	6,029	12,708	966	458,253	77,504	1,061,734
Cash flows from capital and related financing activities										
Owner distributions	-	-	(988)	-	-	-	-	-	-	(988)
Acquisitions and modernization of capital assets	(11,187)	(41,476)	(11,573)	-	-	-	(5,230)	(49,455)	(19,657)	(138,578)
Principal paid on mortgage revenue bonds	(262,092)	(41,056)	(20,747)	(17,100)	-	-	-	-	-	(340,995)
Interest paid on long-term obligations	(14,086)	(104,430)	(81,209)	(68,637)	-	-	(5,777)	(712,482)	(60,731)	(1,047,352)
Development and financing fees paid	-	-	-	-	-	-	-	-	(139,149)	(139,149)
Net cash flows from capital and related financing activities	(287,365)	(186,962)	(114,517)	(85,737)	-	-	(11,007)	(761,937)	(219,537)	(1,667,062)
Cash flows from investing activities										
Net (deposits to) withdrawals from replacement reserves	24,927	10,239	(19,853)	(20,401)	(9,171)	(8,636)	1,276	(81,365)	(66,219)	(169,203)
Net (deposits to) withdrawals from affordability reserves	-	(10)	(610)	(131)	(61)	-	-	(784)	-	(1,596)
Net (deposits to) withdrawals from operating reserves	183,450	(23)	(393)	(40)	-	(61)	(204)	-	(821)	181,908
Net (deposits to) withdrawals from construction cash escrow	-	-	-	-	-	-	-	476,145	-	476,145
Investment income	58	55	1,599	328	121	100	260	1,409	1,253	5,183
Net cash flows from investing activities	208,435	10,261	(19,257)	(20,244)	(9,111)	(8,597)	1,332	395,405	(65,787)	492,437
Net Change in Cash and Cash Equivalents	34,829	(10,208)	(14,836)	1,103	(3,082)	4,111	(8,709)	91,721	(207,820)	(112,891)
Cash and cash equivalents – Beginning of Year	\$ 112,436	\$ 92,086	\$ 161,830	\$ 49,320	\$ 36,705	\$ 161,777	\$ 31,285	\$ 704,226	\$ 511,845	\$ 1,861,510
Cash and Cash Equivalents - End of Year	\$ 147,265	\$ 81,878	\$ 146,994	\$ 50,423	\$ 33,623	\$ 165,888	\$ 22,576	\$ 795,947	\$ 304,025	\$ 1,748,619

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS
For the Year Ended December 31, 2016

	Carver Park	Highland Park	Cherry Court	Convent Hill	Scattered Sites	Scattered Sites II	Olga Village	Westlawn Renaissance	Lapham Park	Totals
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:										
Operating loss	\$ (493,378)	\$ (346,615)	\$ (314,322)	\$ (411,711)	\$ (138,782)	\$ (157,397)	\$ (356,468)	\$ (1,745,456)	\$ (624,161)	\$ (4,568,290)
Adjustments to reconcile operating loss to net cash flows from operating activities										
Depreciation and amortization expense	630,097	520,192	458,641	529,322	153,534	167,426	366,343	2,090,538	826,628	5,742,721
Amortization of financing fees	1,352	2,154	2,146	968	-	-	248	416	-	7,284
Changes in Assets and Liabilities										
Tenant accounts receivable	3,476	(13,215)	(133)	(1,510)	2,263	6,957	1,487	155,558	4,090	158,973
Prepaid expenses	(542)	(45)	(852)	(32)	(751)	(268)	(244)	(1,075)	(1,179)	(4,988)
Accounts payable	(41,575)	(6,422)	(4,723)	(5,382)	(9,158)	(12,060)	(8,061)	(34,755)	(158,131)	(280,267)
Accrued liabilities	9,670	-	(21,535)	(2,080)	141	7,596	(3,215)	(12,500)	31,109	9,186
Tenant security deposits	347	(1,535)	(240)	(880)	(1,205)	454	634	(2,889)	(2,256)	(7,570)
Unearned revenue	4,312	11,979	(44)	(1,611)	(13)	-	242	8,416	1,404	24,685
Total adjustments	(24,312)	(9,238)	(27,527)	(11,495)	(8,723)	2,679	(9,157)	112,755	(124,963)	(99,981)
Net cash flows from operating activities	\$ 113,759	\$ 166,493	\$ 118,938	\$ 107,084	\$ 6,029	\$ 12,708	\$ 966	\$ 458,253	\$ 77,504	\$ 1,061,734

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION

Unrestricted	\$ 83,831	\$ 38,830	\$ 100,381	\$ 23,854	\$ 26,320	\$ 152,458	\$ 11,940	\$ 636,811	\$ 226,147	\$ 1,300,572
Restricted - tenant security deposits	63,434	43,048	46,613	26,569	7,303	13,430	10,636	159,136	77,878	448,047
TOTAL CASH AND CASH EQUIVALENTS	\$ 147,265	\$ 81,878	\$ 146,994	\$ 50,423	\$ 33,623	\$ 165,888	\$ 22,576	\$ 795,947	\$ 304,025	\$ 1,748,619

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Gain from forgiveness of accrued interest	\$ 66,540	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,540
Gain on disposal of rental property	-	-	-	-	-	-	-	7,366	-	7,366

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HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

INDEX TO NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2016

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HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Housing Authority of the City of Milwaukee, Wisconsin conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to enterprise funds of governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

This report contains the financial information of the Housing Authority of the City of Milwaukee (the "Authority"). The Authority is a separate body, corporate, and politic, which was established by State Statute 66.40 in 1944. The Authority is directed by seven commissioners who are appointed by the Mayor and confirmed by the Common Council for staggered five-year terms.

The reporting entity for the Authority consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organizations should also be reported as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the primary government and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the primary government.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. REPORTING ENTITY (cont.)

Each discretely presented component unit is reported in a separate column in the financial statements to emphasize that it is legally separate from the Authority and is fiscally dependent on the Authority. Separately issued financial statements of all component units may be obtained from Armando Gutierrez, the executive director at the Friends of Housing Corporation, at Friends of Housing Corporation, P.O. Box 772, Milwaukee, WI 53201-0772.

Accounting principles generally accepted in the United States of America require the inclusion of a combining statement of net position and a combining statement of revenues, expenses and change in net position for all major component units be included in the Authority's basic financial statement if not presented in separate columns on the Authority's statement of net position or the statement of revenues, expenses and change in net position; however those principles do not required the inclusion of an aggregate total of cash flows for its component units on the statement of cash flows or a combining statement of cash flows for its component units if the component units issue separate standalone financial statements. As previously noted, each discretely presented component unit issues separate financial statement; however management has elected to include an aggregate total of cash flows for its component units on the statement of cash flows and a combining statement of cash flows for its component units.

Blended Component Units

Travaux, Inc.

In May 2013, the Authority formed Travaux, Inc. (Travaux). The purpose of Travaux is to provide for services outside of the Authority's portfolio while continuing to serve the Authority's modernization and development services needs during the initial years of operations. Travaux and the Authority have substantially the same governing body, management of the Authority has operational responsibility for Travaux and a financial benefit or burden relationship exists. The activity of Travaux is reported in the General Fund program of the Authority. Travaux does not issue separate financial statements.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. REPORTING ENTITY (cont.)

Discretely Presented Component Units

Carver Park Tax Credit Limited Partnership

In February 1999, the Authority entered into a limited partnership with Friends of Housing Corporation named Carver Park, LLC (Carver Park). 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 (Partnership). The general partner of the Partnership is Carver Park with a .01% interest and equity investors are the limited partners with a 99.9% interest. The main purpose of the Partnership was to construct and operate Carver Park affordable housing development and to qualify for low income housing tax credits pursuant to Section 42 of the Internal Revenue Code. The Partnership's operating agreement calls for the Partnership to dissolve on December 31, 2050. The information presented for the Partnership is for the fiscal years ended December 31, 2016.

Carver Park has constructed and is operating two low-income housing apartment properties located in Milwaukee, Wisconsin, jointly called Townhomes at Carver Park. 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.

Highland Park Community, LLC

As of August 8, 2003, Highland Park Community, LLC (Highland Park), a limited liability company was created. The Managing Member of the Highland Park Community, LLC is Highland Park Development, LLC, which is 100% owned by the Authority, and which has a .01% interest in the Highland Park Community, LLC. The purpose of Highland Park is to construct and operate the 114 unit elderly and disabled component of the Highland Park Housing development and to qualify for low income housing tax credits pursuant to Section 42 of the Internal Revenue Code. The tax credits are worth \$8.2 million. The property was placed in service during 2004. The information presented for Highland Park is for the fiscal years ended December 31, 2016.

Cherry Court Development, LLC

As of November 29, 2004, the Authority formed Cherry Court Development, LLC (Cherry Court), a limited liability company. The purpose of Cherry Court is to construct and operate the 120 unit elderly and disabled component of the Cherry Court Housing Development and to qualify for low income housing tax credits pursuant to Section 42 of the Internal Revenue Code. Proceeds from the sale of tax credits are worth \$9.3 million and will be invested in the development. Total funding for the development was over \$18 million, with the balance coming from a combination of HOPE VI funding received by the Authority, other federal funds, and private financing. The property was placed in service during 2006. The information presented for Cherry Court is for the fiscal years ended December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. *REPORTING ENTITY* (cont.)

Discretely Presented Component Units (cont.)

Convent Hill Development, LLC

As of November 17, 2005, the Authority formed Convent Hill Development, LLC (Convent Hill), a limited liability company. The purpose of Convent Hill is to construct and operate 80 low-income housing units of the Convent Hill Housing Development and to qualify for low income housing tax credits pursuant to Section 42 of the Internal Revenue Code. Proceeds from the sale of tax credits are worth \$8.2 million and will be invested in the development. Total funding for the development was over \$16 million, with the balance coming from a combination of other federal funds and private financing. The project was placed in service during 2007. The information presented for Convent Hill is for the fiscal years ended December 31, 2016.

Scattered Sites, LLC

As of September 24, 2007, the Authority formed Scattered Sites, LLC (Scattered Sites), a limited liability company. The purpose of Scattered Sites is to construct and develop 24 scattered sites, single family homes known as the "Scattered Sites Revitalization Project" and to qualify for low income housing tax credits pursuant to Section 42 of the Internal Revenue Code. Proceeds from the sale of tax credits are worth \$3.7 million and will be invested in the development. Total funding for the development was over \$6.5 million, with the balance coming from a combination of other federal funds and private financing. The project was placed in service in 2008. The information presented for Scattered Sites is for the fiscal years ended December 31, 2016.

Scattered Sites II, LLC

As of December 31, 2008, the Authority formed Scattered Sites II, LLC (Scattered Sites II), a limited liability company. The purpose of Scattered Sites II is to construct and develop 24 scattered sites, single family homes known as the "Scattered Sites II Revitalization Project" and to qualify for low income housing tax credits pursuant to Section 42 of the Internal Revenue Code. Proceeds from the sale of tax credits are estimated to be worth \$5.8 million and will be invested in the development. Total funding for the development will be over \$6.8 million, with the balance coming from a combination of other federal funds and private financing. The project was placed in service in 2009. The information presented for Scattered Sites II is for the fiscal years ended December 31, 2016.

Olga Village, LLC

As of December 31, 2009, the Authority formed Olga Village, LLC (Olga Village), a limited liability company. The purpose of Olga Village is to construct and develop 37 senior and elderly units known as the "Olga Village" and to qualify for low income housing tax credits pursuant to Section 42 of the Internal Revenue Code. Proceeds from the sale of tax credits are estimated to be worth \$7.4 million and will be invested in the development. Total funding for the development will be over \$9.7 million, with the balance coming from a combination of other federal funds and private financing. The project was placed in service in 2010. The information presented for Olga Village is for the fiscal years ended December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. *REPORTING ENTITY* (cont.)

Discretely Presented Component Units (cont.)

Westlawn Renaissance, LLC

As of November 8, 2010, the Authority formed Westlawn Renaissance, LLC, a limited liability company. Westlawn Renaissance, LLC is the owner entity for the revitalization of the eastern side of Westlawn housing development (Westlawn). In 2010, the Wisconsin Housing and Economic Development (WHEDA) awarded HACM a tax credit allocation of over \$76 million for Westlawn. The tax credit will be used for the first phase of the redevelopment which will include the eastern portion of Westlawn along W. Silver Spring Drive between 60th and 64th Streets. The funding for the development was over \$82 million with the balance coming from a combination of other federal funds and private financing. Phase I plans include replacing 332 distressed, barracks-style housing units with up to 345 housing units which will include the 250 tax credit units owned by Westlawn Renaissance, LLC. The housing units will be comprised of single family homes, duplexes, and multifamily rental housing units. Phase I plan will also include market rate home ownership and rental units. The new units will be designed for environmental sustainability and in a mixture of styles to match the architectural features of the surrounding neighborhood. The project was placed in service in 2012. The information presented for Westlawn Renaissance, LLC is for the period ended December 31, 2016.

Lapham Park, LLC

As of October 11, 2011, the Authority incorporated Lapham Park, LLC, a limited liability company. This is the owner entity for the rehabilitation of Lapham Park, a 201 unit elderly designated high rise building. Lapham Park was originally built in 1964. Lapham Park serves low-income, disabled adults and elderly individuals, many of whom are also disabled, wheelchair-bound, suffer from vision or hearing loss and show the early signs of Alzheimer's. Upon completion of the project, all 201 housing units will be handicapped accessible. Lapham Park serves as a national model of a Continuing Care Community partnership for low-income seniors. By allowing seniors to age in their community instead of transferring to more expensive nursing care, the partnership has saved approximately \$1 million in Medicaid nursing home costs annually. The total rehabilitation cost was budget at around \$33 million. The Housing Authority received about \$12 million in tax credit allocation from WHEDA for this project under the 4% tax credit program. The balance of the rehabilitation budget will be financed from HACM's capital fund program and other federal funds. The project was placed in service on various dates ranging from November 2011 to November 2012. The information presented for Lapham Park is for the fiscal year ended December 31, 2016.

The Housing Authority reports its component units (ownership entities) that were incorporated to own mixed finance developments currently under development as part of its Primary Government Operations. All inter-company transactions between the Primary Government and these Component Units are eliminated for purposes of financial statement presentations. Equity drawdown and third party loans obtained during construction period are reported under the Primary Government operations. These entities will be presented discretely as separate component units when the rental units are placed in service. As of December 31, 2016, there were no mixed finance developments in progress.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

B. FINANCIAL STATEMENTS

In 2014, the Authority began reporting U.S Department of Housing and Urban Development (HUD) public housing authority (PHA) operating grants as operating revenue in the statement of revenues, expenses and changes in net position. Prior to 2014, the HUD PHA operating grants had been reported as part of nonoperating revenue in the statement of revenues, expenses and changes in net position. The Authority has determined that for purposes of financial reporting the HUD subsidies for ongoing operations and housing assistance payments for each unit rented to qualified tenants are directly related to the Authority's mission and therefore are recorded as operating grant revenue.

The financial statements of the Authority include the accounts of the four programs listed below:

Low Income Housing Program	Veteran's Housing Program
Housing Choice Voucher Program	General Fund

The Low Income Housing Program manages 3,557 dwelling units at the end of 2016, in 17 housing developments and approximately 332 units of scattered sites. The U.S. Department of Housing and Urban Development (HUD) provides funding in the form of subsidies for this program.

The Housing Choice Voucher Program had approximately 5,516 units under contract at the end of 2016. The Authority provides rental assistance to low-income families under this program. HUD provides funding in the form of subsidies for this program.

In addition to the above programs, the Authority also owns and manages four housing developments which are not federally subsidized. These developments include Southlawn Park (12 units) and three Veterans Housing Developments, Northlawn, Southlawn, and Berryland consisting of 978 units. The veterans developments were constructed in 1949-1950 to meet housing needs for the area's veterans. They were financed without the use of federal funds, relying principally on revenue bonds. Veterans Housing Developments receive no subsidy from any governmental agency. Rental revenues, which are fixed by unit size, are used to pay all expenses. Applicants for these units 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 Developments. 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, Housing Choice Voucher, or the Veterans Housing Programs.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

B. FINANCIAL STATEMENTS (cont.)

In February 2015, the GASB issued statement No. 72 - Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented January 1, 2016.

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

The Authority engages in business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the accounts of the Authority, which are organized as an enterprise fund, are used to account for the Authority's activities that are financed and operated in a manner similar to a private business enterprise. The Authority maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses, including depreciation and amortization, are recorded when incurred.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include operating subsidies from related organization, grants, and contributions. Revenue from subsidies, grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal operations of the Authority. Operating revenues of the Authority result from exchange transactions associated with providing housing and related services and HUD PHA operating subsidies and housing assistance payments that are directly related to the Authority's mission. Operating expenses for the Authority include the cost of housing services provided, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenue includes capital grants, miscellaneous noncapital grants, investment income and other revenues not meeting the definition of operating.

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

As a general rule, the effect of interprogram activity has been eliminated from the business-wide financial statements.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

D. ASSETS, DEFERRED OUTFLOWS,, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION OR EQUITY

1. Deposits and Investments

For purposes of the statement of cash flows, the Authority considers all highly liquid investments, except for amounts presented as restricted investments or investment with fiscal agent, with an initial maturity of three months or less when acquired to be cash equivalents.

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

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

The Authority has adopted an investment policy that follows all state statutes and the HUD guidelines for investment. That policy contains the following guidelines for allowable investments:

Custodial Credit Risk

Collateral is required for all Housing Authority investments except for investments held at the time the investment policy was adopted. The collateral must be on the Authority's approved list of investments.

Credit Risk and Concentration of Credit Risk

The Authority cannot have more than 50% of its investment portfolio in a single investment. There is an exception for investments that are fully collateralized by Federal Government insurance.

Interest Rate Risk

To the extent possible, the Authority will attempt to match its investments with anticipated cash flow requirements.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

D. ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION OR EQUITY

1. Deposits and Investments (cont.)

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

The Wisconsin Local Government Investment Pool (the Pool or LGIP), is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2016, the fair value of the Authority's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

See Note II. A. for further information.

2. Investments with Fiscal Agent

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.

3. Receivables

Tenant accounts receivable have been shown net of an allowance for uncollectible accounts of \$72,022 for the year ended December 31, 2016.

Grants receivable represent amounts due from federal agencies for program expenses incurred by the Authority for which reimbursement have not been made.

The Authority has significant receivables from its Component Units which are presented in the Statement of Net Position as notes receivable. The terms of these notes receivables are described in detail in the Component Unit section of Note II. E.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

D. ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION OR EQUITY (cont.)

5. Restricted Assets

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

6. Capital Assets

Capital assets are defined by the Authority as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of 1 year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

The costs 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 and site improvements (15 - 40 years). Interest expense is not capitalized on rehabilitation projects.

Rental property of Carver Park, Highland Park, Cherry Court, Convent Hill, Scattered Sites, Scattered Sites II, Olga Village, Westlawn Renaissance and Lapham 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:

Site Improvements	15 - 20 Years
Buildings	27.5 - 40 Years
Furnishing and equipment	5-10 Years

Construction in progress includes costs incurred for development, a portion of which may be reclassified to other assets pending future events with component units.

7. Financing and Tax Credit Fees

Financing fees are deferred and amortized on the straight-line method over the term of the debt issue. Tax credit fees are deferred and amortized on the straight-line method over the life of the tax credit compliance period of 15 years.

8. Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as outflow of resources (expense) until that future time.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

D. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION OR EQUITY (cont.)

9. Long-Term Obligations

All long term obligations to be repaid from business-type resources are reported as liabilities in the statements. The long-term obligations consist primarily of revenue bonds payable, compensated absences, net pension liability and net OPEB obligation.

10. Compensated Absences

Under terms of employment, employees are granted sick leave and vacation benefits in varying amounts. All vested vacation and sick leave pay is accrued when incurred and is presented as compensated absences in the financial statements. Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2016 are determined on the basis of current salary rates.

11. Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

12. Net Position

Net position is displayed in three components as follows:

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

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

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE II – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The Authority's deposits and investments at year end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risk
Demand deposits	\$ 28,015,939	\$ 26,505,882	Custodial credit risk
Petty cash	700	-	N/A
US agencies - implicitly guaranteed	13,830,850	13,830,850	Credit, custodial credit, concentration of credit and interest rate risk
US agencies - explicitly guaranteed	103,091	103,091	Custodial credit and interest rate risk
US treasuries	2,638,533	2,638,533	Custodial credit and interest rate risk
LGIP	<u>1,055,748</u>	<u>1,055,748</u>	Credit risk
Total Deposits and Investments	<u>\$ 45,644,861</u>	<u>\$ 44,134,104</u>	

Reconciliation to financial statements

Per statement of net position

Current Assets

Unrestricted cash and cash equivalents	\$ 28,117,099
Other restricted - cash and cash equivalents	7,120,831
Restricted cash - tenant security deposits	1,133,100

Non-Current Assets

Investment with fiscal agent	<u>9,273,831</u>
Total Deposits and Investments	<u>\$ 45,644,861</u>

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts), and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to nature of this fund, recovery of material principal losses may not be significant to individual entities. The coverage has not been considered in computing custodial credit risk.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. DEPOSITS AND INVESTMENTS (cont.)

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

➤ Market Value

Investment Type	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
U.S. Agencies - implicitly guaranteed	\$ -	\$ 13,830,850	\$ -	\$ 13,830,850
U.S. Agencies - explicitly guaranteed	-	103,091	-	103,091
U.S. Treasuries	2,638,533	-	-	2,638,533
Total	\$ 2,638,533	\$ 13,933,941	\$ -	\$ 16,572,474

Custodial Credit Risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to the Authority.

As of December 31, 2016, \$10,298,183 of the Authority's total bank balances were exposed to custodial credit risk as uninsured and uncollateralized.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2016, \$16,572,474 of the Authority's investments was exposed to custodial credit risk as neither insured nor registered and held by counterparty.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation.

As of December 31, 2016 the Authority had \$1,055,748 invested in the Local Government Investment Pool, which is not rated.

The Authority's investments in US agencies – implicitly guaranteed of \$13,830,850 are rated Aaa by Moody's as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment.

As of December 31, 2016, the Authority's investments are as follows:

Investment Type	Fair Value	Maturity in years	
		Less than 1 year	1 to 5 years
US agencies - implicitly guaranteed	\$ 13,830,850	\$ 5,435,342	\$ 8,395,508
US agencies - explicitly guaranteed	103,091	-	103,091
US treasuries	<u>2,638,533</u>	<u>1,834,305</u>	<u>804,229</u>
Total Investments	<u>\$ 16,572,474</u>	<u>\$ 7,269,647</u>	<u>\$ 9,302,828</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. At December 31, 2016, the investment portfolio had concentration of investments greater than 5% of the total portfolio as follows:

Issuer	Investment Type	Percentage of Portfolio
Federal Home Loan Mortgage Corporation	US agency - implicitly guaranteed	30.0%
Federal National Mortgage Association	US agency - implicitly guaranteed	29.6%
Federal Home Loan Banks	US agency - implicitly guaranteed	19.0%

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. DEPOSITS AND INVESTMENTS (cont.)

For financial reporting purposes, the component units consider all investments purchased with a maturity of three months or less to be cash equivalents, with the exception of cash not available to the partnership due to restrictions placed on it. The risks associated with the component unit's cash and investment balances are not known. The cash balances for the component units as of December 31, 2016 are as follows:

Component Units

CARVER PARK

	<u>Totals</u>
Cash and equivalents	
Unrestricted	\$ 83,831
Restricted - Tenant security deposits	63,434
Other investments- Restricted	
Replacement reserve	51,825
Affordability and operating reserve	<u>407,457</u>
Total cash and investments	<u>\$ 606,547</u>

HIGHLAND PARK

	<u>Totals</u>
Cash and equivalents	
Unrestricted	\$ 38,830
Restricted - Tenant security deposits	43,048
Other investments- Restricted	
Replacement reserve	111,522
Affordability and operating reserve	<u>334,150</u>
Total cash and investments	<u>\$ 527,550</u>

CHERRY COURT

	<u>Totals</u>
Cash and equivalents	
Unrestricted	\$ 100,381
Restricted - Tenant security deposits	46,613
Other investments- Restricted	
Replacement reserve	235,856
Affordability and operating reserve	<u>400,571</u>
Total cash and investments	<u>\$ 783,421</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. DEPOSITS AND INVESTMENTS (cont.)

Component Units (cont.)

CONVENT HILL

	<u>Totals</u>
Cash and equivalents	
Unrestricted	\$ 23,854
Restricted - Tenant security deposits	26,569
Other investments- Restricted	
Replacement reserve	153,897
Affordability and operating reserve	181,841
Total cash and investments	<u>\$ 386,161</u>

SCATTERED SITES

	<u>Totals</u>
Cash and equivalents	
Unrestricted	\$ 26,320
Restricted - Tenant security deposits	7,303
Other investments- Restricted	
Replacement reserve	73,335
Affordability and operating reserve	76,842
Total cash and investments	<u>\$ 183,800</u>

SCATTERED SITES II

	<u>Totals</u>
Cash and equivalents	
Unrestricted	\$ 152,458
Restricted - Tenant security deposits	13,430
Other investments - Restricted	
Replacement reserve	53,532
Operating reserve	75,634
Total cash and investments	<u>\$ 295,054</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

A. DEPOSITS AND INVESTMENTS (cont.)

Component Units (cont.)

OLGA VILLAGE

	<u>Totals</u>
Cash and equivalents	
Unrestricted	\$ 11,940
Restricted - Tenant security deposits	10,636
Other investments- Restricted	
Replacement reserve	54,356
Operating reserve	<u>204,551</u>
Total cash and investments	<u>\$ 281,483</u>

WESTLAWN RENAISSANCE

	<u>Totals</u>
Cash and equivalents	
Unrestricted	\$ 636,811
Restricted - Tenant security deposits	159,136
Other investments- Restricted	
Replacement reserve	357,675
Operating reserve	<u>603,590</u>
Total cash and investments	<u>\$ 1,757,212</u>

LAPHAM PARK

	<u>Totals</u>
Cash and equivalents	
Unrestricted	\$ 226,147
Restricted - Tenant security deposits	77,878
Other investments- Restricted	
Replacement reserve	288,373
Operating reserve	<u>631,851</u>
Total cash and investments	<u>\$ 1,224,249</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

B. RESTRICTED ASSETS

Following is a list of restricted assets at December 31, 2016:

	<u>Totals</u>
Cash and cash equivalents	
Tenant security deposits	\$ 1,133,100
Replacement reserve	2,540,602
Home ownership	18,464
Family Self Sufficiency escrow	185,452
FEMA unearned revenue	1,040,150
Housing choice voucher	3,336,915
Investments	
Debt service	132,618
Construction funds	<u>9,140,461</u>
Total cash and investments	17,527,762
Deferred mortgage receivable	<u>955,005</u>
Total restricted assets	18,482,767
Less: current amounts	<u>(8,253,931)</u>
Total noncurrent restricted assets	<u>\$ 10,228,836</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS

Capital asset activity for the Authority for the year ended December 31, 2016, was as follows:

HOUSING AUTHORITY	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	\$ 35,580,163	\$ -	\$ 57,574	\$ 35,522,589
Construction in progress	<u>4,177,715</u>	<u>1,377,460</u>	<u>4,097,970</u>	<u>1,457,205</u>
Total Capital Assets Not Being Depreciated	<u>39,757,878</u>	<u>1,377,460</u>	<u>4,155,544</u>	<u>36,979,794</u>
Capital assets being depreciated				
Buildings and improvements	291,427,056	6,257,955	117,913	297,567,098
Equipment	<u>3,389,369</u>	<u>641,556</u>	<u>444,051</u>	<u>3,586,874</u>
Total Capital Assets Being Depreciated	<u>294,816,425</u>	<u>6,899,511</u>	<u>561,964</u>	<u>301,153,972</u>
Total Capital Assets	<u>334,574,303</u>	<u>8,276,971</u>	<u>4,717,508</u>	<u>338,133,766</u>
Less: Accumulated depreciation for				
Buildings and improvements	(229,536,740)	(5,754,772)	70,114	(235,221,398)
Equipment	<u>(2,823,121)</u>	<u>(255,053)</u>	<u>444,052</u>	<u>(2,634,122)</u>
Total Accumulated Depreciation	<u>(232,359,861)</u>	<u>(6,009,825)</u>	<u>514,166</u>	<u>(237,855,520)</u>
Net Capital Assets Being Depreciated	<u>62,456,564</u>	<u>889,686</u>	<u>47,798</u>	<u>63,298,452</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 102,214,442</u>	<u>\$ 2,267,146</u>	<u>\$ 4,203,342</u>	<u>\$ 100,278,246</u>

Construction in progress at December 31, 2016 included approximately \$927,000 of costs incurred in connection with the Westlawn project pursuant to a reimbursement agreement with the related entity.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS (cont.)

Component Units

Capital asset activity for Carver Park for the year ended December 31, 2016, was as follows:

CARVER PARK	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 772,096	\$ -	\$ -	\$ 772,096
Capital assets being depreciated				
Land improvements	227,268	-	-	227,268
Buildings and improvements	17,048,066	-	-	17,048,066
Equipment	69,791	11,187	-	80,978
Total Capital Assets Being Depreciated	<u>17,345,125</u>	<u>11,187</u>	<u>-</u>	<u>17,356,312</u>
Total Capital Assets	<u>18,117,221</u>	<u>11,187</u>	<u>-</u>	<u>18,128,408</u>
Less: Accumulated depreciation for				
Land improvements	(213,573)	(7,450)	-	(221,023)
Buildings and improvements	(8,871,026)	(619,930)	-	(9,490,956)
Equipment	(68,591)	(2,717)	-	(71,308)
Total Accumulated Depreciation	<u>(9,153,190)</u>	<u>(630,097)</u>	<u>-</u>	<u>(9,783,287)</u>
Net Capital Assets Being Depreciated	<u>8,191,935</u>	<u>(618,910)</u>	<u>-</u>	<u>7,573,025</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,964,031</u>	<u>\$ (618,910)</u>	<u>\$ -</u>	<u>\$ 8,345,121</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS (cont.)

Component Units (cont.)

Capital asset activity for Highland Park for the year ended December 31, 2016, was as follows:

HIGHLAND PARK	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 142,500	\$ -	\$ -	\$ 142,500
Capital assets being depreciated				
Land improvements	37,500	-	-	37,500
Buildings and improvements	13,783,921	-	-	13,783,921
Equipment	<u>293,846</u>	<u>41,476</u>	<u>-</u>	<u>335,322</u>
Total Capital Assets Being Depreciated	<u>14,115,267</u>	<u>41,476</u>	<u>-</u>	<u>14,156,743</u>
Total Capital Assets	<u>14,257,767</u>	<u>41,476</u>	<u>-</u>	<u>14,299,243</u>
Less: Accumulated depreciation for				
Land improvements	(29,749)	(2,215)	-	(31,964)
Buildings and improvements	(5,570,605)	(502,175)	-	(6,072,780)
Equipment	<u>(252,549)</u>	<u>(10,302)</u>	<u>-</u>	<u>(262,851)</u>
Total Accumulated Depreciation	<u>(5,852,903)</u>	<u>(514,692)</u>	<u>-</u>	<u>(6,367,595)</u>
Net Capital Assets Being Depreciated	<u>8,262,364</u>	<u>(473,216)</u>	<u>-</u>	<u>7,789,148</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,404,864</u>	<u>\$ (473,216)</u>	<u>\$ -</u>	<u>\$ 7,931,648</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS (cont.)

Component Units (cont.)

Capital asset activity for Cherry Court for the year ended December 31, 2016, was as follows:

CHERRY COURT	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 1,012,646	\$ -	\$ -	\$ 1,012,646
Capital assets being depreciated				
Land improvements	339,928	-	-	339,928
Buildings and improvements	16,829,819	-	-	16,829,819
Equipment	198,787	11,573	-	210,360
Total Capital Assets Being Depreciated	<u>17,368,534</u>	<u>11,573</u>	<u>-</u>	<u>17,380,107</u>
Total Capital Assets	<u>18,381,180</u>	<u>11,573</u>	<u>-</u>	<u>18,392,753</u>
Less: Accumulated depreciation for				
Land improvements	(158,632)	(16,996)	-	(175,628)
Buildings and improvements	(3,926,230)	(421,324)	-	(4,347,554)
Equipment	(182,701)	(14,469)	-	(197,170)
Total Accumulated Depreciation	<u>(4,267,563)</u>	<u>(452,789)</u>	<u>-</u>	<u>(4,720,352)</u>
Net Capital Assets Being Depreciated	<u>13,100,971</u>	<u>(441,216)</u>	<u>-</u>	<u>12,659,755</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 14,113,617</u>	<u>\$ (441,216)</u>	<u>\$ -</u>	<u>\$ 13,672,401</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS (cont.)

Component Units (cont.)

Capital asset activity for Convent Hill for the year ended December 31, 2016, was as follows:

CONVENT HILL	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 745,168	\$ -	\$ -	\$ 745,168
Capital assets being depreciated				
Land improvements	27,702	-	-	27,702
Buildings and improvements	14,345,196	-	-	14,345,196
Equipment	171,393	-	-	171,393
Total Capital Assets Being Depreciated	<u>14,544,291</u>	<u>-</u>	<u>-</u>	<u>14,544,291</u>
Total Capital Assets	<u>15,289,459</u>	<u>-</u>	<u>-</u>	<u>15,289,459</u>
Less: Accumulated depreciation for				
Land improvements	(17,069)	(1,636)	-	(18,705)
Buildings and improvements	(4,278,885)	(521,644)	-	(4,800,529)
Equipment	(171,393)	-	-	(171,393)
Total Accumulated Depreciation	<u>(4,467,347)</u>	<u>(523,280)</u>	<u>-</u>	<u>(4,990,627)</u>
Net Capital Assets Being Depreciated	<u>10,076,944</u>	<u>(523,280)</u>	<u>-</u>	<u>9,553,664</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 10,822,112</u>	<u>\$ (523,280)</u>	<u>\$ -</u>	<u>\$ 10,298,832</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS (cont.)

Component Units (cont.)

Capital asset activity for Scattered Sites for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
SCATTERED SITES				
Capital assets not being depreciated				
Land	\$ 203,111	\$ -	\$ -	\$ 203,111
Capital assets being depreciated				
Land improvements	107,879	-	-	107,879
Buildings and improvements	5,669,134	-	-	5,669,134
Equipment	38,368	-	-	38,368
Total Capital Assets Being Depreciated	5,815,381	-	-	5,815,381
Total Capital Assets	6,018,492	-	-	6,018,492
Less: Accumulated depreciation for				
Land improvements	(41,171)	(5,394)	-	(46,565)
Buildings and improvements	(1,104,586)	(141,728)	-	(1,246,314)
Equipment	(30,589)	(3,837)	-	(34,426)
Total Accumulated Depreciation	(1,176,346)	(150,959)	-	(1,327,305)
Net Capital Assets Being Depreciated	4,639,035	(150,959)	-	4,488,076
Total Capital Assets, Net of Accumulated Depreciation	\$ 4,842,146	\$ (150,959)	\$ -	\$ 4,691,187

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS (cont.)

Component Units (cont.)

Capital asset activity for Scattered Sites II for the year ended December 31, 2016, was as follows:

SCATTERED SITES II	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 136,671	\$ -	\$ -	\$ 136,671
Capital assets being depreciated				
Buildings and improvements	6,598,528	-	-	6,598,528
Equipment	<u>24,626</u>	<u>-</u>	<u>-</u>	<u>24,626</u>
Total Capital Assets Being Depreciated	<u>6,623,154</u>	<u>-</u>	<u>-</u>	<u>6,623,154</u>
Total Capital Assets	<u>6,759,825</u>	<u>-</u>	<u>-</u>	<u>6,759,825</u>
Less: Accumulated depreciation for				
Buildings and improvements	(1,019,563)	(164,963)	-	(1,184,526)
Equipment	<u>(14,623)</u>	<u>(2,463)</u>	<u>-</u>	<u>(17,086)</u>
Total Accumulated Depreciation	<u>(1,034,186)</u>	<u>(167,426)</u>	<u>-</u>	<u>(1,201,612)</u>
Net Capital Assets Being Depreciated	<u>5,588,968</u>	<u>(167,426)</u>	<u>-</u>	<u>5,421,542</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 5,725,639</u>	<u>\$ (167,426)</u>	<u>\$ -</u>	<u>\$ 5,558,213</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS (cont.)

Component Units (cont.)

Capital asset activity for Olga Village for the year ended December 31, 2016, was as follows:

OLGA VILLAGE	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 573,017	\$ -	\$ -	\$ 573,017
Capital assets being depreciated				
Buildings and improvements	12,377,716	-	-	12,377,716
Equipment	<u>315,478</u>	<u>5,230</u>	<u>-</u>	<u>320,708</u>
Total Capital Assets Being Depreciated	<u>12,693,194</u>	<u>5,230</u>	<u>-</u>	<u>12,698,424</u>
Total Capital Assets	<u>13,266,211</u>	<u>5,230</u>	<u>-</u>	<u>13,271,441</u>
Less: Accumulated depreciation for				
Buildings and improvements	(1,594,570)	(331,149)	-	(1,925,719)
Equipment	<u>(281,329)</u>	<u>(35,194)</u>	<u>-</u>	<u>(316,523)</u>
Total Accumulated Depreciation	<u>(1,875,899)</u>	<u>(366,343)</u>	<u>-</u>	<u>(2,242,242)</u>
Net Capital Assets Being Depreciated	<u>10,817,295</u>	<u>(361,113)</u>	<u>-</u>	<u>10,456,182</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 11,390,312</u>	<u>\$ (361,113)</u>	<u>\$ -</u>	<u>\$ 11,029,199</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS (cont.)

Component Units (cont.)

Capital asset activity for Westlawn Renaissance for the year ended December 31, 2016, was as follows:

WESTLAWN RENAISSANCE	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 2,637,572	\$ -	\$ -	\$ 2,637,572
Capital assets being depreciated				
Land improvements	3,007,519	-	-	3,007,519
Buildings and improvements	67,994,858	-	144,386	67,850,472
Equipment	<u>1,825,098</u>	<u>46,530</u>	<u>-</u>	<u>1,871,628</u>
Total Capital Assets Being Depreciated	<u>72,827,475</u>	<u>46,530</u>	<u>144,386</u>	<u>72,729,619</u>
Total Capital Assets	<u>75,465,047</u>	<u>46,530</u>	<u>144,386</u>	<u>75,367,191</u>
Less: Accumulated depreciation for				
Land improvements	(521,525)	(150,376)	-	(671,901)
Buildings and improvements	(5,979,558)	(1,697,119)	7,365	(7,669,312)
Equipment	<u>(598,228)</u>	<u>(193,282)</u>	<u>-</u>	<u>(791,510)</u>
Total Accumulated Depreciation	<u>(7,099,311)</u>	<u>(2,040,777)</u>	<u>7,365</u>	<u>(9,132,723)</u>
Net Capital Assets Being Depreciated	<u>65,728,164</u>	<u>(1,994,247)</u>	<u>151,751</u>	<u>63,596,896</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 68,365,736</u>	<u>\$ (1,994,247)</u>	<u>\$ 151,751</u>	<u>\$ 66,234,468</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

C. CAPITAL ASSETS (cont.)

Component Units (cont.)

Capital asset activity for Lapham Park for the year ended December 31, 2016, was as follows:

LAPHAM PARK	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 836,946	\$ -	\$ -	\$ 836,946
Capital assets being depreciated				
Land improvements	62,060	-	-	62,060
Buildings and improvements	31,035,268	-	-	31,035,268
Equipment	415,431	19,657	-	435,088
Total Capital Assets Being Depreciated	<u>31,512,759</u>	<u>19,657</u>	<u>-</u>	<u>31,532,416</u>
Total Capital Assets	<u>32,349,705</u>	<u>19,657</u>	<u>-</u>	<u>32,369,362</u>
Less: Accumulated depreciation for				
Land improvements	(9,249)	(3,103)	-	(12,352)
Buildings and improvements	(2,967,264)	(776,995)	-	(3,744,259)
Equipment	(145,681)	(41,871)	-	(187,552)
Total Accumulated Depreciation	<u>(3,122,194)</u>	<u>(821,969)</u>	<u>-</u>	<u>(3,944,163)</u>
Net Capital Assets Being Depreciated	<u>28,390,565</u>	<u>(802,312)</u>	<u>-</u>	<u>27,588,253</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 29,227,511</u>	<u>\$ (802,312)</u>	<u>\$ -</u>	<u>\$ 28,425,199</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

D. NOTES RECEIVABLE

Note receivable activity for the Authority for the year ended December 31, 2016, was as follows:

Component Unit	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Carver Park	\$ 7,424,698	\$ -	\$ -	\$ 7,424,698	\$ 1,000,000
Highland Park	2,115,642	-	1,951	2,113,691	1,881
Cherry Court	8,687,203	-	-	8,687,203	-
Convent Hill	6,875,874	-	-	6,875,874	-
Scattered Sites	2,318,300	-	-	2,318,300	-
Scattered Sites II	1,107,578	-	-	1,107,578	-
Olga Village	2,363,334	-	-	2,363,334	-
Westlawn Renaissance	9,089,353	-	-	9,089,353	-
Lapham Park	19,535,097	-	-	19,535,097	-
Total Notes Receivable	\$ 59,517,079	\$ -	\$ 1,951	\$ 59,515,128	\$ 1,001,881

See Note II E. for further information on amounts due to the Authority under the component units notes payable section.

E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the Authority for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Bonds Payable					
Mortgage revenue bonds	\$ 18,816,450	\$ -	\$ 575,144	\$ 18,241,306	\$ 540,000
Premium	123,397	-	6,438	116,959	-
Subtotal	18,939,847	-	581,582	18,358,265	540,000
Other Liabilities					
Compensated absences	923,621	3,345	-	926,966	278,090
Net pension liability	1,450,000	3,454,000	-	4,904,000	-
Net OPEB obligation	4,869,697	646,223	-	5,515,920	-
Subtotal	7,243,318	4,103,568	-	11,346,886	278,090
Total Long-Term Obligations	\$ 26,183,165	\$ 4,103,568	\$ 581,582	\$ 29,705,151	\$ 818,090

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Other Debt Information

Estimated payments of compensated absences, net pension liability and other net employment benefits are not included in the debt service requirement schedules. The compensated absences, net pension liability and other post employment benefits will be liquidated primarily by the Authority.

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 \$10,842 in 2016. The bonds are scheduled to mature January 1, 2021. Bonds outstanding at December 31, 2016 totaled \$23,593.

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 as previously described. The bonds are scheduled to mature on December 1, 2022. Bonds payments totaled \$29,302 in 2016. Bonds outstanding at December 31, 2016 totaled \$102,713.

The entire principal outstanding on both issues has been included with the principal payment for 2021 for the 1987 Bonds and 2022 for the 1989 Bonds 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.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Mortgage Revenue Bonds (cont.)

The Authority issued mortgage revenue bonds amounting to \$13,635,000 for Veterans Housing Programs in 2015. The purpose of the bond issue is to currently refund the outstanding balance of the 2002 Veterans Bonds of \$6,325,000 and to finance costs of renovation and improvements to the Authority's Berryland, Northlawn, Southlawn, and Southlawn Park Housing Developments. Principal payments are due annually until maturity of the bonds on July 1, 2035. Interest is due on a semi-annual basis ranging from an interest rate of 0.640-5.000%. Bond payments totaled \$160,000 in 2016. Bonds outstanding at December 31, 2016 totaled \$13,475,000. In order to secure its obligations under the Financing Agreement, the Authority has granted to the Credit Provider a security interest in all of the Authority's rights in and to all funds and accounts created or established under the indenture subordinate in all respects to the Trustee's interest in such funds and accounts pursuant to the indenture. In addition, a replacement reserve is required to be funded with monthly deposits of \$24,500.

The Authority issued mortgage revenue bonds amounting to \$5,410,000 for Veterans Housing Programs in 2015. The purpose of the bond issue is to finance costs of construction of market-rate housing in the City of Milwaukee. Principal payments are due annually until maturity of the bonds. Interest is due on a semi-annual basis ranging from an interest rate of 0.688-3.522%. The date of maturity is June 1, 2025. Bond payments totaled \$375,000 in 2016. Bonds outstanding at December 31, 2016 totaled \$4,640,000. In order to secure its obligations under the Financing Agreement, the Authority has granted to the Credit Provider a security interest in all of the Authority's rights in and to all funds and accounts created or established under the indenture subordinate in all respects to the Trustee's interest in such funds and accounts pursuant to the indenture.

Mortgage revenues bonds payable and promissory note at December 31, 2016, are as follows:

Mortgage Revenue Bonds	Date of Issue	Final Maturity	Interest Rates	Original Indebted- ness	Balance 12/31/16
Mortgage revenue bonds	12/01/87	01/01/21	Varies	\$ 25,000,000	\$ 23,593
Mortgage revenue bonds	06/01/89	12/01/22	Varies	25,000,000	102,712
Mortgage revenue bonds	03/01/15	07/01/35	Varies	5,410,000	4,640,000
Mortgage revenue bonds	03/01/15	07/01/35	Varies	13,635,000	13,475,000
					<u>\$ 18,241,306</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Mortgage Revenue Bonds (cont.)

Debt service requirements to maturity for the Authority are as follows:

Years	Business-Type Activities Mortgage Revenue Bonds		
	Principal	Interest	Total
2017	\$ 540,000	\$ 623,365	\$ 1,163,365
2018	725,000	612,301	1,337,301
2019	745,000	593,956	1,338,956
2020	765,000	572,719	1,337,719
2021	813,593	549,707	1,363,300
2022-2026	4,502,713	2,296,561	6,799,274
2027-2031	5,250,000	1,444,276	6,694,276
2032-2035	4,900,000	451,856	5,351,856
Totals	\$ 18,241,306	\$ 7,144,741	\$ 25,386,047

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 debts 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. There were no amounts of these revenue bonds outstanding at December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units

Long-term obligations activity for the Component Units of the Authority for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
COMPONENT UNITS					
CARVER PARK					
Notes payable	\$ 462,615	\$ 200,523	\$ 462,615	\$ 200,523	\$ 61,822
Notes and land lease payable to primary government	<u>7,424,698</u>	<u>-</u>	<u>-</u>	<u>7,424,698</u>	<u>1,000,000</u>
Total Carver Park	<u>\$ 7,887,313</u>	<u>\$ 200,523</u>	<u>\$ 462,615</u>	<u>\$ 7,625,221</u>	<u>\$ 1,061,822</u>
HIGHLAND PARK					
Notes payable	\$ 1,501,589	\$ -	\$ 39,105	\$ 1,462,484	\$ 43,830
Notes and land lease payable to primary government	<u>2,115,642</u>	<u>-</u>	<u>1,951</u>	<u>2,113,691</u>	<u>1,881</u>
Total Highland Park	<u>\$ 3,617,231</u>	<u>\$ -</u>	<u>\$ 41,056</u>	<u>\$ 3,576,175</u>	<u>\$ 45,711</u>
CHERRY COURT					
Notes payable	\$ 889,359	\$ -	\$ 20,747	\$ 868,612	\$ 20,900
Notes and land lease payable to primary government	<u>8,687,203</u>	<u>-</u>	<u>-</u>	<u>8,687,203</u>	<u>-</u>
Total Cherry Court	<u>\$ 9,576,562</u>	<u>\$ -</u>	<u>\$ 20,747</u>	<u>\$ 9,555,815</u>	<u>\$ 20,900</u>
CONVENT HILL					
Notes payable	\$ 933,231	\$ -	\$ 17,100	\$ 916,131	\$ 21,462
Notes and land lease payable to primary government	<u>6,875,874</u>	<u>-</u>	<u>-</u>	<u>6,875,874</u>	<u>-</u>
Total Convent Hill	<u>\$ 7,857,563</u>	<u>\$ -</u>	<u>\$ 17,100</u>	<u>\$ 7,792,005</u>	<u>\$ 21,462</u>
SCATTERED SITES					
Notes and land lease payable to primary government	<u>\$ 2,318,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,318,300</u>	<u>\$ -</u>
SCATTERED SITES II					
Notes and land lease payable to primary government	<u>\$ 1,107,578</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,107,578</u>	<u>\$ -</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
OLGA VILLAGE					
Notes payable	\$ 1,171,894	\$ -	\$ -	\$ 1,171,894	\$ -
Notes and land lease payable to primary government	2,363,334	-	-	2,363,334	-
Total Olga Village	\$ 3,535,228	\$ -	\$ -	\$ 3,535,228	\$ -
WESTLAWN RENAISSANCE					
Notes and land lease payable to primary government	\$ 9,089,353	\$ -	\$ -	\$ 9,089,353	\$ -
LAPHAM PARK					
Notes and land lease payable to primary government	\$ 19,535,097	\$ -	\$ -	\$ 19,535,097	\$ -

Carver Park Mortgage Notes Payable

Mortgage notes payable consist of the following:

A mortgage note payable to US Bank. The loan requires monthly payments of \$6,274, including interest at 2.00% in excess of the LIBOR rate (2.25% as of December 31, 2016). The note was paid in full on September 30, 2016. The loan was collateralized by Carver I rental property.

A mortgage note payable to BMO Harris Bank, N.A. The loan requires monthly payments of \$6,011, including interest at 3.5%. In October 2016 the principal balance was replaced by a new note with BMO Harris described below. \$66,540 of accrued interest was forgiven. The loan was collateralized by Carver II rental property.

A mortgage note payable to BMO Harris Bank, N.A. The loan requires monthly payments of \$6,333 including interest at 4.9%. The note is due November 1, 2019. The loan is collateralized by Carver II rental property.

A mortgage note (Carver I 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 November 15, 2049. Accrued interest was \$80,038 as of December 31, 2016. The loan is collateralized by Carver I land.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Carver Park Mortgage Notes Payable (cont.)

A mortgage note (Carver II 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 in November 15, 2050. Accrued interest was \$80,499 as of December 31, 2016. The loan is collateralized by Carver II land.

A mortgage note (Carver I 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 \$3,062,810 at December 31, 2016. The note is due November 15, 2041. The loan is collateralized by Carver I rental property.

A mortgage note (Carver II 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 \$2,059,342 at December 31, 2016. The note is due November 15, 2041. The loan is collateralized by Carver II rental property.

A mortgage note (Carver I Predevelopment note) payable to the Authority. The loan is non-interest bearing. The note is due in November 15, 2046. The loan is collateralized by Carver I rental property. There is no prepayment allowed.

A mortgage note (Carver II Predevelopment note) payable to the Authority. The loan is non-interest bearing. The note is due in November 15, 2046. The loan is collateralized by Carver II rental property. There is no prepayment allowed.

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

A mortgage note (Carver II 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 on November 15, 2017. The loan is collateralized by Carver II rental property.

A mortgage note (Carver I AHP note) payable to the Authority. The loan is non-interest bearing. The note is due the earlier of the sale of Carver I or on November 15, 2041. The loan is collateralized by Carver I rental property.

A mortgage note (Carver II AHP note) payable to the Authority. The loan is non-interest bearing. The note is due the earlier of the sale of Carver II or on November 15, 2041. The loan is collateralized by Carver II rental property.

Interest expense on the notes payable to the Authority totaled \$502,211 for the year ended December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Carver Park Mortgage Notes Payable (cont.)

A summary of the mortgage notes payable as of December 31, 2016, are as follows:

	Balance 12/31/2016
BMO Harris Bank, N.A.	\$ 200,523
HACM (Carver I Land note)	213,195
HACM (Carver II Land note)	214,322
HACM (Carver I HOPE VI note)	2,649,224
HACM (Carver II HOPE VI note)	1,738,463
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
HACM (Carver I AHP note)	200,000
HACM (Carver II AHP note)	200,000
Total Carver Park Mortgage Notes Payable	7,625,221
Less: Current maturities	(1,061,822)
	\$ 6,563,399

Debt service requirements to maturity are as follows:

	Principal	Interest	Total
2017	\$ 1,061,822	\$ 285,420	\$ 1,347,242
2018	70,706	284,867	355,573
2019	67,995	284,301	352,296
2020	-	280,618	280,618
2021	-	280,334	280,334
2022-2026	32,956	1,398,517	1,431,473
2027-2031	42,685	1,389,278	1,431,963
2032-2036	55,287	1,377,311	1,432,598
2037-2041	4,859,297	1,361,812	6,221,109
2042-2046	1,302,246	301,436	1,603,682
2047-2050	132,227	15,361	147,588
	\$ 7,625,221	\$ 7,259,255	\$ 14,884,476

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Highland Park Mortgage Notes Payable

Mortgage notes payable consist of the following:

A mortgage note payable to US Bank, the investor member. The loan requires monthly payments of \$11,294, including interest at 6.39%. The note is due July 1, 2020. The loan is nonrecourse and collateralized by rental property. Accrued interest was \$8,052 as of December 31, 2016. The loan agreement with U.S. Bank requires the company to not make distributions to the members if immediately prior to or after such distribution, the debt service coverage ratio would be less than 1.0.

A mortgage note (Land loan) payable to the Authority. The land loan requires monthly payments of \$627 including interest at 5.0%. The note is due March 31, 2045. The land loan is nonrecourse and collateralized by the land and a general business security agreement.

A mortgage note (Hope VI loan) payable to the Authority. The loan accrues interest at 5.21% compounded annually. Principal and interest are payable to the extent of available cash flow. The Hope VI loan is due August 31, 2035. The Hope VI loan is nonrecourse and collateralized by the rental property and a general business security agreement. Accrued interest was \$1,678,868 as of December 31, 2016.

Interest expense on notes payable to the Authority totaled \$187,911 for the year ended December 31, 2016.

A summary of the mortgage notes payable as of December 31, 2016, are as follows:

	Balance 12/31/2016
US Bank	\$ 1,462,484
HACM (Land loan)	113,691
HACM (HOPE VI loan)	<u>2,000,000</u>
Total Highland Park Mortgage Notes Payable	3,576,175
Less: unamortized debt issuance costs	(7,043)
Less: current maturities	<u>(45,711)</u>
	<u>\$ 3,523,421</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Highland Park Mortgage Notes Payable (cont.)

Debt service requirements to maturity are as follows:

	Principal	Interest	Total
2017	\$ 45,711	\$ 200,802	\$ 246,513
2018	48,691	197,773	246,464
2019	51,866	194,546	246,412
2020	1,324,337	150,753	1,475,090
2021	2,296	109,426	111,722
2022-2026	13,370	545,244	558,614
2027-2031	17,158	541,456	558,614
2032-2036	2,022,020	2,397,660	4,419,680
2037-2041	28,260	9,354	37,614
2042-2045	22,466	1,916	24,382
	\$ 3,576,175	\$ 4,348,930	\$ 7,925,105

Cherry Court Mortgage Notes Payable

Mortgage notes payable consist of the following:

A mortgage note, (f/k/a First Service) loan is due to Verve Credit Union. The loan requires monthly payments of \$6,752, including interest at 7.0%. The note is due in September 10, 2022. The mortgage note is nonrecourse and collateralized by rental property including assignment of rents and leases thereon.

A mortgage note (Land loan) payable to the Authority. The Land loan accrues interest at 7.0% per year, compounded annually. Principal and interest are payable to the extent of available cash flow. The unpaid principal and accrued interest is due June 19, 2056. Accrued interest was \$30,043 as of December 31, 2016. The Land loan is non-recourse and collateralized by the rental property and a general business security agreement.

A mortgage note (Hope VI loan) payable to the Authority. The Hope VI loan accrues interest at 5.32% compounded annually. Principal and interest are payable to the extent of available cash flow. The unpaid principal and accrued interest is due June 19, 2046. Accrued interest was \$1,223,889 as of December 31, 2016. The Hope VI loan is non-recourse and collateralized by the rental property and a general business security agreement.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Cherry Court Mortgage Notes Payable (cont.)

A mortgage note (Other federal funds loan) payable to the Authority. The Other federal funds loan accrues interest at 2.0% per year, compounded annually. Principal and interest are payable to the extent of available cash flow. The unpaid principal and accrued interest is due June 19, 2046. Accrued interest was \$1,376,092 as of December 31, 2016. The loan is non-recourse and collateralized by the rental property and a general business security agreement.

A mortgage note (AHP loan) payable to the Authority. The AHP loan is non-interest bearing. Principal is payable to the extent of available cash flow. The unpaid principal is due June 19, 2046. The loan is non-recourse and collateralized by the rental property and a general business security agreement.

Interest expense on notes payable to the Authority totaled \$312,507 for the year ended December 31, 2016.

A summary of the mortgage notes payable as of December 31, 2016, are as follows:

	Balance 12/31/2016
Verve Credit Union (f/k/a First Service)	\$ 868,612
HACM (Land loan)	126,995
HACM (HOPE VI loan)	1,751,667
HACM (Other federal funds loan)	6,328,541
HACM (AHP)	480,000
Total Cherry Court Mortgage Notes Payable	9,555,815
Less: unamortized debt issuance costs	(10,819)
Less: current maturities	(20,900)
	<u>\$ 9,524,096</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Cherry Court Mortgage Notes Payable (cont.)

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 20,900	\$ 288,642	\$ 309,542
2018	22,400	287,117	309,517
2019	24,000	285,482	309,482
2020	25,800	283,888	309,688
2021	27,600	281,858	309,458
2022-2026	747,209	1,181,870	1,929,079
2027-2031	-	1,143,246	1,143,246
2032-2036	-	1,143,246	1,143,246
2037-2041	-	1,143,246	1,143,246
2042-2046	8,560,911	1,033,366	9,594,277
2047-2051	-	44,448	44,448
2052-2056	126,995	40,003	166,998
	<u>\$ 9,555,815</u>	<u>\$ 7,156,412</u>	<u>\$ 16,712,227</u>

Convent Hill Mortgage Notes Payable

Mortgage notes payable consist of the following:

A mortgage note payable to Summit Credit Union (Summit). The Summit loan requires monthly payments of \$7,064 including interest at 7.0%. The note is due August 10, 2023. The loan collateralized by a mortgage on the rental property and an assignment of rents and leases, thereon. Prepayment of the mortgage is subject to a prepayment premium.

A subordinated mortgage note (Federal Funds loan) payable to the Authority. The Federal Funds loan accrues interest at 2.75% per annum, compounded annually. Principal and interest are payable to the extent of available cash flow. The unpaid principal and accrued interest are due on February 1, 2048. The loan is guaranteed by the manager and collateralized by a subordinated mortgage on the rental property and a general business security agreement. Prepayment is allowed under the terms of the mortgage note. Interest accrued was \$1,391,335 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Convent Hill Mortgage Notes Payable (cont.)

A subordinated mortgage note (Other Funds loan) payable to the Authority. The Other Funds loan is non-interest bearing. Principal is payable to the extent of available cash flow. The unpaid principal is due on February 1, 2048. The loan is guaranteed by the manager and collateralized by a subordinated mortgage on the rental property and a general business security agreement. Prepayment is allowed under the terms of the mortgage note.

A subordinated mortgage note (AHP loan) payable to the Authority. The AHP loan will be non-interest bearing. Principal will be payable to the extent of available cash flow, as defined in the operating agreement. The unpaid principal will be due February 1, 2048. The loan will be guaranteed by the manager and collateralized by a subordinated mortgage on the rental property and a general business security agreement. Prepayment will be allowed under the terms of the mortgage note.

Interest expense on notes payable to the Authority totaled \$190,904 for the year ended December 31, 2016.

A summary of the mortgage notes payable as of December 31, 2016, are as follows:

	Balance 12/31/2016
Credit Union (Summit)	\$ 916,131
HACM (Federal Funds loan)	5,741,537
HACM (Other Funds loan)	734,337
HACM (AHP loan)	400,000
Total Convent Hill Mortgage Notes Payable	7,792,005
Less: unamortized debt issuance costs	(5,791)
Less: current maturities	(21,462)
	\$ 7,764,752

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Convent Hill Mortgage Notes Payable (cont.)

Debt service requirements to maturity are as follows:

	Principal	Interest	Total
2017	\$ 21,462	\$ 222,084	\$ 243,546
2018	23,014	220,591	243,605
2019	24,677	218,990	243,667
2020	26,291	217,445	243,736
2021	28,362	215,444	243,806
2021-2025	168,908	1,044,786	1,213,694
2026-2030	239,473	974,220	1,213,693
2031-2035	339,500	874,193	1,213,693
2036-2040	49,111	949,256	998,367
2041-2045	-	789,849	789,849
2046-2048	6,871,207	13,164	6,884,371
	\$ 7,792,005	\$ 5,740,022	\$ 13,532,027

Scattered Sites Mortgage Notes Payable

Mortgage notes payable consist of the following:

A mortgage note (Federal Funds loan) payable to the Authority. The Federal Funds loan accrues interest at 3.0% per annum. Principal and interest is payable to the extent of cash flow. The unpaid principal and accrued interest is due September 25, 2057. Accrued interest was \$628,699 as of December 31, 2016. The Federal Funds loan is recourse and collateralized by the rental property and a general business security agreement. Prepayment will be allowed under the terms of the mortgage note.

A subordinated mortgage note (Other Funds loan) payable to the Authority. The Other Funds loan is non-interest bearing. Principal is payable to the extent of available cash flow. The unpaid principal is due September 25, 2057. The Other Funds loan is recourse and collateralized by the rental property and a general business security agreement.

Interest expense on notes payable to the Authority totaled \$82,389 for the year ended December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Scattered Sites Mortgage Notes Payable (cont.)

A summary of the mortgage notes payables as of December 31, 2016, are as follows:

	Balance 12/31/2016
HACM (Federal Funds loan)	\$ 2,200,000
HACM (Other Funds loan)	118,300
Total Scattered Sites Mortgage Notes Payable	2,318,300
Less: current maturities	-
	\$ 2,318,300

Debt service requirements to maturity are as follows:

	Principal	Interest	Total
2017	\$ -	\$ 66,000	\$ 66,000
2018	-	66,000	66,000
2019	-	66,000	66,000
2020	-	66,000	66,000
2021	-	66,000	66,000
2022-2026	-	330,000	330,000
2027-2031	-	330,000	330,000
2032-2036	-	330,000	330,000
2037-2041	-	330,000	330,000
2042-2046	-	330,000	330,000
2047-2051	-	330,000	330,000
2052-2056	-	330,000	330,000
2057	2,318,300	33,000	2,351,300
	\$ 2,318,300	\$ 2,673,000	\$ 4,991,300

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Scattered Sites II Mortgage Notes Payable

Mortgage notes payable consist of the following:

A mortgage note (Hope VI Loan) payable to the Authority. The Hope VI Loan is secured by a first mortgage and accrues interest at 8.0% per annum. Principal and interest are payable to the extent of cash flow. The unpaid principal and accrued interest is due January 1, 2059. Accrued interest was \$740,267 as of December 31, 2016.

A mortgage note (Other Federal) payable to the Authority. The Other Federal loan is secured by a second mortgage and is non-interest bearing. Principal is payable to the extent of cash flow. The unpaid principal is due January 1, 2059.

Interest expense on notes payable to the Authority totaled \$126,955 for the year ended December 31, 2016.

A summary of the mortgage notes payables as of December 31, 2016, are as follows:

	Balance 12/31/2016
HACM (Hope VI loan)	\$ 973,620
HACM (Other Federal loans)	133,958
Total Scattered Sites II Mortgage Notes Payable	1,107,578
Less: current maturities	-
	<u>\$ 1,107,578</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Scattered Sites II Mortgage Notes Payable (cont.)

Debt service requirements to maturity are as follows:

	Principal	Interest	Total
2017	\$ -	\$ 77,890	\$ 77,890
2018	-	77,890	77,890
2019	-	77,890	77,890
2020	-	77,890	77,890
2021	-	77,890	77,890
2022-2026	-	389,448	389,448
2027-2031	-	389,448	389,448
2032-2036	-	389,448	389,448
2037-2041	-	389,448	389,448
2042-2046	-	389,448	389,448
2047-2051	-	389,448	389,448
2052-2056	-	389,448	389,448
2057-2059	1,107,578	149,286	1,256,864
	\$ 1,107,578	\$ 3,264,872	\$ 4,372,450

Olga Village Mortgage Notes Payable

Mortgage notes payable consist of the following:

A mortgage note (Long Term Construction Loan) payable to the Authority. The principal and accrued interest outstanding on the note shall be paid to the extent of available cash flow, as defined by the operating agreement. The loan shall bear interest at 1.00% annually. The unpaid principal and accrued interest is due November 24, 2049. Accrued interest was \$121,334 at December 31, 2016.

Mortgage notes payable of \$171,000 and \$1,000,894 with United Community Center, Inc, maturing November 9, 2051. The principal and accrued interest outstanding on the notes shall be paid to the extent of available cash flow, as defined by the operating agreement. The loans shall bear interest at the rate of 2.50%. Accrued interest on the \$171,000 loan was \$21,984 at December 31, 2016. Accrued interest on the \$1,000,894 loan was \$128,458 at December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Olga Village Mortgage Notes Payable (cont.)

A mortgage note (Additional Funds loan) payable to the Authority. The principal and accrued interest outstanding on the note shall be paid to the extent of available cash flow, as defined by the operating agreement. The loan shall bear interest at the rate of 1.00%. The unpaid principal and accrued interest is due November 9, 2051. Accrued interest was \$10,740 at December 31, 2016.

Interest expense on notes payable to the Authority totaled \$23,631 for the year ended December 31, 2016.

A summary of the mortgage notes payables as of December 31, 2016, are as follows:

	Balance 12/31/2016
HACM (Long Term Construction Loan)	\$ 2,166,726
HACM (Additional Funds loan)	196,608
United Community Center (Roof Note)	171,000
United Community Center (Other Funds Note)	1,000,894
Total Olga Village Mortgage Notes Payable	3,535,228
Less: unamortized debt issuance costs	(8,490)
Less: current maturities	-
	\$ 3,526,738

Debt service requirements to maturity are as follows:

	Principal	Interest	Total
2017	\$ -	\$ 54,002	\$ 54,002
2018	-	54,002	54,002
2019	-	54,002	54,002
2020	-	54,002	54,002
2021	-	54,002	54,002
2022-2026	-	270,010	270,010
2027-2031	-	270,010	270,010
2032-2036	-	270,010	270,010
2037-2041	-	270,010	270,010
2042-2046	-	270,010	270,010
2047-2051	3,535,228	220,291	3,755,519
	\$ 3,535,228	\$ 1,840,351	\$ 5,375,579

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Westlawn Renaissance Mortgage Notes Payable

Mortgage notes payable consist of the following:

A mortgage note (Land loan) payable to the Authority. Monthly payments of \$6,733 including interest beginning January 10, 2013 are paid from available cash flow. The loan matures on June 15, 2051. The loan shall bear interest at the rate of 4.05% compounded annually. Prepayment is allowed anytime without penalty. The loan is collateralized by a mortgage on the rental property, including the assignment of rents thereon and a general business security agreement. Accrued interest was \$0 at December 31, 2016.

A construction and term loan (Long Term Construction loan) payable to the Authority. The principal and accrued interest outstanding on the note shall be paid from available cash flows. The loan shall bear interest at the rate of 4% compounded annually. The loan matures on June 15, 2051. Prepayment is allowed anytime without penalty. The loan is collateralized by a mortgage on a rental property, including the assignment of rents thereon and a general business security agreement. Accrued interest was \$42,771 at December 31, 2016.

Interest expense on notes payable to the Authority totaled \$376,702 for the year ended December 31, 2016.

A summary of the mortgage notes payable as of December 31, 2016, are as follows:

	Balance 12/31/2016
HACM (Land Loan)	\$ 1,610,911
HACM (Long Term Constuction Loan)	7,478,442
Total Westlawn Renaissance Mortgage Notes Payable	9,089,353
Less: unamortized debt issuance costs	(14,310)
Less: current maturities	-
	<u>9,075,043</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Westlawn Renaissance Mortgage Notes Payable (cont.)

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 372,506	\$ 372,506
2018	-	372,506	372,506
2019	-	372,506	372,506
2020	-	372,506	372,506
2021	-	372,506	372,506
2022-2026	-	1,862,532	1,862,532
2027-2031	-	1,862,532	1,862,532
2032-2036	-	1,862,532	1,862,532
2037-2041	-	1,862,532	1,862,532
2042-2046	-	1,862,532	1,862,532
2047-2051	<u>9,089,353</u>	<u>1,640,590</u>	<u>10,729,943</u>
	<u>\$ 9,089,353</u>	<u>\$ 12,815,780</u>	<u>\$ 21,905,133</u>

Lapham Park Mortgage Notes Payable

Mortgage notes payable consist of the following:

A mortgage note (Long Term Construction loan) payable to the Authority. The principal and interest on the note shall be paid from time to time to the extent of available cash flow. The loan shall bear interest at the rate of 0.19% through the date the second installment of equity is received from the investor member and non-interest bearing thereafter. The loan matures on February 29, 2052. The loan is collateralized by a mortgage on the rental property and a general business security agreement.

A mortgage note (AHP loan) payable to the Authority. The principal and interest on the note shall be paid from time to time to the extent of available cash flow. Interest accrues at a rate equal to the long term annual Applicable Federal rate in effect for the month in which the loan is made (2.60%). The loan matures on February 29, 2052. The loan is collateralized by a mortgage on the rental property and a general business security agreement. Accrued interest was \$34,885 at December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016

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

E. LONG-TERM OBLIGATIONS (cont.)

Component Units (cont.)

Lapham Park Mortgage Notes Payable (cont.)

Interest expense on notes payable to the Authority totaled \$8,722 for the year ended December 31, 2016.

A summary of the mortgage notes payables as of December 31, 2016, are as follows:

	Balance 12/31/16
HACM (Long Term Construction Loan)	\$ 19,199,657
HACM (AHP Loan)	335,440
Total Lapham Park Mortgage Notes Payable	19,535,097
Less: current maturities	-
	\$ 19,535,097

Debt service requirements to maturity are as follows:

	Principal	Interest	Total
2017	\$ -	\$ 8,721	\$ 8,721
2018	-	8,721	8,721
2019	-	8,721	8,721
2020	-	8,721	8,721
2021	-	8,721	8,721
2022-2026	-	43,607	43,607
2027-2031	-	43,607	43,607
2032-2036	-	43,607	43,607
2037-2041	-	43,607	43,607
2042-2046	-	43,607	43,607
2047-2051	-	43,607	43,607
2052	19,535,097	8,721	19,543,818
	\$ 19,535,097	\$ 313,968	\$ 19,849,065

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

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

F. NET POSITION

Net position reported on the statement of net position at December 31, 2016, includes the following:

Net Investment in Capital Assets	
Land	\$ 35,522,589
Construction in progress	1,457,205
Other capital assets, net of accumulated depreciation	63,298,452
Less: long-term debt outstanding	(18,358,265)
Plus: unspent debt proceeds	10,416,312
Plus: noncapital debt proceeds	126,306
Total Net Investment in Capital Assets	<u>92,462,599</u>
Restricted	
Debt service	132,618
Replacement reserve	1,265,503
Home ownership program	1,802,075
Housing Choice Voucher program	73,374
Total Restricted	<u>3,273,570</u>
Unrestricted	<u>88,671,643</u>
Total Net Position	<u>\$ 184,407,812</u>

Included in unrestricted net position of the general fund program are amounts designated for future property acquisition from the component units after the tax compliance period has ended. These amounts totaled approximately \$72,438,000 at December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION

A. RETIREMENT PLAN

Plan Description – The Authority makes contributions to the Employees' Retirement System of the City of Milwaukee (the "System"), a cost-sharing multiple-employer defined pension plan, on behalf of all eligible Authority employees. 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 System. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 789 North Water Street, Suite 300, Milwaukee, WI 53202.

Funding Policy – For general employees participating prior to January 1, 2014, they are required to contribute, or have contributed on their behalf, a percentage of their annual earnable compensation equal to 5.5% of their annual pensionable income, and for general employee, participating on or after January 1, 2014, they are required to contribute 4% of their annual pensionable income. The City Charter assigns the authority to establish and amend contribution requirements. The City Charter was amended so that various groups of represented and non-represented City employees hired on or after January 1, 2010 contribute 5.5% of their earnable compensation for pension benefits. The Authority's contributions to the System for the year ended December 31, 2016 was \$1,225,997, respectively, equal to the required contributions on behalf of the plan members for each year.

At December 31, 2016, the Authority reported a liability of \$4,904,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actual valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions of benefit terms occurred between the actuarial date and the measurement date. The Authority's proportion of the net pension liability was based on the authority's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the Authority's proportion was 1.166164300% which was a decrease of .112094100% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the authority recognized pension expense of \$1,843,471.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION

A. RETIREMENT PLAN (cont.)

At December 31, 2016, the authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 267,000
Changes in assumptions	-	46,000
Net differences between projected and actual earnings on pension plan investments	4,513,000	
Changes in proportion and differences between employer contributions and proportionate share of contributions	127,000	81,000
Employer contributions subsequent to the measurement date	931,049	-
Total	\$ 5,571,049	\$ 394,000

\$931,049 reported as deferred outflows related to pension resulting from the System employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31,	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 1,269,813	\$ 123,126
2018	1,269,813	123,126
2019	1,269,813	123,126
2020	830,561	24,622

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION

A. RETIREMENT PLAN (cont.)

Actuarial assumptions. The last actuarial valuation was performed as of January 1, 2015, and the amounts were used to roll-forward the total pension liability to the plan's year-end December 31, 2015, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Actuarial valuation date	January 1, 2015
Measurement Date of Net Pension Liability	December 31, 2015
Actuarial cost method	Entry age normal-Level Percentage of Pay
Amortization method	For pension expense; the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The differences between projected and actual earning are amortized over a closed period of five years.
Asset Valuation method	Fair Market Value
Actuarial Assumptions:	8.25% for calendar years through 2017, and 8.50% beginning with calendar year 2018
Investment rate of return and discount rate	General City 3.0%-7.5%
Projected Salary increases	3.00%
Inflation Assumption	Vary by Employee Group as explained in summary of plan provisions
Cost of living Adjustments	
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table projected nine years using Scale AA. Future generational rates are projected from 2009 based on Scale AA. For duty and ordinary disability retirees, use the RP-2000 Disability Mortality Table. For death in active service, the rates are similar to those used for regular retirees and survivors with a 6-year setback.
Experience Study	The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2007-December 31, 2011.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION

A. RETIREMENT PLAN (cont.)

Long-term expected rate of return-the long-term expected rate of return on pension plan investments was determined using Callan Associates' 10 year geometric capital market projections. Projected long term rates of return for each major asset class in the Retirement System's target asset allocation as of December 31, 2015, are summarized in the following table:

Asset Class	Policy	Actual	Long-term Expected Rate of Return
Domestic Equity	25.00%	28.70%	9.22%
International Equity	20.00%	21.40%	7.14%
Global Equity	10.00%	7.03%	8.00%
Fixed Income/Cash	24.00%	24.14%	1.41%
Cash	1.00%	0.84%	0.87%
Real Estate	7.00%	8.38%	6.91%
Real Assets	3.00%	0.00%	5.45%
Private Equity	5.00%	3.84%	12.40%
Absolute Return	5.00%	5.67%	4.68%
	100%	100%	

Discount Rate – The discount rate used to measure the total pension liability was 8.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from ERS agencies will be made at contractually required rates, actuarially determined. Based on those assumptions, the ERS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The cross over analysis produces a single rate of 8.50 percent, which reflects the long-term expected rate of return on ERS investments. Therefore, the discount rate was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the authority's proportionate share of the net pension liability to changes in the discount rate – The following presents the authority's proportionate share of the net pension liability calculated using the discount rate of 8.50 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7.50 percent) or 1 – percentage-point higher (9.50 percent) than the current rate:

	1% Decrease (7.50%)	Current Discount (8.50%)	1% Increase (9.50%)
Authority's proportionate share of the net pension liability (asset)	\$ 11,527,000	\$ 4,904,000	\$ (680,000)

Additional Financial Information for the ERS- For additional information regarding ERS's financial statements and audit report, please visit the ERS web site at <http://www.cmers.com/About-Us/Reports.htm>.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION

B. POSTEMPLOYMENT HEALTHCARE PLAN

The Authority administers postemployment health care benefits through and non-contributory single-employer defined benefit healthcare plan covering eligible employees. The plan provides medical insurance benefits to eligible retirees and their spouses through the Authority's group medical insurance plan, which covers both active and retired members. Benefits provisions are established through collective bargaining agreements. The eligibility requirements and the amount of the benefit vary based on retiree's position, years of service and age at retirement. If eligible, the retiree may receive medical insurance benefits until they are Medicare eligible. The plan is administered by the Authority and does not issue a stand alone financial report.

Membership in the plan consisted of 42 retirees receiving benefits and 187 active plan members at January 1, 2016, the date of the latest actuarial valuation.

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the Authority and the union or for non-union employees between the Authority and the employee. The required contribution is based on a pay-as-you-go basis. For fiscal year 2016, the Authority contributed \$197,312, of which the entire amount went to pay benefits for the people currently using the plan

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Authority's net OPEB obligation to the Retirement Health Plan:

Annual required contribution	\$ 647,733
Interest on net OPEB obligation	219,138
Adjustment to annual required contribution	(286,085)
Amortization of actuarial (gains)/losses	<u>262,749</u>
Annual OPEB cost (expense)	843,535
Contributions made	<u>(197,312)</u>
Increase in net OPEB obligation	646,223
Net OPEB obligation - beginning of year	<u>4,869,697</u>
Net OPEB obligation - end of year	<u>\$ 5,515,920</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

B. POSTEMPLOYMENT HEALTHCARE PLAN (cont.)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/14	\$ 738,550	34%	\$ 4,274,317
12/31/15	778,959	24%	4,869,697
12/31/16	843,535	23%	5,515,920

The funded status as of January 1, 2016, the most recent actuarial valuation date was 0 percent funded. The actuarial accrued liability for benefits was \$8,318,812 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,318,812. The covered payroll (annual payroll of active employees covered by the plan) was \$10,877,938 and the ratio of the UAAL to the covered payroll was 76.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 7.0 percent initially, reduced by decrements to a rate of 4.5 percent after six years. The actuarial value of the plan assets was not determined because there were no plan assets as of the date of the actuarial valuation. The plan's unfunded actuarial liability is being amortized using a 30 year open level percentage of payroll amortization method. The amortization period at December 31, 2016 was 30 years.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

C. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles, as detailed below. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

The Authority is a member of the Housing Authority Risk Retention Group (HARRG), which provides general liability, property, public official and lead-based paint insurance to participating public housing authorities throughout the United States. There are 937 members in HARRG. Total premiums paid in 2016 by the members were approximately \$31.8 million. The Authority's share of the premiums in 2016 were \$301,592, 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 commercial 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 Group (HAPI), which provides property insurance to participating public housing authorities throughout the United States. HAPI has 935 members. Total premiums paid in 2016 by the members were approximately \$56.0 million. The Authority's share of the premiums was \$537,324 in 2016 for property and builders' risk insurance. The Authority's maximum insurance coverage is \$484,534,802 for property. Management believes that the number of outstanding claims and potential claims outstanding does not materially affect the financial position of the Authority.

D. 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.

E. COMMITMENTS AND CONTINGENCIES

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred.

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

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units

Carver Park

Carver Park entered into a Land Use Restriction Agreements with the Wisconsin Housing and Economic Development Authority (WHEDA) as a condition to receiving an allocation 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 occupancy 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 partners 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 contributed capital of the investor limited partner. Carver Park is obligated to certify tenant eligibility.

In connection with the Affordable Housing Program (AHP) notes with the Authority, Carver Park entered into AHP 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.

Under provisions of the Regulatory & Operating Agreements (R&O) and the partnership agreement, Carver Park was obligated to fund an affordability reserve in the amounts of \$91,000 and \$74,000 from the fourth equity installment from the investor limited partner for Carver 1 and Carver II, respectively. Withdrawals are generally restricted to cover shortfalls in operating subsidy and may be made only upon the approval of the Authority. The affordability reserve was \$220,089 as of December 31, 2016.

The R&O Agreements and partnership agreement also provided for Carver Park to fund an operating reserve in the amounts of \$144,000 and \$134,000 from the fourth equity installment from the investor limited partner for Carver 1 and Carver II, respectively. Withdrawals are restricted to cover insufficient cash flow from the non-public housing units and may be made only upon the approval of the Authority. The operating reserve was \$187,368 as of December 31, 2016.

Carver Park has two mortgage notes payable totaling \$1,000,000 that are due in November 2017 to the Authority. As shown in the accompanying financial statements, Carver Park does not have sufficient cash or reserves and is not generating enough operating cash flow to repay these notes when due. These conditions raise substantial doubt about Carver Park's ability to continue as a going concern for the year following the date the financial statements are available to be issued. Management of Carver Park and the Authority have evaluated these conditions and are in the process of drafting an offer to buy out the limited partner interest in the partnership. Should the buy-out offer be agreed upon, these maturing loans will be settled as part of the buy-out agreement. The Authority may also consider extending the maturity date of these loans if necessary. The ability of the Carver Park to continue as a going concern and meet its obligations as they become due is dependent on acceptance and implementation of these plans. The financial statements do not include any adjustments that might be necessary if Carver Park is unable to continue as a going concern.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Carver Park (cont.)

Carver Park is required to maintain deposits in the affordability, operating and authority reserves equal to two times the public housing shortfall, excluding the operating subsidy payments for the prior year. If at any time the aggregate balance in these reserves falls below that level, the project shall notify the Authority in writing regarding the deficit and request the Authority restore the reserve shortfall up to the minimum balance. The reserve shortfall must be deposited into the authority reserve. If at any time following the achievement of an occupancy rate of 97% the aggregate balance of the affordability, operating, and authority reserves exceeds three times the public housing shortfall, excluding the operating subsidy payments for the prior year plus six months of development operating expenses and certain conditions are met as defined in the R&O Agreements, the project shall notify the Authority of its right to withdraw such reserve excess from the authority reserve.

The R&O Agreements and partnership agreement also provide for Carver Park to fund a replacement reserve in 12 equal monthly installments totaling \$250 per unit per year. The replacement reserve shall be used for the purpose of replacing capital assets or providing capital improvements. Withdrawals may be made only upon the approval of the Authority. The replacement reserve balance was \$51,825 as of December 31, 2016.

Highland Park

Highland Park entered into a Land Use Restriction Agreement with WHEDA as a condition to receiving allocations of low-income housing tax credits. Under this agreement, Highland Park must continuously comply with IRC Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If Highland 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 contributed capital of the investor member. Highland Park is obligated to certify tenant eligibility.

Under provisions of the R&O Agreement and operating agreement, Highland Park is obligated to fund an affordability reserve in the amount of \$80,000. Withdrawals are restricted to cover insufficient cash flow from the public housing units. The affordability reserve was \$89,083 as of December 31, 2016.

The R&O Agreement and operating agreement provide for Highland Park to fund an operating reserve in the amount of \$220,000. The operating reserve, including interest thereon, is to be administered in accordance with the R&O Agreement and utilized primarily to fund operating deficits. Withdrawals are restricted to cover insufficient cash flow from the non-public housing units and to cover insufficient cash flow from the public housing units if the balance in the affordability reserve is less than \$1. Withdrawals may be made only upon the approval of the investor member. The operating reserve was \$245,067 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Highland Park (cont.)

The R&O Agreement and operating agreement also provide for Highland Park to fund a replacement reserve in 12 equal monthly installments of \$175 per unit per year. The monthly installment increases to \$200 in June 2010 and \$250 on the tenth anniversary date. The replacement reserve shall be used to fund repairs, capital expenditures, and other costs as approved by the Authority and the investor member. The replacement reserve balance was \$111,522 as of December 31, 2016.

If at any time the aggregate balance of the affordability and operating reserves is below \$200,000 due to withdrawals to fund operating subsidy shortfalls, the project shall notify the Authority in writing regarding the deficit and request the Authority restore the reserve shortfall up to the minimum balance. The reserve must be deposited into the affordability reserve. If at any time following the achievement of an occupancy rate of 97% the aggregate balance of the affordability and operating reserves exceed \$300,000 and certain conditions are met as defined in the R&O agreement, the company shall use the excess funds to make a payment on the Authority (HOPE VI) mortgage note payable.

Highland Park entered into a management agreement with an unaffiliated entity. Under this agreement, Highland Park is obligated to pay a management fee equal to \$28.00 per unit in 2016. The management fees incurred under this agreement totaled \$38,304 for the year ended December 31, 2016.

Cherry Court

Cherry Court entered into a Land Use Restriction Agreement with WHEDA as a condition to receiving allocations of low-income housing tax credits. Under this agreement, Cherry Court must continuously comply with IRC Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If Cherry Court 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 contributed capital of the investor member. Cherry Court is obligated to certify tenant eligibility.

Under provisions of the R&O Agreement and operating agreement, Cherry Court has established an affordability reserve in the initial amount of \$224,000. These reserve funds, including interest thereon, are restricted for the benefit of the public housing units to cover shortfalls in the event operating subsidy funds are not available. However, if in any month, operating expenses exceed operating income for the public and non-public housing units, the operating reserve is exhausted, and payments are due on the permanent first mortgage, funds from this reserve may be withdrawn to cover such amounts due. Withdrawals from this reserve require consent of the special member. The affordability reserve was \$243,602 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Cherry Court (cont.)

The R&O Agreement and operating agreement provide for Cherry Court to fund an operating reserve in the amount of \$145,000. The operating reserve, including interest thereon, is to be administered in accordance with the R&O Agreement and utilized primarily to fund operating deficits. Withdrawals are restricted to cover insufficient cash flow from the non-public housing units and to cover insufficient cash flow from the public housing units if the balance in the affordability reserve is less than \$1. Withdrawals may be made only upon the approval of the special member. The operating reserve balance was \$156,969 as of December 31, 2016.

The R&O Agreement and operating agreement require Cherry Court to fund a replacement reserve annually in the amount of \$21,000. The annual deposit increases 3% per year. The replacement reserve shall be used for the purpose of replacing capital assets or providing capital improvements. Withdrawals may be made only upon the approval of the Authority and the special member. The replacement reserve balance was \$235,856 as of December 31, 2016.

If at any time the aggregate balance of the affordability and operating reserves is below \$250,000 due to withdrawals to fund operating subsidy shortfalls, the project shall notify the Authority in writing regarding the deficit and request the Authority restore the reserve shortfall up to the minimum balance. The reserve shortfall must be deposited into the affordability reserve. If at any time following the achievement of an occupancy rate of 97% the aggregate balance of the affordability and operating reserves exceed \$365,000 and certain conditions are met as defined in the R&O Agreement, the company shall use the excess funds from the operating reserve to make a payment on the Authority mortgage notes payable.

Cherry Court has entered into a lease with a third party to lease ground space for the purpose of constructing, maintaining, and operating a cellular tower. The lease requires monthly payments of \$2,200 through November 2016 and monthly payments of \$2,420 through November 2021. The lease includes four successive five year options to renew with a ten percent increase in rent for each renewal. The lease was renewed for another five years, effective November 2016. The company entered into a lease with another third party starting September 2016 to lead ground space for a cellular tower. The lease requires annual payments of \$5,500 through August 2021. The lease includes four successive five year options to renew with a three percent increase in rent for each renewal. Rental income earned under these leases totaled \$28,453 for the year ended December 31, 2016. Future minimum rental income for these leases is \$34,540 for the years for the years 2017-2020 and \$30,287 for 2021.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Convent Hill

The Authority, as plaintiff, filed a complaint against the architect and construction contractor of the building to redress claims of negligent design and construction. The U.S. Department of Housing and Urban Development authorized the initiation of this litigation in March 2013. The complaint was amended to also include the company; Convent Hill Retail, LLC; FOH, LLC; and Convent Hill Gardens Limited Partnership as plaintiffs (the parties). The parties entered into a litigation funding agreement effective June 2013. Under this agreement, Convent Hill was responsible for a maximum of \$56,000 of costs and expenses associated with the litigation which was to be paid solely with funds from the operating reserve. Litigation costs in excess of this amount are the obligation of the Authority. Litigation costs incurred totaled \$56,000 in 2013 and were paid to the Authority during 2014 with funds from the operating reserve. The case is ongoing and the amount of any recoveries from the claim is not determinable.

In conjunction with the litigation funding agreement, an amendment to the operating agreement requires the manager to fund operating deficits in the form of operating deficit loans from June 2013 through December 2018. These operating deficit loans may not exceed the lesser of the aggregate amount of operating reserves used to pay litigation costs related to the complaint against the architect and construction contractor or \$56,000. Operating deficit loans made shall be unsecured, bear interest at 6% per annum, and be repayable solely from cash flow and capital transactions as defined in the operating agreement. There have been no operating deficit loans made to the company as of December 31, 2016.

Convent Hill entered into a Land Use Restriction Agreement with WHEDA as a condition to receiving allocations of low-income housing tax credits. Under this agreement, Convent Hill must continuously comply with IRC Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units that shall be occupied by individuals or families whose income meets the requirement set under IRC Section 42. If Convent Hill 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 contributed capital of the investor member. Convent Hill is obligated to certify tenant eligibility.

Under provisions of the R&O agreement and the operating agreement, Convent Hill has established an affordability reserve in the initial amount of \$129,000. These reserve funds, including interest thereon, are restricted for the benefit of the public housing units to cover shortfalls in the event operating subsidy funds are not available. However, if in any month, operating expenses exceed operating income for the public and non-public housing units, the operating reserve is exhausted, and payments are due to the permanent first mortgage, funds from this reserve may be withdrawn to cover such amounts due. The affordability reserve balance was \$131,238 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Convent Hill (cont.)

The R&O agreement and operating agreement required for Convent Hill to fund an operating reserve in the initial amount of \$105,000. The operating reserve, including interest thereon, is to be administered in accordance with the R&O agreement and utilized primarily to fund operating deficits. Withdrawals are restricted to cover insufficient cash flow from the non-public housing units and to fund insufficient cash flow from the public housing units if the balance in the affordability reserve is less than \$1. If a withdrawal would cause the balance of the reserve to be less than \$50,000, approval of the special member is needed. The operating reserve was \$50,603 as of December 31, 2016.

The R&O agreement and operating agreement also provide for Convent Hill to fund a replacement reserve annually in the amount of \$16,000. The required annual deposits increases 3% per year. The replacement reserve shall be used for working capital needs, improvements, replacements, and other contingencies as determined in the reasonable discretion of the manager. Withdrawals may be made only upon the approval of the Authority and the special member. The replacement reserve balance was \$153,897 as of December 31, 2016.

If at any time the aggregate balance of the affordability and operating reserves is below \$160,274 due to withdrawals to fund operating subsidy shortfalls, the project shall notify the Authority in writing regarding the deficit and request the Authority restore the reserve shortfall up to the minimum balance. The reserve shortfall must be deposited into the affordability reserve. If at any time following the achievement of an occupancy rate of 97% the aggregate balance of the affordability and operating reserves exceed \$234,000 and certain conditions are met as defined in the R&O Agreement, the company shall use the excess funds from the operating reserve to make a payment on the Authority mortgage notes payable.

Convent Hill entered into a management agreement with Friends of Housing Corporation (Friends). Under this agreement, the Convent Hill is obligated to pay a management fee equal to \$27.00 per unit in 2016 not to exceed 6% of gross annual income. The management fees incurred under this agreement totaled \$24,960 for the year ended December 31, 2016. Included in accrued expenses on the statement of net position are accrued management fees of \$0 as of December 31, 2016. The management agent is also paid an administrative fee related to application review, home visits and completing the tenant income certification related to certifying tenant compliance.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Scattered Sites

Scattered Sites entered into a Land Use Restriction Agreement with WHEDA as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, Scattered Sites must continuously comply with Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirement set under IRC Section 42. If Scattered Sites 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 contributed capital of the investor member. Scattered Sites is obligated to certify tenant eligibility.

Under provisions of the R&O agreement and operating agreement, Scattered Sites established an affordability and operating reserve in the initial amount of \$75,000. These reserve funds, including interest thereon, are restricted to help meet operating expenses and debt service of Scattered Sites in the event operating subsidy funds are not available. The affordability and operating reserve balance was \$76,842 as of December 31, 2016.

If at any time the aggregate balance of the affordability and operating reserve is below \$51,370 due to withdrawals to fund operating subsidy shortfalls, Scattered Sites shall notify the Authority in writing regarding the deficit and request the Authority restore the reserve shortfall up to the minimum balance.

The R&O Agreement and operating agreement require Scattered Sites to fund a replacement reserve annually in the initial amount of \$7,200. The annual deposit requirement increases 3% per year. The replacement reserve shall be used for the purpose of replacing capital assets or providing capital improvements. Withdrawals may be made only upon the approval of the Authority and investor member. The replacement reserve balance was \$73,335 as of December 31, 2016.

Scattered Sites has entered into a management agreement with Friends. Under this agreement, Scattered Sites is obligated to pay a management fee equal to \$37.50 per unit per month for 2016, not to exceed 9% of gross annual income collected. The management fees incurred under this agreement totaled \$10,415 for the year ended December 31, 2016. Friends is also paid an administrative fee related to application review, home visits and completing the tenant income certification related to certifying tenant compliance.

The Authority entered into a cooperation agreement with the City of Milwaukee whereby any low-rent housing developed by the Authority receiving federal assistance from the United States of America shall make annual payments in lieu of taxes in an amount equal to 10% of the shelter rent. Shelter rent is defined as the total of all rents charged to tenants less the cost of utilities. Since all the units in the project are public housing units, Scattered Sites is subject to the same agreement.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Scattered Sites II

Scattered Sites II signed a Land Use Restriction Agreement with WHEDA as a condition to receiving an allocation of low-income housing tax credits from WHEDA. Under this agreement, Scattered Sites II must continuously comply with Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If Scattered Sites II 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.

Scattered Sites II has entered into a declaration of restrictive covenants with the Authority which requires Scattered Sites II to develop, operate, and maintain the project in accordance with all requirements applicable to public housing. Scattered Site II must comply with applicable public housing requirements for a 40 year period. Such period shall be extended for ten years after the end of the last public housing agency fiscal year for which operating fund assistance is provided by the Authority on behalf of the project, or as otherwise required by law.

Scattered Sites II is required to establish and maintain an operating reserve to meet operating expenses and debt service which exceed operating revenues. Upon the second equity installment, \$75,000 was deposited into the operating reserve. Disbursements from the reserve require approval by the special member. Upon the expiration of the compliance period, the remaining funds may be released assuming no events of default as defined by the operating agreement. The operating reserve balance was \$75,634 as of December 31, 2016.

Scattered Sites II is required to establish and maintain a replacement reserve for the purpose of replacing capital assets or providing capital improvements. Deposits to the reserve will be no less than \$300 per unit and shall increase by at least 3% per annum. Disbursements from the reserve shall be made in accordance with approved budgets or written approval from the Authority or special member. Upon sale of the property, amounts remaining in the reserve will remain with the property. The replacement reserve balance was \$53,532 at December 31, 2016. The replacement reserve is properly funded as of December 31, 2016.

Property management fees are incurred pursuant to a management fee agreement based on an initial management fee of \$48 per month, but in no month shall the fee exceed 8% of gross rents collected. Additionally, the management agent will charge \$35 per application reviewed, \$50 per home visit conducted and \$60 per tenant income certification. The term of the agreement will continue for successive terms of one year unless terminated by either party. Total management fees incurred were \$13,543 for the year ended December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Olga Village

Olga Village signed a Land Use Restriction Agreement with WHEDA as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, Olga Village must continuously comply with Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If Olga Village 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.

Olga Village has entered into a regulatory and operating agreement with the Authority which requires Olga Village to operate and maintain the project in accordance with all requirements applicable to public housing. Olga Village must comply with applicable public housing requirements for a 40 year period. Such period shall be extended for ten years after the end of the last public housing agency fiscal year for which operating fund assistance is provided by the Authority on behalf of the project, or as otherwise required by law.

Olga Village is required to establish and maintain a replacement reserve to fund repairs, capital expenditures and other costs approved by the investor member in an annual operating budget. The reserve will be funded with the third capital installment in the amount of \$8,500. Beginning on the first day of the first month following the lease-up period but no later than January 1, 2011, Olga Village will make monthly deposits in the amount of \$250 per unit per year. This amount will increase by 10% on each fifth anniversary thereafter. A minimum balance equal to at least six monthly installments of the annual replacement reserve is required to be maintained. Disbursements from the reserve will be made in accordance with approved budgets or written approval from the investor member. The replacement reserve balance was \$54,356 at December 31, 2016 and is properly funded.

Olga Village is required to establish and maintain an operating reserve to meet operating expenses and debt service which exceed operating revenues. An operating reserve of at least \$200,000 was funded with the fourth capital contribution. In addition, Olga Village will fund the operating reserve from cash, as defined by the operating agreement, in order to maintain a balance of at least \$200,000. Disbursements from the reserve require approval by the investor member. Upon the expiration of the lease-up and operating deficit periods and with the consent of the investor member, Olga Village may use the funds for any Olga Village purpose. The operating reserve balance was \$204,551 at December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Westlawn Renaissance

Westlawn Renaissance has entered into an R&O Agreement with the Authority. Provisions of the agreement require Westlawn Renaissance to fund a replacement reserve in the initial amount of \$75,000 upon receipt of the second installment of equity from the investor member. Commencing on June 1, 2013, monthly deposits are required in an amount equal to \$300 per unit per year for the first year, increasing by 3% each twelve-month period thereafter. The replacement reserve shall be used to fund repairs, capital expenditures, and other costs as approved by the Authority and the investor member. The replacement reserve balance was \$357,675 as of December 31, 2016.

The R&O Agreement and operating agreement requires Westlawn Renaissance to establish an operating reserve of at least \$600,000, to be funded on the date of receipt of the second installment of equity from the investor member. Funds from the operating reserve may be used to pay for operating or other expenses with the consent of the investor member. Westlawn Renaissance is required to fund the operating reserve from available cash flow as defined in the operating agreement, in order to maintain a balance at all times of \$600,000. The reserve shall be maintained throughout the 15 year tax credit compliance period. Upon the three year anniversary of the achievement of stabilized occupancy, as defined in the operating agreement, any excess amounts in the operating reserve shall be released to pay applicable principal and interest on the mortgage notes payable due to the Authority. Beginning June 2024, and each year thereafter, the required balance in the operating reserve may be reduced in accordance with the operating agreement. The operating reserve balance was \$603,590 as of December 31, 2016.

The investor member has requested that a portion of its second equity installment in the amount of \$476,146 be escrowed to cover approximately 150% of the current balance owed on two contracts with respect to construction work performed to ensure protection against the creation of liens by the parties to the aforementioned contracts. An additional \$109,981 was placed in a construction escrow to cover the balance owed on a construction contract. In 2015, the additional \$109,981 was released from escrow to pay the balance owed on the construction contract. Upon approval of the investor member, the balance of these escrows were released in December 2016.

Westlawn Renaissance entered into a management agreement with an unaffiliated entity. Under this agreement, Westlawn Renaissance is obligated to pay a management fee equal to \$24.50 per unit per month. The management fees incurred under this agreement totaled \$69,377 for the year ended December 31, 2016.

Westlawn Renaissance entered into a Land Use Restriction Agreement with WHEDA as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, Westlawn Renaissance must continuously comply with IRC Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If Westlawn Renaissance 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 contributed capital of

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

the investor member. Westlawn Renaissance is obligated to certify tenant eligibility.

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Westlawn Renaissance (cont.)

The Authority had entered into a cooperation agreement with the City of Milwaukee whereby any low-rent housing developed by the Authority receiving federal assistance from the United States of America shall make annual payments in lieu of taxes (PILOT) in an amount equal to 10% of the shelter rent. Shelter rent is defined as the total of all rents charged to tenants less the cost of utilities. Westlawn Renaissance is subject to the same agreement with respect to the public housing units.

Lapham Park

Lapham Park has entered into an R&O Agreement with the Authority and a loan agreement with WHEDA. Provisions of the agreements require Lapham Park to fund a replacement reserve in an initial amount of \$60,300 upon receipt of the second installment of equity from the investor member. Commencing on June 1, 2013, monthly deposits are required in an amount equal to \$300 per unit per year for the first year, increasing by 3% each twelve-month period thereafter. The replacement reserve shall be used to fund repairs, capital expenditures, and other costs as approved by the Authority and the investor member. The replacement reserve balance was \$288,373 as of December 31, 2016.

The R&O Agreement and operating agreement requires Lapham Park to establish an operating reserve of at least \$628,000, to be funded on the date of receipt of the second installment of equity from the investor member. Funds from the operating reserve may be used to pay for operating or other expenses with the consent of the investor member. Lapham Park is required to fund the operating reserve from available cash flow as defined in the operating agreement, in order to maintain a balance at all times of \$628,000. The reserve shall be maintained throughout the 15 year tax credit compliance period. Upon the three year anniversary of the achievement of stabilized occupancy, as defined in the operating agreement, any excess amounts in the operating reserve shall be released to pay applicable principal and interest on the mortgage notes payable due to the Authority. Beginning June 2024, and each year thereafter, the required balance in the operating reserve may be reduced in accordance with the operating agreement. The operating reserve balance was \$631,851 as of December 31, 2016.

Lapham Park entered into a management agreement with an unaffiliated entity. Under this agreement, Lapham Park is obligated to pay a management fee equal to \$27.25 per unit per month. The management fees incurred under this agreement totaled \$66,413 for the year ended December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

E. COMMITMENTS AND CONTINGENCIES (cont.)

Component Units (cont.)

Lapham Park (cont.)

Lapham Park entered into Land Use Restriction Agreements with WHEDA as a condition to receiving the bonds payable and an allocation of low-income housing tax credits. Under this agreement, Lapham Park must continuously comply with IRC Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If Lapham Park fails to comply with this agreement or with the IRC, the bonds payable become immediately due and payable; Lapham Park 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 contributed capital of the investor member. The company is obligated to certify tenant eligibility.

The Authority had entered into a cooperation agreement with the City of Milwaukee whereby any low-rent housing developed by the Authority receiving federal assistance from the United States of America shall make annual payments in lieu of taxes (PILOT) in an amount equal to 10% of the shelter rent. Shelter rent is defined as the total of all rents charged to tenants less the cost of utilities. Lapham Park is subject to the same agreement with respect to its public housing units.

Lapham Park entered into a Declaration of Condominium agreement to form Lapham Park Condominium. Under the agreement, the building was divided into two units which are occupied by the project.

The Authority had a non-cancelable operating lease agreement with Verizon Wireless to rent a portion of its rooftop space for antenna systems and storage areas for communication transmitters. In February 2012, the Authority assigned its interest in the lease to Lapham Park. Payments on the lease increase 4% each year. The lease expires December 31, 2020. The lease includes three remaining five year option to renew. Rooftop lease income included in rental income totaled \$30,387 for the year ended December 31, 2016. Future minimum rental income under the rooftop lease is \$31,603, \$32,867, \$34,182 and \$35,549 for the years 2017, 2018, 2019 and 2020, respectively.

In connection with the AHP note with the Authority, the project must comply with certain affordability requirements outlined in an AHP Subsidy Agreement between the Authority and the Federal Home Loan Bank.

F. ECONOMIC DEPENDENCY

The Authority is economically dependent on annual contributions and grants from the U.S. Department of Housing and Urban Development (HUD). The Authority operates at a loss prior to receiving contributions and grants from HUD.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS

Approximately one tenth of the 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 \$3,889,508 in 2016. In addition, during 2016 the Authority paid the City approximately \$558,027, for administrative services and overhead expenses. The liability as of year-end totaled \$620,440 is included in accounts payable as of December 31, 2016.

In accordance with an agreement with the City of Milwaukee, the Authority makes PILOT to the City equal to 10% of the Authority's net shelter rental income. The PILOT for 2016, paid in 2017 was \$1,232,045 and is included in accrued liabilities as of December 31, 2016.

Component Units

Carver Park

Carver Park entered into a management agreement with Friends of Housing Corporation ("Friends"), a member of the general partner, for a management fee equal to \$30.00 per unit during 2016. The management fees incurred under this agreement totaled \$46,482 for the year ended December 31, 2016.

The partnership agreement provides for Carver Park to pay an annual asset management fee to the investor limited partner in the base amount of \$5,000 as annually adjusted by the Consumer Price Index (CPI). Asset management fees incurred were \$6,854 for the year ended December 31, 2016. Accrued asset management fees were \$6,205 as of December 31, 2016.

Carver Park has entered into R&O Agreements with the Authority. Provisions of the R&O 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 the difference between rents received from tenants residing in the public housing units and operating expenses for those units. The agreements expire on December 31, 2041. Operating subsidies totaling \$138,994 were earned for the year ended December 31, 2016. Included in accounts payable on the balance sheets are operating subsidy payables of \$1,687 as of December 31, 2016.

The Authority is to be paid authority oversight fees to cover its asset management responsibilities in administering the operating subsidy in the amounts of \$27,000 and \$24,000 for Carver I and Carver II, respectively. The Authority will forego the authority oversight fee to the extent of any public housing shortfall. Authority oversight fees totaled \$41,612 for the year ended December 31, 2016. Accrued authority oversight fees were \$75,108 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS (cont.)

Component Units (cont.)

Highland Park

Highland Park is obligated to pay an annual asset cumulative management fee to the investor member in the amount of \$5,000, which is payable from cash flow as defined in the operating agreement. Accrued asset management fees were \$5,000 as of December 31, 2016.

The Authority is required to jointly and severally fund all operating deficits for the 36 month period after the breakeven date and achievement of permanent loan closing in the form of an operating deficit advance, with a maximum cumulative operating deficit advance of \$300,000. The guarantee amount reduces to \$150,000 on the second anniversary of achievement of the operating deficit requirements. The guarantee further reduces to zero on the third anniversary of achievement of the operating deficit requirements. Operating deficit advances bear interest at 8%. There has been no operating deficit advances made to Highland Park as of December 31, 2016.

The Authority has also guaranteed the amount of the low-income housing tax credits to be generated by the project. Total operating deficit and tax credit and guarantees shall not exceed the cumulative amount of \$1,000,000.

Highland Park has entered into a R&O Agreement with the Authority. Provisions of the agreement require Highland Park to maintain 46 units as public housing units. With regards to the public housing units, the Authority is to pay operating subsidies to Highland Park equal to primarily the allowable expense level determined by HUD annually, less rents received from tenants residing in the public housing units. The agreement will expire upon the latest to occur of the expiration of the minimum period during which the public housing is required by law to be operated as such, the expiration of 40 years from the date of first occupancy (November 2044), and repayment of the subordinated mortgage note payable to the Authority. Operating subsidies totaling \$129,695 were incurred during the year ended December 31, 2016. Operating subsidy payables were \$4,433 as of December 31, 2016.

The Authority is to be paid an authority oversight fee to cover its asset management responsibilities in administering the operating subsidy in the amounts of \$46,000. The Authority will forego the authority oversight fee to the extent of any public housing shortfall. Highland Park did not incur oversight fees for the period ended December 31, 2016. Accrued authority oversight fees were \$34,938 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS (cont.)

Component Units (cont.)

Cherry Court

Cherry Court entered into a management agreement with Friends. Under this agreement, Cherry Court is obligated to pay a monthly management fee equal to \$28.00 per unit for 2016, not to exceed 6% of gross annual income. The management fees incurred under this agreement totaled \$39,720 for the year ended December 31, 2016. Friends is also paid an administrative fee related to application review, home visits, and completing the tenant income certification related to certifying tenant compliance.

Cherry Court is obligated to pay the investor member an annual cumulative asset management fee of \$3,500. The asset management fee shall increase annually by 3% and is only payable from cash flow. Asset management fees incurred were \$4,702 for the year ended December 31, 2016.

The Authority has guaranteed the amount of the low-income housing tax credits to be generated by the project. Total operating deficit and tax credit guarantees shall not exceed the cumulative amount of \$300,000.

Cherry Court has entered into a R&O Agreement with the Authority. Provisions of the agreement require Cherry Court to maintain 70 units as public housing units. With regards to the public housing units, the Authority is to pay operating subsidies to Cherry Court equal to primarily the allowable expense level determined by HUD annually, less rents received from tenants residing in the public housing units. The agreement will expire upon the latest to occur of the expiration of the minimum period during which the public housing is required by law to be operated as such, the expiration of 40 years from the date of first occupancy (August 2046), and repayment of the subordinated mortgage notes payable to the Authority. Operating subsidies totaling \$189,828 were incurred during the year ended December 31, 2016. Included in accounts receivable on the statement of net position are operating subsidy receivables of \$0 as of December 31, 2016. Included in accounts payable of the statement of net position are operating subsidies payable of \$5,736 as of December 31, 2016.

The Authority is to be paid an authority oversight fee to cover its asset management responsibilities in administering the operating subsidy in the amounts of \$70,000. The Authority will forego the authority oversight fee to the extent of any public housing shortfall. Authority oversight fees totaled \$42,298 for the year ended December 31, 2016. Accrued authority oversight fees were \$42,298 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS (cont.)

Component Units (cont.)

Convent Hill

Convent Hill is obligated to pay the investor member or its affiliate an annual asset management fee in the initial amount \$3,500. Such fee shall be paid quarterly and shall be cumulative to the extent not paid in full in any quarter. The asset management fee shall increase annually by 3%. Asset management fees incurred were \$4,303 for the year ended December 31, 2016. Accrued asset management fees were \$4,303 as of December 31, 2016.

The Authority has guaranteed the amounts of the low income housing tax credits to be generated by the project. Total tax credit guarantees shall not exceed \$100,000.

Convent Hill has entered into an R&O Agreement with the Authority. Provisions of the agreement require Convent Hill to maintain 42 units as public housing units. With regards to the public housing units, the Authority is to pay operating subsidies to Convent Hill equal to primarily the allowable expense level determined by HUD annually, less rents received from tenants residing in the public housing units. The agreement will expire upon the latest to occur of the expiration of the minimum period during which the public housing is required by law to be operated as such, the expiration of 40 years from the date of first occupancy (October 2047), and repayment of the subordinated mortgage notes payable to the Authority. Operating subsidies totaling \$123,472 were earned during the year ended December 31, 2016. Included in accounts payable on statement of net position are operating subsidy payables of \$23,377 as of December 31, 2016.

Convent Hill entered into a Declaration of Condominium agreement (Declaration) with Convent Hill Retail, LLC; FOH, LLC; and Convent Hill Gardens Limited Partnership to form Convent Hill Condominium Association, Inc. (Association). Under the agreement, the building was divided into six units, one of which is occupied by the project. The Declaration specifies that the project's percentage interest in general common elements (i.e. the building, roof, and foundation, mechanical rooms, driveways, and sidewalks) is 59.99%. The Declaration specifies that the project's percentage interest in limited common elements specific to the residential units only (includes computer room, lobby, community room, laundry facilities, kitchen, outdoor terraces etc.) is 68.17%. The project's percentage interest in limited common elements specific to the residential units and the office unit (includes corridors and electrical rooms) is 65.7%.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS (cont.)

Component Units (cont.)

Convent Hill (cont.)

The Board of Directors of the Association shall annually adopt a budget of common expenses and assess each unit accordingly. The assessments for these common expenses are payable in monthly installments and are based on the limited common elements percentages identified in the previous paragraph. However, if and to the extent the Board determines that usage or benefit of any particular common expense varies among the units, the board may allocate such differential common expenses to individual units based on the Board's best estimate. Included in the common expenses are costs such as utilities, landscaping, shared labor and materials, janitorial services, insurance, garbage and recycling services, elevator and the office telephone. Condominium fees totaled \$290,198 for the year ended December 31, 2016.

Scattered Sites

Scattered Sites entered into a development services agreement with the Authority. The agreement provides for Scattered Sites to pay a development fee totaling \$700,000 to the Authority. The portion of the fee not paid under this agreement will bear interest at the long term applicable federal rate (8%) in effect on the Placement in Service date, compounded annually. Development fee payable was paid off in 2009. Accrued interest on the development fee was \$9,271 as of December 31, 2016.

Scattered Sites is obligated to pay the special member or its affiliate an annual asset management fee in the initial amount of \$3,500. Such fee shall be cumulative to the extent not paid in full in any year. The asset management fee shall increase annually by 3%. Asset management fees incurred were \$4,434 for the year ended December 31, 2016. Accrued asset management fees were \$4,434 as of December 31, 2016.

Scattered Sites has entered into an R&O Agreement with the Authority. Provisions of the agreement require Scattered Sites to maintain 24 units as public housing units. With regards to the public housing units, the Authority is to pay operating subsidies to Scattered Sites equal to primarily the allowable expense level determined by HUD annually, less rents received from tenants residing in the public housing units. The agreement will expire upon the latest to occur of the expiration of the minimum period during which the public housing is required by law to be operated as such, the expiration of 40 years from the date of first occupancy (October 2047), and repayment of the Authority's mortgage notes payable. Operating subsidies totaling \$105,632 were earned during the year ended December 31, 2016. Included in accounts payable on the statement of net position are operating subsidy payables of \$4,152 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS (cont.)

Component Units (cont.)

Scattered Sites II

In accordance with the operating agreement, the managing member agrees to fund any operating deficits incurred by Scattered Sites II at any time during the three years after the stabilized operations date. Any funds advanced shall be repaid, without interest, in accordance to the cash flow provisions. As of December 31, 2016, no amounts were due to the managing member.

In accordance with the operating agreement, Scattered Sites II will pay an annual fee of \$3,500 to the special member or its affiliate for an annual review of the operations of Scattered Sites II and sites. If there is not sufficient cash flow, any portion of the fee which is not paid shall accrue without interest until there is sufficient cash flow. Accrued asset management fees were \$3,500 as of December 31, 2016.

In accordance with the operating agreement, Scattered Sites II is obligated to pay the manager an annual fee of \$7,500 for its overview of the management of Scattered Sites II and the sites effective January 1, 2010. Such fee will be paid on a monthly basis in arrears and will be cumulative to the extent not paid in full in any year. The fee shall increase annually by 3% of Scattered Sites II management fee for the preceding year. Scattered Sites II management fees were \$8,956 for the year ended December 31, 2016. Scattered Sites II management fee will be paid, without interest, from available cash flows. Accrued management fees as of December 31, 2016 were \$16,289.

Olga Village

Property management fees are incurred pursuant to a management fee agreement based on an initial management fee of \$23 per unit per month, but in no event will the annual manage fee agreement exceed 6% of the annual gross revenues. The term of the agreement will continue for successive terms of one year unless terminated by either party. Total management fees incurred for the year ended December 31, 2016 were \$10,878.

In accordance with the operating agreement, Olga Village will pay an annual fee equal to \$1,850 to its investor member. The fee shall increase by 10% on each fifth anniversary. If sufficient cash flow does not exist, any portion of the fee which is not paid shall accrue without interest until there is sufficient cash flow. As of December 31, 2016, there were accrued asset management fees of \$2,035.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS (cont.)

Component Units (cont.)

Olga Village (cont.)

In accordance with the operating agreement and development services agreement, Olga Village is obligated to pay the Authority, the developer, an aggregate fee of \$1,026,952 in exchange for their services, which had been paid in full. The deferred developer fee included interest at the long-term applicable federal rate (3.86%) in effect on the completion date (August 30, 2011), compounding annually with payment no later than the twelfth anniversary of the completion date. Accrued interest on the deferred developer fee was \$9,172 as of December 31, 2016 and is included in accrued interest on the balance sheet.

Olga Village had accounts payable to the Authority and Friends of Housing, both related parties, totaling \$13,156 as of December 31, 2016. The amounts relate to expenses paid on Olga Village's behalf by the related parties for reimbursable expenses, including payroll, maintenance, and insurance. The balance is non-interest bearing and due on demand.

All units have been designated as public housing units under the regulatory and operating agreement between Olga Village and the Authority. Pursuant to the agreement, Olga Village receives operating subsidies toward the payment of operational costs of the public housing units. According to the agreement, Olga Village shall submit a yearly operating budget to the Authority for approval at least 90 days before commencement of the subsidy fiscal year. Based on this operating budget, the Authority shall pay, in monthly expenses for such period and budgeted public housing units income. Annually, there is to be a review of related project income and expenses, and a true-up adjustment is made to recognize additional amounts due to the Authority or to Olga Village. The true-up adjustment is recognized into earnings when received or paid. As of December 31, 2016, Olga Village received operating subsidies from the Authority in the amount of \$131,495.

Westlawn Renaissance

Westlawn Renaissance is obligated to pay an annual cumulative asset management fee to the investor member in the amount of \$12,500 commencing in 2013. Asset management fees incurred totaled \$12,500 for the year ended December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS (cont.)

Component Units (cont.)

Westlawn Renaissance (cont.)

Westlawn Renaissance is obligated to pay an annual cumulative company management fee to the manager in the amount of \$37,500 commencing in 2013. Such fee is payable only from cash flow, and shall be paid pursuant to the terms of the operating agreement. Company management fee incurred and accrued totaled \$37,500 for the year ended December 31, 2016. Included in other current liabilities are accrued company management fees totaling \$37,500 as of December 31, 2016.

For the subsequent 60 month period following the achievement of stabilized occupancy, the manager member is required to fund all operating deficits in the form of an operating deficit advance, with a maximum cumulative operating deficit advance of \$870,000. The operating deficit obligation period will be extended if Westlawn Renaissance is not achieving certain occupancy rates as defined in the operating agreement and/or the operating reserve is not fully funded. Any operating deficit advances shall be treated as a loan and be non-interest bearing. Operating deficit advances are repayable from available cash flow as defined in the operating agreement. There were no operating deficit advance loans made to Westlawn Renaissance as of December 31, 2016.

Westlawn Renaissance has entered into an R&O Agreement with the Authority. Provisions of the agreement require Westlawn Renaissance to maintain 64 units as public housing units. The Authority is to pay operating subsidies to Westlawn Renaissance equal to primarily the allowable expense level determined by HUD annually, less rents received from tenants residing in the public housing units. The agreement will expire upon the latest to occur of the expiration of the minimum period during which the public housing is required by law to be operated as such, the expiration of 40 years from the date of first occupancy (February 2052), or repayment of the subordinated mortgage notes payable to the Authority. Operating subsidies totaling \$238,942 were earned during the year ended December 31, 2016. Included in accounts receivable are operating subsidy receivables of \$25,090 as of December 31, 2016.

Westlawn Renaissance is obligated to pay the Authority an annual cumulative authority oversight fee in the amount of \$100,000 commencing in 2013 and every year thereafter. Authority oversight fee incurred totaled \$100,000 for the year ended December 31, 2016. Included in other current liabilities are accrued authority oversight fees totaling \$100,000 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS (cont.)

Component Units (cont.)

Lapham Park

For the 36 month period following the achievement of stabilized occupancy, the manager member is required to fund all operating deficits in the form of an operating deficit advance, with a maximum cumulative operating deficit advance of \$628,000. The operating deficit obligation period will be extended if Lapham Park is not achieving certain occupancy rates as defined in the operating agreement and/or the operating reserve is not fully funded. Any operating deficit advances shall be treated as a loan and be non-interest bearing. Operating deficit advances are repayable from available cash flow as defined in the operating agreement. There were no operating deficit advance loans made to Lapham Park as of December 31, 2016.

Lapham Park is obligated to pay an annual cumulative asset management fee to the investor member in the amount of \$52 per credit unit (\$10,452) commencing in 2013. Asset management fee incurred and accrued totaled \$10,452 for the year ended December 31, 2016.

Lapham Park is obligated to pay an annual cumulative company management fee to the manager in the amount equal to \$150 per credit unit (\$30,150) commencing in 2013. The fee is payable only from available cash flow as defined in the operating agreement. Company management fees incurred totaled \$30,150 for the year ended December 31, 2016. Included in accrued expenses are accrued company management fees totaling \$120,600 as of December 31, 2016.

Lapham Park has entered into an R&O Agreement with the Authority. Provisions of the agreement require Lapham Park to maintain 131 units as public housing units. With regard to the public housing units, the Authority is to pay operating subsidies to Lapham Park equal to primarily the allowable expense level determined by HUD annually, less rents received from tenants residing in the public housing units. The agreement will expire upon the latest to occur of the expiration of the minimum period during which the public housing is required by law to be operated as such, the expiration of 40 years from the date of first occupancy (November 2051), and repayment of the subordinated mortgage notes payable to the Authority. Operating subsidies totaling \$318,101 were earned during the year ended December 31, 2016. Included in accounts payable are operating subsidy payables of \$2,870 as of December 31, 2016.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2016

NOTE III – OTHER INFORMATION (cont.)

G. RELATED PARTY TRANSACTIONS (cont.)

Component Units (cont.)

Lapham Park (cont.)

Lapham Park is obligated to pay the Authority an annual cumulative authority oversight fee in the amount of \$30,150 commencing in 2013 and increasing by 3% every year thereafter. Authority oversight fee incurred and accrued totaled \$32,946 for the year ended December 31, 2016.

Lapham Park entered into a development agreement with the manager, which provides for the payment of a development fee of \$3,009,701. The entire fee has been capitalized into the cost of the buildings and is to be paid from capital contributions and project cash flow as set forth in the operating agreement. All unpaid amounts at the time of the project completion date shall bear interest at the long-term AFR as of the date of completion (2.4%), compounded annually. In the event the entire development fee has not been paid within 13 years of the date of completion of the project, the unpaid fee and accrued interest shall be paid by the manager member as a development fee advance which is only repayable from available cash flow. Development fee payable was \$2,283,010 as of December 31, 2016. Interest expense incurred on the development fee payable totaled \$57,026 for the year ended December 31, 2016. Accrued interest totaled \$57,026 as of December 31, 2016.

H. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENT

The Governmental Accounting Standards Board (GASB) has approved the following:

- *Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions*
- *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- *Statement No. 80, Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*
- *Statement No. 81, Irrevocable Split-Interest Agreements*
- *Statement No. 82, Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*

When they become effective, application of these standards may restate portions of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

SCHEDULE OF FUNDING PROGRESS As of and for the Year Ended December 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>Postemployment Health Care Plan</u>						
1/1/2016	\$ -	\$ 8,318,182	\$ 8,318,182	0%	\$ 10,877,938	76%
1/1/2013	-	6,731,967	6,731,967	0%	10,597,651	64%
1/1/2010	-	6,983,526	6,983,526	0%	10,503,022	66%

Note: The Authority is required to present the above information for the three most recent actuarial studies.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 Employees' Retirement System of the City of Milwaukee
 For the Year Ended December 31, 2016**

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
12/31/15	1.278258400%	\$ 1,450,000	\$ 6,772,000	21.41%	97.76%
12/31/16	1.166164300%	4,904,000	6,248,000	78.49%	98.20%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
 Employees' Retirement System of the City of Milwaukee
 For the Year Ended December 31, 2016**

<u>Fiscal Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
12/31/15	\$ 1,005,471	\$ 1,005,471	\$ -	\$ 9,562,255	10.51%
12/31/16	931,049	931,049	-	6,248,000	14.90%

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

As of and for the Year Ended December 31, 2016

FUNDING PROGRESS DATA

The data presented in the Schedule of Funding Progress was taken from the reports issued by the actuary.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE (SYSTEM)

The amounts presented in relation to the schedule of employer's proportionate share of the net pension liability and the schedule of employer contributions represents the specific data of the Authority. The Information was derived using a combination of the employer's contribution data along with data provided by the System in relation to the Authority as a whole.

Changes of benefit terms. There were no changes of benefit terms for any participating employer in ERS.

Change of assumptions. There were no changes in the assumptions.

The Authority is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
COMBINING SCHEDULE OF NET POSITION - PRIMARY GOVERNMENT
As of December 31, 2016

	Low-Income Housing Program	Veterans Housing Program	Housing Choice Voucher Program	General Fund	Totals
ASSETS					
Current Assets					
Cash and investments					
Unrestricted	\$ 8,396,765	\$ 7,998,185	\$ 680,212	\$ 11,041,937	\$ 28,117,099
Restricted - Other	203,916	2,540,602	3,336,163	1,040,150	7,120,831
Restricted - Tenant security deposits	666,198	466,902	-	-	1,133,100
Receivables					
HUD other projects	21,561	-	-	1,281,520	1,303,081
Tenants - dwelling rents	380,544	144,486	-	-	525,030
Allowance for doubtful accounts - dwelling rents	(53,229)	(18,793)	-	-	(72,022)
Miscellaneous	12,176	-	38,035	410,097	460,308
Current portion of notes receivable from Carver Park	-	-	-	1,000,000	1,000,000
Current portion of notes receivable from Highland Park	-	-	-	1,881	1,881
Accrued interest	5,103	-	-	-	5,103
Prepaid items	122,741	60,242	16,204	84,086	283,273
Total Current Assets	9,755,775	11,191,624	4,070,614	14,859,671	39,877,684
Noncurrent Assets					
Restricted Assets					
Cash and investments	-	9,140,461	752	132,618	9,273,831
Deferred mortgage receivable	808,184	-	-	146,821	955,005
Capital Assets					
Land	32,309,075	2,759,342	-	454,172	35,522,589
Construction in progress	973,080	903	-	483,222	1,457,205
Other capital assets, net of accumulated depreciation	55,390,404	2,887,946	-	5,020,102	63,298,452
Other Assets					
Long term interest receivable	10,956,441	-	-	1,683,643	12,640,084
Developer fee receivable	-	-	-	2,283,010	2,283,010
Notes receivable from Carver Park	5,597,181	-	-	827,517	6,424,698
Notes receivable from Highland Park	2,000,000	-	-	111,810	2,111,810
Notes receivable from Cherry Court	8,080,208	-	-	606,995	8,687,203
Notes receivable from Convent Hill	5,741,537	-	-	1,134,337	6,875,874
Notes receivable from Scattered Sites	-	-	-	2,318,300	2,318,300
Notes receivable from Scattered Sites II	-	-	-	1,107,578	1,107,578
Notes receivable from Olga Village	2,166,726	-	-	196,608	2,363,334
Notes receivable from Westlawn Renaissance	7,478,442	-	-	1,610,911	9,089,353
Notes receivable from Lapham Park	19,199,657	-	-	335,440	19,535,097
Total Noncurrent Assets	150,700,935	14,788,652	752	18,453,084	183,943,423
Total Assets	160,456,710	25,980,276	4,071,366	33,312,755	223,821,107
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	-	-	-	5,571,049	5,571,049

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
COMBINING SCHEDULE OF NET POSITION - PRIMARY GOVERNMENT
As of December 31, 2016

	Low-Income		Veterans		Housing Choice		General		Totals
	Housing Program	Housing Program	Housing Program	Voucher Program	Fund	Fund	Fund		
LIABILITIES									
Current Liabilities									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 4,174,712	\$ -	\$ -	\$ 4,185,897	
Accrued wages and benefits	1,572	-	-	-	467,291	-	-	468,863	
Other current liabilities	373,678	607,105	274,315	-	693,364	-	-	1,948,462	
Accrued interest	-	311,683	-	-	-	-	-	311,683	
Unearned revenue	2,500	-	-	-	-	-	-	2,500	
Due to other governments	1,428,013	1,126,367	-	-	1,046,842	-	-	3,601,222	
Current portion of bonds and notes payable	-	540,000	-	-	-	-	-	540,000	
Current portion of compensated absences	-	-	-	-	278,090	-	-	278,090	
Liabilities payable from restricted assets									
Tenant security deposits	666,198	466,902	-	-	-	-	-	1,133,100	
Total Current Liabilities	2,471,961	3,052,057	285,500	-	6,660,299	-	-	12,469,817	
Noncurrent Liabilities									
Long-Term Debt									
Mortgage revenue bonds payable	-	17,691,959	-	-	126,306	-	-	17,818,265	
Other Liabilities									
Compensated absences	-	-	-	-	648,876	-	-	648,876	
Net pension liability	-	-	-	-	4,904,000	-	-	4,904,000	
Net OPEB liability	-	-	-	-	5,515,920	-	-	5,515,920	
Total Noncurrent Liabilities	-	17,691,959	-	-	11,195,102	-	-	28,887,061	
Total Liabilities	2,471,961	20,744,016	285,500	-	17,855,401	-	-	41,356,878	
DEFERRED INFLOWS OF RESOURCES									
Deferred inflows related to HAP subsidy	-	-	3,233,466	-	-	-	-	3,233,466	
Deferred inflows related to pensions	-	-	-	-	394,000	-	-	394,000	
Total Deferred Inflows of Resources	-	-	3,233,466	-	394,000	-	-	3,627,466	
NET POSITION									
Net investment in capital assets	88,672,559	(2,167,456)	-	-	5,957,496	-	-	92,462,599	
Restricted									
Debt service	-	-	-	-	132,618	-	-	132,618	
Replacement reserve	-	1,265,503	-	-	-	-	-	1,265,503	
Home ownership program	1,655,254	-	-	-	146,821	-	-	1,802,075	
Housing choice voucher program	-	-	-	73,374	-	-	-	73,374	
Unrestricted	67,656,936	6,138,213	479,026	-	14,397,468	-	-	88,671,643	
TOTAL NET POSITION	\$ 157,984,749	\$ 5,236,260	\$ 552,400	\$ -	\$ 20,634,403	\$ -	\$ -	\$ 184,407,812	

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT
For the Year Ended December 31, 2016

	Low-Income Housing Program	Veterans Housing Program	Housing Choice Voucher Program	General Fund	Combining Adjustments	Totals
OPERATING REVENUES						
Tenant revenue						
Rentals	\$ 10,102,747	\$ 6,823,458	\$ -	\$ -	\$ -	\$ 16,926,205
Other tenant revenue	343,301	123,631	-	-	-	466,932
Total Tenant Revenue	10,446,048	6,947,089	-	-	-	17,393,137
HUD PHA grant revenue	13,388,816	-	37,073,456	2,133,824	-	52,596,096
Other Revenue						
Other revenue	1,513,256	222,197	286,926	442,809	-	2,465,188
Management Fees	-	-	-	3,789,826	(3,789,826)	-
Fees for Services	-	-	-	3,357,650	(3,357,650)	-
Bookkeeping Fees	-	-	-	341,153	(341,153)	-
Total Other Revenues	1,513,256	222,197	286,926	7,931,438	(7,488,629)	2,465,188
Total Operating Revenues	25,348,120	7,169,286	37,360,382	10,065,262	(7,488,629)	72,454,421
OPERATING EXPENSES						
Administrative	9,532,785	1,751,025	3,201,843	9,563,657	(4,130,979)	19,918,331
Tenant services	1,241,773	21,030	300	287,844	-	1,550,947
Utilities	4,104,560	855,722	-	84,175	-	5,044,457
Ordinary maintenance	6,156,407	1,733,865	7,731	3,932,866	(3,357,650)	8,473,239
Extraordinary maintenance	1,122,893	262,250	-	24,004	-	1,409,147
Protective services	19,213	-	-	2,125	-	21,338
Insurance premiums	719,235	230,820	99,263	168,924	-	1,218,242
Other general expenses	96,718	-	24,542	286	-	121,546
Casualty loss - non-capitalized	64,941	-	2,000	11,997	-	78,938
Payments in lieu of taxes	628,013	604,033	-	-	-	1,232,046
Bad debt - tenant rents	73,185	80,777	-	-	-	153,962
Housing assistance payments	-	-	34,414,342	-	-	34,414,342
Depreciation expense	5,127,912	523,480	-	358,433	-	6,009,825
Total Operating Expenses	28,887,635	6,063,002	37,750,021	14,434,331	(7,488,629)	79,646,360
Operating Income (Loss)	(3,539,515)	1,106,284	(389,639)	(4,369,069)	-	(7,191,939)

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT
For the Year Ended December 31, 2016

	Low-Income Housing Program	Veterans Housing Program	Housing Choice Voucher Program	General Fund	Combining Adjustments	Totals
NONOPERATING REVENUES (EXPENSES)						
Other government grants	\$ 189,876	\$ -	\$ -	\$ 71,043	\$ -	\$ 260,919
Investment income (loss)	1,502,990	134,588	2	436,367	-	2,073,947
Gain (loss) on disposal of capital assets	74,545	(9,187)	-	23,082	-	88,440
Interest expense	-	(619,659)	-	(10,595)	-	(630,254)
Total Nonoperating Revenues (Expenses)	1,767,411	(494,258)	2	519,897	-	1,793,052
Income (Loss) Before Transfers and Capital Contributions	(1,772,104)	612,026	(389,637)	(3,849,172)	-	(5,398,887)
CAPITAL CONTRIBUTIONS						
TRANSFERS IN	2,314,741	-	-	903,685	-	3,218,426
TRANSFERS OUT	2,346,420	316,575	-	15,000	(2,677,995)	-
	(15,000)	-	-	(2,662,995)	2,677,995	-
Change in Net Position	2,874,057	928,601	(389,637)	(5,593,482)	-	(2,180,461)
NET POSITION - Beginning of Year	155,110,692	4,307,659	942,037	26,227,885	-	186,588,273
NET POSITION - END OF YEAR	\$ 157,984,749	\$ 5,236,260	\$ 552,400	\$ 20,634,403	\$ -	\$ 184,407,812

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OTHER INFORMATION

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

PHA'S STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COSTS

For the Year Ended December 31, 2016

1. The Actual Modernization Costs are as follows:

	Project WI39-R002502-12	
Funds Approved	\$	40,709
Funds Expended		40,709
EXCESS OF FUNDS APPROVED		-
Funds Advanced		40,709
EXCESS OF FUNDS ADVANCED	\$	-

2. The distribution of costs by project as shown on the Final Actual Modernization Cost Certificate dated 3/23/16 accompanying the Actual Modernization Grant Cost Certificates submitted to HUD for approval is in agreement with PHA's records.
3. All modernization grant costs have been paid and all related liabilities have discharged through payment.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

PHA'S STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COSTS

For the Year Ended December 31, 2016

1. The Actual Modernization Costs are as follows:

	Project WI39-P002501-12	
Funds Approved	\$	4,445,679
Funds Expended		4,445,679
EXCESS OF FUNDS APPROVED		-
Funds Advanced		4,445,679
EXCESS OF FUNDS ADVANCED	\$	-

2. The distribution of costs by project as shown on the Final Actual Modernization Cost Certificate dated 3/23/16 accompanying the Actual Modernization Grant Cost Certificates submitted to HUD for approval is in agreement with PHA's records.
3. All modernization grant costs have been paid and all related liabilities have discharged through payment.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

PHA'S STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COSTS

For the Year Ended December 31, 2016

1. The Actual Modernization Costs are as follows:

	Project WI39-P002501-11	
Funds Approved	\$	5,398,790
Funds Expended		5,398,790
EXCESS OF FUNDS APPROVED		-
Funds Advanced		5,398,790
EXCESS OF FUNDS ADVANCED	\$	-

2. The distribution of costs by project as shown on the Final Actual Modernization Cost Certificate dated 3/23/16 accompanying the Actual Modernization Grant Cost Certificates submitted to HUD for approval is in agreement with PHA's records.
3. All modernization grant costs have been paid and all related liabilities have discharged through payment.

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

PHA'S STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COSTS

For the Year Ended December 31, 2016

1. The Actual Modernization Costs are as follows:

	Project WI39-C002501-11	
Funds Approved	\$	1,237,900
Funds Expended		1,237,900
EXCESS OF FUNDS APPROVED		-
Funds Advanced		1,237,900
EXCESS OF FUNDS ADVANCED	\$	-

2. The distribution of costs by project as shown on the Final Actual Modernization Cost Certificate dated 6/6/16 accompanying the Actual Modernization Grant Cost Certificates submitted to HUD for approval is in agreement with PHA's records.
3. All modernization grant costs have been paid and all related liabilities have discharged through payment.

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SINGLE AUDIT

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass through ID Number</u>	<u>Beginning Balance 1/1/2016</u>	<u>Grant Funds Received</u>	<u>Grant Funds Expensed</u>	<u>Ending Balance 12/31/2016</u>
MAJOR FEDERAL AWARD PROGRAMS						
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Public and Indian Housing	14.850	N/A	\$ -	\$ 8,834,817	\$ 8,834,817	\$ -
Public Housing Capital Fund	14.872	N/A				
2012 Fiscal Year			983,025	1,339,042	356,017	-
2013 Fiscal Year			386,016	1,039,288	653,272	-
2014 Fiscal Year			-	2,832,942	2,832,942	-
2015 Fiscal Year			-	609,744	808,453	198,709
2016 Fiscal Year			-	2,625,437	2,625,437	-
Total Public Housing Capital Fund			<u>1,369,041</u>	<u>8,446,453</u>	<u>7,276,121</u>	<u>198,709</u>
HOPE VI Cluster						
Choice Neighborhoods Implementation Grant	14.889	N/A	-	904,726	1,987,537	1,082,811
Housing Voucher Cluster						
Section 8 Housing Choice Vouchers	14.871	N/A	-	37,038,746	37,038,746	-
Total Major Federal Award Programs			<u>1,369,041</u>	<u>55,224,742</u>	<u>55,137,221</u>	<u>1,281,520</u>

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass through ID Number	Beginning Balance 1/1/2016	Grant Funds Received	Grant Funds Expensed	Ending Balance 12/31/2016
NONMAJOR FEDERAL AWARD PROGRAMS						
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Section 8 Project - Based Cluster						
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	N/A	5,649	40,359	34,710	-
Juvenile Reentry Assistance Program	14.897	N/A	-	-	21,561	21,561
Capital Fund Community Facilities	14.890	N/A	262,168	707,616	445,448	-
Resident Opportunity and Supportive Services	14.870	N/A	16,973	132,018	115,045	-
U.S. DEPARTMENT OF LABOR						
Passed through Employ Milwaukee						
Youthbuild	17.279	H0036-HACMYB-240-15-8110 M1	-	60,537	60,537	-
Total Federal Awards			\$ 1,653,831	\$ 56,165,272	\$ 55,814,522	\$ 1,303,081

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal grant activity of the Housing Authority of the City of Milwaukee (the Authority) under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3 – COGNIZANT AGENCY

The U.S. Department of Housing and Urban Development (HUD) has been designated as the federal cognizant agency for the Authority.

NOTE 4 – STATUS OF PRIOR YEAR FINDINGS

There were no findings of noncompliance identified as Federal Award Findings and Questioned Costs in the Report on Federal Awards for the year ended December 31, 2015.

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

Independent Auditors' Report

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

We have audited, 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, the financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Authority of the City of Milwaukee (the Authority) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 28, 2017. Our report includes a reference to other auditors who audited the financial statements of Carver Park Tax Credit Limited Partnership, Highland Park Community, LLC, Cherry Court Development, LLC, Convent Hill, LLC, Scattered Sites, LLC, Westlawn Renaissance, LLC, and Lapham Park, LLC as described in our report on the Authority's financial statements. The financial statements of Carver Park Tax Credit Limited Partnership, Highland Park Community, LLC, Cherry Court Development, LLC, Convent Hill, LLC, Scattered Sites, LLC, Scattered Sites II, LLC, Olga Village, LLC, Westlawn Renaissance, LLC, and Lapham Park, LLC were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Internal Control over Financial Reporting (continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Baker Tilly Veitchau Krause, LLP

Milwaukee, Wisconsin
September 28, 2017

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of Milwaukee's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Voichau Krause, LLP

Milwaukee, Wisconsin
September 28, 2017

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2016

Section I: Summary of Auditors' Results

Financial Statements

Type of auditor's report issued		unmodified		
Internal control over financial reporting				
Material weakness(es) identified?	_____	yes	_____ X _____	no
Significant deficiency(ies) identified?	_____	yes	_____ X _____	none reported
Noncompliance material to financial statements noted?	_____	yes	_____ X _____	no

Federal Awards

Internal control over major programs				
Material weakness(es) identified?	_____	yes	_____ X _____	no
Significant deficiency(ies) identified?	_____	yes	_____ X _____	none reported
Type of auditor's report issued on compliance for major programs:				
			unmodified	
Any audit findings disclosed that are required to be reported in accordance with section 516(a) of the Uniform Guidance?	_____	yes	_____ X _____	no
Auditee qualified as low-risk auditee?				
Federal programs	_____	X	yes	_____ no
Dollar threshold used to distinguish between Type A and Type B programs				
Federal			\$ 1,674,436	

Identification of major federal programs

CFDA NUMBER(S)

14.850
14.872

14.871

14.889

Name of Federal Program or Cluster

Public and Indian Housing
Public Housing Capital Fund
Housing Voucher Cluster
 Section 8 Housing Choice Vouchers
HOPE VI Cluster
 Choice Neighborhoods Implementation Grant

HOUSING AUTHORITY OF THE CITY OF MILWAUKEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2016

Section II: Financial Statement Findings

There were no findings required to be reported in accordance with Generally Accepted Government Auditing Standards.

Section III: Federal Awards Findings and Questioned Costs

There were no findings or questioned costs required to be reported related to federal awards.