

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**  
Stoughton, Wisconsin

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2017

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

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As of and for the Year Ended December 31, 2017

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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Housing Authority of the City of Stoughton  
Stoughton, Wisconsin

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Housing Authority of the City of Stoughton, Wisconsin, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of Stoughton'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 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.

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 Stoughton'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 Stoughton'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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Housing Authority of the City of Stoughton, Wisconsin, as of December 31, 2017 and the respective changes in financial position and, where applicable, 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.

#### *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 Stoughton's basic financial statements. The accompanying supplementary information as listed in the table of contents 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 accompanying supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018 on our consideration of the Housing Authority of the City of Stoughton'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 Stoughton's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2018

## HOUSING AUTHORITY OF THE CITY OF STOUGHTON

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) As of and For the Year Ended December 31, 2017

Management's Discussion and Analysis (MD&A), prepared by management of the Housing Authority of the City of Stoughton (the "Authority"), is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (its ability to address the next and subsequent years' challenges), and (d) identify individual fund issues or concerns.

Since Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements.

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#### FINANCIAL HIGHLIGHTS

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The Authority's total net position decreased by \$11,690 in 2017. Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net position. Net positions were a deficit of (\$36,100) and (\$24,410) for 2017 and 2016, respectively.

The business-type activities revenue decreased by \$41,521, or 6.60% in 2017 and totaled \$587,444 and \$628,965 for 2017 and 2016, respectively.

The total expenses of the Authority's programs decreased by \$14,632 or 2.38%, in 2017. Total expenses were \$599,134 and \$613,766 for 2017 and 2016, respectively.

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#### OVERVIEW OF THE FINANCIAL STATEMENTS

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The Authority's financial statements are comprised of the following components:

- I. Management's Discussion and Analysis
- II. Basic financial statements:
  - A. Authority-wide financial statements, organized on the basis of the major funds
  - B. Notes to financial statements

The focus of these financial statements is on the Authority as a whole and on major funds. Both perspectives allow the user to address relevant questions, broaden a basis for comparison (year to year) and enhance the Authority's accountability.

The financial statements are designed to be corporate-like in that all business-type activities are consolidated into columns, which add to a total for the entire Authority.

These statements include a Statement of Net Position, which is similar to a balance sheet. The statement of net position reports all financial and capital resources for the Authority. The statement is presented in the format where assets minus liabilities equal "net position." Assets and liabilities are presented in order of liquidity, and are classified as "current" (convertible into cash within a year), and "noncurrent."

## HOUSING AUTHORITY OF THE CITY OF STOUGHTON

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) For the Year Ended December 31, 2017

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#### OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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The focus of the statement of net position is the net position (or total assets minus total liabilities) of each of the major funds and the entire Authority. Net position is reported in three broad categories:

##### ***NET POSITION, 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, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

##### ***UNRESTRICTED NET POSITION***

This component consists of net position that does not meet the definition of "net position, net investment in capital assets" or "restricted net position."

The Authority-wide financial statements also include a Statement of Revenues, Expenses and Changes in Net Position (similar to an income statement). This statement includes operating revenue, such as rental income; operating expenses, such as administration, utilities, and maintenance; nonoperating revenues, such as interest subsidies and housing assistance payments; and nonoperating expenses, such as interest expense.

The focus of the statement of revenues, expenses and changes in net position is the "change in net position," of each of the major funds and the entire Authority, which is similar to net income or loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by or used for operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

##### ***MAJOR FUNDS***

The focus of the Authority's financial statements is now on major funds, rather than fund types. The Authority consists of exclusively proprietary or business-type funds. Proprietary funds utilize the full accrual basis of accounting. The accrual basis of accounting is similar to accounting utilized in the private sector.

The two funds maintained by the Authority are required by the Department of Housing and Urban Development (HUD) and consist of the following major funds:

HUD Section 8 Program – Greenspire I (& II) is a combined HUD/Rural Development program with housing assistance payments paid by HUD; the loan is financed by Rural Development.

Rural Rental Assistance – Greenspire III is funded by a mortgage loan through the Federal Rural Development Office.

# HOUSING AUTHORITY OF THE CITY OF STOUGHTON

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) For the Year Ended December 31, 2017

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### **AUTHORITY-WIDE FINANCIAL STATEMENT ANALYSIS**

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The following table presents the condensed Statement of Net Position compared to the prior year.

**Table 1  
Statement of Net Position**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets	\$ 173,917	\$ 198,091
Noncurrent assets		
Restricted assets	475,929	412,815
Capital assets, net of accumulated depreciation	<u>852,125</u>	<u>927,001</u>
Total Assets	<u>1,501,971</u>	<u>1,537,907</u>
<b>LIABILITIES</b>		
Current liabilities	62,188	80,900
Long-term liabilities	<u>1,475,883</u>	<u>1,481,417</u>
Total Liabilities	<u>1,538,071</u>	<u>1,562,317</u>
<b>NET POSITION</b>		
Net investment in capital assets (deficit)	(635,475)	(592,471)
Restricted for reserve account	475,929	412,815
Unrestricted	<u>123,446</u>	<u>155,246</u>
Total Net Position (Deficit)	<u>\$ (36,100)</u>	<u>\$ (24,410)</u>



## HOUSING AUTHORITY OF THE CITY OF STOUGHTON

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)  
For the Year Ended December 31, 2017

### AUTHORITY-WIDE FINANCIAL STATEMENT ANALYSIS (cont.)

**MAJOR FACTORS AFFECTING NET POSITION**

Table 2 compares revenues and expenses for the current and prior year.

**Table 2**  
**Statement of Revenues, Expenses and Changes in Net Position**

	2017	2016
<b>REVENUES</b>		
Program Revenues		
Rents	\$ 291,392	\$ 304,180
Interest subsidies income	84,792	111,956
Housing assistance payments	176,490	175,528
Debt subsidy payments	24,662	24,662
General Revenues		
Investment income	761	661
Other income	9,347	11,978
Total Revenue	587,444	628,965
<b>EXPENSES</b>		
Administration	114,273	105,843
Maintenance	117,590	121,153
Depreciation	120,596	121,758
Utilities	58,331	56,895
Tax/Insurance	76,602	76,952
Overage	6,654	-
Interest expense	105,088	131,165
Total Expenses	599,134	613,766
Change in net position	(11,690)	15,199
TOTAL NET POSITION – Beginning of Year (Deficit)	(24,410)	(39,609)
TOTAL NET POSITION– END OF YEAR (DEFICIT)	\$ (36,100)	\$ (24,410)

**MAJOR FACTORS AFFECTING REVENUES, EXPENSES, CONTRIBUTIONS AND CHANGES IN NET POSITION**

Total revenue decreased by \$41,521 due mainly to a decrease in interest subsidies. Total expenses decreased by \$14,632 in large part due to a decrease in interest expense due to refinancing of Greenspire I & II loans.

# HOUSING AUTHORITY OF THE CITY OF STOUGHTON

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) For the Year Ended December 31, 2017

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### CAPITAL ASSETS AND DEBT ADMINISTRATION

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#### CAPITAL ASSETS

As of December 31, 2017, the Authority had \$852,125 in net capital assets as reflected in the following table. This is a decrease from the prior year due to the current year net deletions of \$45,721, less the current year's provision for depreciation of \$120,596.

**Table 3  
Capital Assets**

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 326,106	\$ 326,106
Construction work in progress	9,605	-
Buildings and improvements	3,227,987	3,220,428
Equipment/furniture/fixtures	<u>244,288</u>	<u>239,290</u>
Total Capital Assets	3,807,986	3,785,824
Less: accumulated depreciation	<u>(2,955,861)</u>	<u>(2,858,824)</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 852,125</u>	<u>\$ 927,000</u>

Additional information on the Authority's capital assets can be found in Note III.C of this report.

#### DEBT OUTSTANDING

As shown in the following table, the Authority's debt at December 31, 2017 consisted of mortgage notes payable to Rural Development of \$1,487,600, a decrease from the prior year of \$31,872 due to debt refinance and repayments.

**Table 4  
Outstanding Debt**

	<u>2017</u>	<u>2016</u>
Mortgage loan – beginning balance	\$ 1,519,472	\$ 1,563,787
Current year additions	675,346	-
Current year payments	<u>(707,218)</u>	<u>(44,315)</u>
Mortgage Loan – Ending Balance	<u>\$ 1,487,600</u>	<u>\$ 1,519,472</u>

Additional information on the Authority's long-term debt can be found in Note III.D. of this report.

## **HOUSING AUTHORITY OF THE CITY OF STOUGHTON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**  
(Unaudited)

For the Year Ended December 31, 2017

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### **ECONOMIC FACTORS**

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The Authority relies upon HUD and Rural Development as its primary sources of funding. The continued success of the Authority and its programs will depend on stability in future federal funding.

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### **FINANCIAL CONTACT**

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The individuals to be contacted regarding this report are Kathy Olson or Sue Broihahn, at 608 222 1981. Specific requests may be submitted to Sue Broihahn, Broihahn Management & Consulting, 6200 Gisholt Drive, Suite 104, Madison, WI 53713.

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

STATEMENT OF NET POSITION  
As of December 31, 2017

	Major Funds		Totals
	Greenspire I	Greenspire III	
<b>ASSETS</b>			
Current Assets			
Cash and investments	\$ 99,230	\$ 26,488	\$ 125,718
Cash and investments - security deposit account	16,792	11,746	28,538
Cash and investments - escrow account	-	6,793	6,793
Accounts receivable	3,898	4,352	8,250
Prepaid insurance	3,233	1,385	4,618
Total Current Assets	<u>123,153</u>	<u>50,764</u>	<u>173,917</u>
Restricted Assets			
Cash and investments - reserve account	<u>377,922</u>	<u>98,007</u>	<u>475,929</u>
Total Restricted Assets	<u>377,922</u>	<u>98,007</u>	<u>475,929</u>
Land	70,851	46,340	117,191
Construction work in progress	9,605	-	9,605
Property and equipment	2,458,603	1,222,587	3,681,190
Less: Accumulated depreciation	<u>(2,090,963)</u>	<u>(864,898)</u>	<u>(2,955,861)</u>
Net Property and Equipment	<u>448,096</u>	<u>404,029</u>	<u>852,125</u>
<b>TOTAL ASSETS</b>	<u>\$ 949,171</u>	<u>\$ 552,800</u>	<u>\$ 1,501,971</u>

	Major Funds		Totals
	Greenspire I	Greenspire III	
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 11,287	\$ 8,535	\$ 19,822
Accrued interest payable	974	1,137	2,111
Tenant security deposits payable	16,792	11,746	28,538
Current portion of long-term debt	5,552	6,165	11,717
Total Current Liabilities	<u>34,605</u>	<u>27,583</u>	<u>62,188</u>
Long-Term Debt Net of Current Maturities			
Mortgage notes	<u>667,533</u>	<u>808,350</u>	<u>1,475,883</u>
Total Liabilities	<u>702,138</u>	<u>835,933</u>	<u>1,538,071</u>
Net Position			
Net investment in capital assets (deficit)	(224,989)	(410,486)	(635,475)
Restricted for reserve account	377,922	98,007	475,929
Unrestricted	94,100	29,346	123,446
Total Net Position (Deficit)	<u>247,033</u>	<u>(283,133)</u>	<u>(36,100)</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 949,171</u>	<u>\$ 552,800</u>	<u>\$ 1,501,971</u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
For the Year Ended December 31, 2017

	Major Funds		Totals
	Greenspire I	Greenspire III	
<b>OPERATING REVENUES</b>			
Rental income	\$ 170,743	\$ 120,649	\$ 291,392
Other income	4,660	4,687	9,347
Total Operating Revenues	<u>175,403</u>	<u>125,336</u>	<u>300,739</u>
<b>OPERATING EXPENSES</b>			
Advertising	2,165	949	3,114
Office supplies	802	431	1,233
Management fees	35,547	15,453	51,000
Professional fees	11,238	4,084	15,322
Other administrative expense	32,413	11,191	43,604
Utilities	39,054	19,277	58,331
Maintenance payroll and benefits	25,325	10,854	36,179
Other maintenance and operating expense	61,509	19,902	81,411
Depreciation	82,635	37,961	120,596
Insurance expense	21,198	9,085	30,283
Payments in lieu of taxes	32,423	13,896	46,319
Total Operating Expenses	<u>344,309</u>	<u>143,083</u>	<u>487,392</u>
Operating Loss	<u>(168,906)</u>	<u>(17,747)</u>	<u>(186,653)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest subsidy income	25,478	59,314	84,792
Debt subsidy payments	-	24,662	24,662
Housing assistance payments	176,490	-	176,490
Investment income	700	61	761
Overage expense	(6,654)	-	(6,654)
Interest expense	<u>(34,535)</u>	<u>(70,553)</u>	<u>(105,088)</u>
Total Nonoperating Revenues (Expenses)	<u>161,479</u>	<u>13,484</u>	<u>174,963</u>
<b>CHANGE IN NET POSITION</b>	(7,427)	(4,263)	(11,690)
NET POSITION (DEFICIT) – Beginning of Year	<u>254,460</u>	<u>(278,870)</u>	<u>(24,410)</u>
<b>NET POSITION (DEFICIT) – END OF YEAR</b>	<u>\$ 247,033</u>	<u>\$ (283,133)</u>	<u>\$ (36,100)</u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2017

	Major Funds		Totals
	Greenspire I	Greenspire III	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Rental income	\$ 177,223	\$ 120,649	\$ 297,872
Other operating receipts	-	2,578	2,578
Paid to suppliers for goods and services	(222,589)	(88,778)	(311,367)
Paid to city in lieu of tax	(32,423)	(13,896)	(46,319)
Net Cash Flows From Operating Activities	<u>(77,789)</u>	<u>20,553</u>	<u>(57,236)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Housing assistance payments	<u>176,490</u>	<u>-</u>	<u>176,490</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Debt retired	\$ (18,279)	\$ -	\$ (18,279)
Interest paid	(8,158)	-	(8,158)
Acquisition and construction of capital assets	(37,737)	(14,637)	(52,374)
Net Cash Flows From Capital and Related Financing Activities	<u>(64,174)</u>	<u>(14,637)</u>	<u>(78,811)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	<u>700</u>	<u>20</u>	<u>720</u>
<b>Net Increase in Cash and Cash Equivalents</b>	35,227	5,936	41,163
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>458,717</u>	<u>72,419</u>	<u>531,136</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 493,944</u>	<u>\$ 78,355</u>	<u>\$ 572,299</u>

	Major Funds		Totals
	Greenspire I	Greenspire III	
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating loss	\$ (168,906)	\$ (17,747)	\$ (186,653)
Adjustments to reconcile operating loss to net cash flows from operating activities			
Depreciation	82,635	37,961	120,596
Change in assets and liabilities			
Accounts receivable	4,275	(2,013)	2,262
Accounts payable	6,662	2,448	9,110
Tenant security deposits payable	(2,455)	(96)	(2,551)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ (77,789)</b>	<b>\$ 20,553</b>	<b>\$ (57,236)</b>

<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>			
Cash and investments	\$ 99,230	\$ 26,488	\$ 125,718
Cash and investments - security deposit account	16,792	11,746	28,538
Cash and investments - escrow account	-	6,793	6,793
Cash and investments - reserve account	377,922	98,007	475,929
Less: Noncash equivalents	-	(64,679)	(64,679)
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 493,944</b>	<b>\$ 78,355</b>	<b>\$ 572,299</b>

**NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES**

In 2017, Rural Housing Service of the U.S. Department of Agriculture made direct payments on the Greenspire III Phase I and Phase II loans of \$13,592 and interest payments of \$11,070.

The interest expense on the Rural Rental Housing Loans of \$84,792 was forgiven for the year ended December 31, 2017; \$25,478 of interest expense related to Greenspire I and \$59,314 related to Greenspire III.



**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

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As of and for the Year Ended December 31, 2017

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**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

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**NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**A. REPORTING ENTITY**

The Housing Authority of the City of Stoughton, Wisconsin (the "Authority") was formed in 1980 by the City of Stoughton (the city) to provide rental housing for low income and elderly persons in the Stoughton, Wisconsin area. The Greenspire I and Greenspire II Projects (which were combined in 1991) form a 64-unit apartment complex, which began operations in June, 1978 and January, 1980, respectively. The Greenspire III – Phase I Project was completed in 1988 and has 12 units. Construction of the Greenspire III – Phase II Project, a 16 unit complex, began in 1989, and was completed in May 1990. The Authority is a related organization to the City of Stoughton.

**B. BASIC FINANCIAL STATEMENTS**

Financial statements of the Authority are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position, revenues, and expenses.

Major individual enterprise funds are reported as separate columns in the basic financial statements.

Funds are organized as major funds or non-major funds within the statements. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the Authority or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenses of that individual enterprise fund are at least 10% of the corresponding total for all funds of that category or type.
- b. In addition, any other enterprise fund that the Authority believes is particularly important to financial statement users may be reported as a major fund.

Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services, and must be used for activities which meet certain debt or cost recovery criteria.

The Authority reports the following major enterprise funds:

*Major Enterprise Funds*

- Greenspire I – accounts for the Authority's operating activities at Greenspire I.
- Greenspire III – accounts for the Authority's operating activities at Greenspire III.

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

Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

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

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**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)**

The enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Authority are rental charges to tenants. Operating expenses for enterprise funds include the cost of operating the units owned by the Authority, including depreciation, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY**

**1. Deposits and Investments**

For purposes of the statement of cash flows, the Authority considers all highly liquid investments 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.

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

The Authority does not have an investment policy.

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

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

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**D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (cont.)**

**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. 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 of municipal accounting funds 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.

See Note III.A. for further information.

**2. Receivables**

Accounts receivable have been adjusted for all known uncollectible accounts. No allowance is necessary at year-end.

**3. Prepaid Items**

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

**4. Restricted Assets**

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond 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.

**5. Capital Assets**

Capital assets are generally defined by the Authority as assets with an initial cost of more than \$500 for general capital assets, and an estimated useful life in excess of one 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 acquisition value at the date of donation. The Authority has no infrastructure assets.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

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

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**D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (cont.)**

**5. Capital Assets (cont.)**

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of revenues, expenses, and changes in net position, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Land improvements	10 - 20
Buildings	40
Building improvements	10 - 20
Furniture and fixtures	5 - 10
Equipment	5 - 10

**6. Long-Term Obligations**

All long-term obligations to be repaid from enterprise fund resources are reported as liabilities in the financial statements. The long-term obligations consist primarily of mortgages payable.

**7. Equity Classifications**

Equity is classified as net position and displayed in three components:

- 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 bond 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 the 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 position that does not meet the definition of "restricted" or "net investment in capital assets."

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

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**NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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**A. DEFICIT BALANCES**

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year-end.

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

**NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)**

**A. DEFICIT BALANCES (cont.)**

As of December 31, 2017, the following individual fund held a deficit balance:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
Greenspire III	\$ 283,133	Expenses in excess of revenues

This deficit is anticipated to be funded with future revenues and governmental grants.

**NOTE III – DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

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

	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Associated Risks</u>
Deposits	\$ 636,718	\$ 641,674	Custodial credit
Petty cash	260	-	N/A
<b>Total Cash and Investments</b>	<b><u>\$ 636,978</u></b>	<b><u>\$ 641,674</u></b>	

Reconciliation to financial statements

Per statement of net position

Cash and investments	\$ 125,718
Cash and investments – security deposit account	28,538
Cash and investments – escrow account	6,793
Cash and investments – reserve account	<u>475,929</u>
<b>Total Cash and Investments</b>	<b><u>\$ 636,978</u></b>

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 amounts (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 deposits.

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

**NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)**

**A. DEPOSITS AND INVESTMENTS (cont.)**

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

***Custodial Credit Risk***

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.

The Authority has no deposits exposed to custodial credit risk.

See Note I.D.1. for further information on deposit and investment policies.

**B. RESTRICTED ASSETS**

Provisions in the loan agreement require establishment of various cash accounts. All receipts must be deposited into the General Fund Account. Monthly, cash is to be transferred into an Operation and Maintenance Account to cover necessary expenses. Any balance remaining in the General Fund Account is to be transferred to the Debt Service Account until the amount in this account equals the amount of the next installment due on the mortgage. The Authority is permitted to retain operating reserves equal to 20% of the current approved operating budget. Any balance still remaining in the General Fund Account in excess of allowable reserves is to be transferred to the Reserve Account until the Reserve Account reaches \$256,000 for Greenspire I and \$97,400 for Greenspire III. Any funds which exceed the required reserves and not approved by FmHA for other authorized uses shall be applied promptly against the loan obligations, or made as additional contributions to the reserve funds.

At December 31, 2017, Greenspire I had excess funds in the general account of \$22,071 and the required reserve amount of \$256,000 was met. During 2017, the Authority transferred additional funds to the required reserve account. The actual reserve balance was \$377,922 as of December 31, 2017. As a result, the reserve account was overfunded by \$121,922 as of December 31, 2017.

At December 31, 2017, Greenspire III had no excess funds in the general account and the required reserve amount of \$97,400 was met.

Following is a list of restricted assets for Greenspire I and Greenspire III:

	December 31, 2017
Reserve account – Greenspire I	\$ 377,922
Reserve account – Greenspire III	98,007
Total	\$ 475,929

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

**NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)**

**B. RESTRICTED ASSETS (cont.)**

The statement of cash flows shows an increase in total cash and cash equivalents for 2017 of \$41,163. The changes in cash and cash equivalents are further broken down between restricted and unrestricted balances as follows:

	2017
Increase in Cash and Cash Equivalents	
Restricted balances	\$ 63,114
Unrestricted balances (decrease)	(21,951)
Total Increase in Cash and Cash Equivalents	\$ 41,163

**C. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	\$ 117,191	\$ -	\$ -	\$ 117,191
Construction work in progress	-	9,605	-	9,605
Total Capital Assets Being Depreciated	\$ 117,191	\$ 9,605	\$ -	\$ 126,796
Capital assets being depreciated				
Land improvements	\$ 208,915	\$ -	\$ -	\$ 208,915
Buildings	2,411,320	-	-	2,411,320
Building improvements	809,108	33,897	26,339	816,666
Furniture and fixtures	184,160	4,067	693	187,534
Equipment	55,130	1,625	-	56,755
Total Capital Assets Being Depreciated	3,668,633	39,589	27,032	3,681,190
Less: Accumulated depreciation for				
Land improvements	(115,127)	(12,020)	-	(127,147)
Buildings	(2,002,678)	(61,009)	-	(2,063,687)
Buildings and improvements	(561,897)	(36,743)	22,866	(575,774)
Furniture and fixtures	(145,786)	(7,376)	693	(152,469)
Machinery and equipment	(33,336)	(3,448)	-	(36,784)
Total Accumulated Depreciation	(2,858,824)	(120,596)	23,559	(2,955,861)
Total Capital Assets Being Depreciated	\$ 809,809	\$ (81,007)	\$ 3,473	\$ 725,329



**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

**NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)**

**C. CAPITAL ASSETS (cont.)**

Depreciation expense was charged to functions as follows:

Greenspire I	\$ 82,635
Greenspire III	<u>37,961</u>
Total Depreciation Expense	<u>\$ 120,596</u>

**D. LONG-TERM OBLIGATIONS**

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Notes Payable:					
Mortgage Notes	<u>\$ 1,519,472</u>	<u>\$ -</u>	<u>\$ 31,872</u>	<u>\$ 1,487,600</u>	<u>\$ 11,717</u>

**Mortgage Notes**

The Authority has the following mortgages through the Rural Housing Service of the United States Department of Agriculture:

	2017
\$712,600 loan for Greenspire I construction at 8% reduced to an effective rate of 1% through an interest credit agreement. In 2017, the outstanding balance of \$389,760 was reamortized and is due July 1, 2067. The interest rate is 3.25% with the interest reduced to an effective rate of 1% through an interest credit agreement. This loan is due in monthly installments of \$826 including principal and interest.	\$ 388,455
\$819,000 loan for Greenspire II construction at 9% reduced to an effective rate of 1% through an interest credit agreement. In 2017, the outstanding balance of \$285,586 was reamortized and is due July 1, 2067. The interest rate is 3.25% reduced to an effective rate of 1% through an interest credit agreement. This loan is due in monthly installments of \$605 including principal and interest.	284,630
\$427,802 loan for Greenspire III - Phase I construction, at 9%. Interest reduced to an effective rate of 2.25% through an interest credit agreement with Rural Housing Service. Due in monthly installments of \$911 including principal and interest. Due October 1, 2037.	359,724
\$535,180 loan for Greenspire III - Phase II construction, at 8.75%. Interest reduced to an effective rate of 2.25% through an interest credit agreement with Rural Housing Service. Due in monthly installments of \$1,144 including principal and interest. Due July 21, 2039.	<u>454,791</u>
Total Mortgage Notes Payable	<u>\$ 1,487,600</u>

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

**NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)**

**D. LONG-TERM OBLIGATIONS (cont.)**

**Mortgage Notes (cont.)**

Collateral on these mortgages are a mortgage lien on the land, building and equipment. In addition, all contract rights including the Housing Assistance Payment contract with the Department of Housing and Urban Development (HUD) are pledged as security.

Debt service requirements to maturity are as follows:

**Greenspire I & II**

	Principal	Interest	Interest-Subsidized	Total Interest
2018	\$ 5,552	\$ 11,618	\$ 10,176	\$ 21,794
2019	5,735	11,434	10,176	21,610
2020	5,924	11,245	10,176	21,421
2021	6,120	11,050	10,176	21,226
2022	6,322	10,847	10,176	21,023
2023 - 2027	34,879	50,970	50,880	101,850
2028 - 2032	41,022	44,824	50,880	95,704
2033 - 2037	48,252	37,594	50,880	88,474
2038 - 2042	56,754	29,093	50,880	79,973
2043 - 2047	66,754	19,095	50,880	69,975
2048 - 2052	78,513	7,332	50,880	58,212
2053 - 2057	92,346	22	50,880	50,902
2058 - 2062	108,618	-	50,880	50,880
2063 - 2067	116,294	-	50,880	50,880
Totals	<u>\$ 673,085</u>	<u>\$ 245,124</u>	<u>\$ 508,800</u>	<u>\$ 753,924</u>

**Greenspire III**

	Principal	Interest	Interest-Subsidized	Total Interest
2018	\$ 6,165	\$ 18,327	\$ 54,980	\$ 73,307
2019	6,304	18,184	54,552	72,736
2020	6,446	18,038	54,115	72,153
2021	6,591	17,889	53,668	71,557
2022	6,925	17,737	53,211	70,948
2023 - 2027	37,034	86,276	258,827	345,103
2028 - 2032	41,392	81,918	245,753	327,671
2033 - 2037	335,283	77,047	231,140	308,187
2038 - 2039	367,671	16,422	94,246	110,668
Totals	<u>\$ 814,515</u>	<u>\$ 351,838</u>	<u>\$ 1,100,492</u>	<u>\$ 1,452,330</u>

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

**NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)**

**E. NET POSITION**

***Business-type Activities***

	Greenspire I	Greenspire III	Totals
Net investment in capital assets			
Land	\$ 70,851	\$ 46,340	\$ 117,191
Construction work in progress	9,605	-	9,605
Other capital assets, net of accumulated depreciation	367,640	357,689	725,329
Less: Mortgage notes outstanding	<u>(673,085)</u>	<u>(814,515)</u>	<u>(1,487,600)</u>
Total Net Investment in Capital Assets (Deficit)	<u>(224,989)</u>	<u>(410,486)</u>	<u>(635,475)</u>
Restricted			
Reserve account	<u>377,922</u>	<u>98,007</u>	<u>475,929</u>
Unrestricted	<u>94,100</u>	<u>29,346</u>	<u>123,446</u>
Total Business-type Activities Net Position (Deficit)	<u>\$ 247,033</u>	<u>\$ (283,133)</u>	<u>\$ (36,100)</u>

**NOTE IV – OTHER INFORMATION**

**A. PAYMENT IN LIEU OF TAXES**

In 1989, the Authority entered into an agreement with the City of Stoughton for the yearly payments in lieu of taxes. The agreement is for an indeterminate period of time. The payments are to be made by multiplying the local mill rate times the base value of the properties (increased by the C.P.I.-U, as reported by the U.S. Department of Labor, Bureau of Statistics). Payments in lieu of taxes are payable by the Authority in advance. That is, the payments for 2017 were payable in 2017, the payments for 2018 are due in March and September 2018, etc.

**B. HOUSING ASSISTANCE PAYMENTS**

The Authority entered into Housing Assistance Payments Contracts #C-78-583 and #C-79-733 with HUD effective June 15, 1978 for Greenspire I and January 1, 1980 for Greenspire II. HUD has agreed to provide housing assistance payments on behalf of the tenants for the difference between the contract rent and the tenant rent. The contract rent is set by HUD. The tenant rent is determined by the Authority using a formula supplied by HUD.

The contracts' terms are for five years. However, options for additional terms can be exercised to extend the total length to 40 years. See Note IV.D.

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended December 31, 2017

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**NOTE IV – OTHER INFORMATION (cont.)**

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**C. CASH SECURITY DEPOSIT ACCOUNT**

The Authority is required to maintain a savings account with a balance equal to the security deposits plus interest. At December 31, 2017, the security deposit accounts were funded at the proper levels for Greenspire I and Greenspire III.

**D. CONCENTRATIONS**

The Authority, through its housing assistance payment contracts with the Department of Housing and Urban Development, receives over 50% of its revenues from the federal government. See Note IV.B. for terms of the related housing assistance payments contracts. The housing assistance payment contract for Greenspire I expires in June, 2018 and on December 31, 2019 for Greenspire II.

**E. RISK MANAGEMENT**

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

**F. 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 in the proprietary funds 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.

**G. SUBSEQUENT EVENT**

The Authority has been offered a second loan by Rural Development through the Multi-Family Housing Preservation and Revitalization Restructuring Program (MPR) in the amount of \$350,000 for additional reconstruction. The loan has not been closed, and no funds have been made available to the Authority.

**SUPPLEMENTARY INFORMATION**

**HOUSING AUTHORITY  
OF THE CITY OF STOUGHTON**

SUPPLEMENTARY LETTER  
As of and for the Year Ended December 31, 2017

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To the Commissioners  
Housing Authority of the City of Stoughton  
Stoughton, Wisconsin

1. The projects have complied with the loan agreements, including maintaining adequate cash reserves for Greenspire I and III.
2. Cash in checking and investments are deposited in institutions insured by the federal government.
3. Insurance Disclosure - The projects maintain insurance coverage as follows:

	<u>Greenspire I</u>	<u>Greenspire III</u>
Buildings	\$6,363,453	\$2,816,529
Contents	60,000	30,000
Liability	1,000,000 per occurrence 1,000,000 in aggregate	1,000,000 per occurrence 1,000,000 in aggregate
Loss of income	actual loss sustained	actual loss sustained

4. The borrower is a municipal corporation exempt from federal income taxes.

*Baker Tilly Voichau Krause, LLP*

Madison, Wisconsin  
March 27, 2018

## HOUSING AUTHORITY OF THE CITY OF STOUGHTON

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2017

Federal Grantor/Program Title	CFDA Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>		
Rural Rental Housing Loans (See Note 4)	10.415	
Greenspire I:		
Beginning Loan Balance		\$ 691,367
Interest Subsidy		25,478
Greenspire III:		
Beginning Loan Balance		828,105
Interest Subsidy		59,314
Rural Rental Housing Loans Total		<u>1,604,264</u>
Rural Rental Assistance Payments	10.427	
Greenspire III		<u>24,662</u>
Total U.S. Department of Agriculture		<u>1,628,926</u>
<b>U.S. Department of Housing and Urban Development</b>		
Housing Voucher Cluster		
Section 8 Housing Choice Vouchers	14.871	
Greenspire I		<u>176,490</u>
Total Housing Voucher Cluster		<u>176,490</u>
<b>TOTAL FEDERAL AWARDS</b>		<u>\$ 1,805,416</u>

See accompanying notes to schedule of expenditures of federal awards.

## HOUSING AUTHORITY OF THE CITY OF STOUGHTON

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2017

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#### NOTE 1 – BASIS OF PRESENTATION

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The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of the Housing Authority of the City of Stoughton under programs of the federal government for the year ended December 31, 2017. 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 Housing Authority of the City of Stoughton, it is not intended to and does not present the financial position, changes in net position or cash flows of the Housing Authority of the City of Stoughton.

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#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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.

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#### NOTE 3 – INDIRECT COST RATE

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The Housing Authority of the City of Stoughton has not elected to use the 10% de minimis indirect cost rate.

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#### NOTE 4 – LOAN AND LOAN GUARANTEE PROGRAMS

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The rural rental housing loans listed subsequently are administered by the Housing Authority of the City of Stoughton, and balances and transactions relating to these programs are included in the Housing Authority of the City of Stoughton's basic financial statements. Loans outstanding at the end of the year are included in the notation at the bottom of the Schedule of Expenditures of Federal Awards. The balances of the loans outstanding at December 31, 2017 consist of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding balance at December 31, 2017</u>
10.415	Rural Rental Housing Loans	\$673,085
10.415	Rural Rental Housing Loans	\$814,515





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 Commissioners  
Housing Authority of the City of Stoughton  
Stoughton, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Housing Authority of the City of Stoughton, Wisconsin (the "Authority") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of Stoughton's basic financial statements, and have issued our report thereon dated March 27, 2018.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-003 to be a significant deficiency.

### **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*.

### **The Authority's Response to Findings**

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Vorchaw Krause, LLP*

Madison, Wisconsin  
March 27, 2018



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

INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Housing Authority of the City of Stoughton  
Stoughton, Wisconsin

**Report on Compliance for the Major Federal Program**

We have audited the Housing Authority of the City of Stoughton'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 the Authority's major federal program for the year ended December 31, 2017. The Authority's major federal program is identified in the summary of auditors' 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 program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's major federal program 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; and 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 the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### **Opinion on the 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 its major federal program for the year ended December 31, 2017.

### **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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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 Virchow Krause, LLP*

Madison, Wisconsin  
March 27, 2018

**HOUSING AUTHORITY OF THE CITY OF STOUGHTON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2016

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:

*unmodified*

Internal control over financial reporting:

- > Material weakness(es) identified?        X   yes             no
- > Significant deficiency(ies) identified?        X   yes             none reported

Noncompliance material to the basic 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 52 CFR 200.516(a) of the Uniform Guidance?

  X   yes             no

Auditee qualified as low-risk auditee?

       yes        X   no

Identification of major federal program:

CFDA Number

Name of Federal Program

10.415

Rural Rental Housing Loans

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

## HOUSING AUTHORITY OF THE CITY OF STOUGHTON

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2016

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#### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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##### ***FINDING 2017-001: INTERNAL CONTROL OVER FINANCIAL REPORTING***

###### ***REPEAT OF PRIOR YEAR FINDING 2016-001***

**Criteria:** Auditing standards require us to report a material weakness for the Authority if material journal entries are detected as part of the financial audit, the auditor prepares the annual financial statements and footnotes, or the auditor prepares the schedule of expenditures of federal awards.

**Condition:** Material journal entries were discovered during the course of the audit and we, as your auditors, prepared the annual financial statements. In addition, the auditors prepared the schedule of expenditures of federal awards.

**Cause:** Due to staffing and financial limitations, the Authority chooses to contract with the auditors to prepare some year-end audit entries, the annual financial statements, and the schedule of expenditures of federal awards.

**Effect:** A financial statement prepared in accordance with GAAP is not available until the conclusion of the audit. In addition, the schedule of expenditures of federal awards is not available to the Authority until it is completed by the auditors.

**Recommendation:** We recommend that the Authority consider what resources and changes are necessary to address and resolve the deficiencies identified.

**Management's Response:** Through their own admission almost all of the clients the auditors work with have them prepare their annual financial statements. To meet this requirement we would need to present to the auditors a complete set of financial statements in such a condition that the auditor would not be able to detect any material changes as a result of the audit. For efficiency, cost effectiveness and convenience the Authority has always required as part of its audit engagement, that the auditor prepare its annual financial statements. Given our current staffing complement, it will be extremely difficult for the Authority to comply with this requirement. We will continue to research affordable alternatives in an effort to try to resolve this issue. Office staff does accumulate the information required to be included in the Schedule of Federal Awards for use by audit staff to prepare the schedule. We lack sufficient staff time to prepare the necessary schedules and as a result will continue to have auditors prepare the schedules and we will review for accuracy prior to issuance of final statements.

##### ***FINDING 2017-002: INTERNAL CONTROLS ENVIRONMENT***

###### ***REPEAT OF PRIOR YEAR FINDING 2016-002***

**Criteria:** Auditing standards require auditors to communicate circumstances that were evaluated to be significant deficiencies or material weaknesses in the Authority's internal control over the financial reporting process.

**Condition:** During the financial audit, audit procedures and inquiries were performed to evaluate the effectiveness of controls over various transaction cycles. As a result of those procedures, the following area was identified where your controls over transactions could be improved:

## HOUSING AUTHORITY OF THE CITY OF STOUGHTON

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2016

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#### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (cont.)

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##### *FINDING 2017-002: INTERNAL CONTROLS ENVIRONMENT (cont.)*

##### **CONTROLS OVER MONTHLY AND YEAR-END ACCOUNTING**

- > Account reconciliations prepared throughout the year should be performed by someone independent of processing transactions in the account.
- > All adjusting journal entries should contain supporting documentation and should be reviewed and approved by an appropriate person who is not the original preparer.

**Cause:** Due to staffing and financial limitations, certain controls are not easily implemented by the Authority.

**Effect:** Since this key control is not currently in place, errors or irregularities could occur as part of the accounting processes that might not be discovered by management or the governing body. Therefore, the absence of this control is considered to be a material weakness.

**Recommendation:** We recommend that a designated employee review the segregation of duties, risks and this potential control and determine whether additional controls should be implemented. This determination should take into consideration a cost / benefit analysis.

**Management's Response:** Final approval of the reconciliation will be done by a staff member who is independent of any transaction processing.

##### *FINDING 2017-003: INFORMATION TECHNOLOGY SYSTEM INTERNAL CONTROLS*

##### *REPEAT OF PRIOR YEAR FINDING 2016-003*

**Criteria:** Auditing Standards require auditors to communicate circumstances that were evaluated to be significant deficiencies in the Authority's structure of internal control.

**Condition:** During the financial audit, audit procedures and inquiries were performed to evaluate the effectiveness of controls over various transaction cycles. As a result of those procedures, the following areas were identified where your controls over information technology could be improved:

- > Individuals with administrative access to the servers, databases, and network are not restricted to people who do not have access to modify accounting data in the application layer.
- > Third-party vendor access should be restricted and vendors should request permission before accessing the system.
- > Passwords to the accounting software should be changed on a regular basis and should have complexity rules in place.

## HOUSING AUTHORITY OF THE CITY OF STOUGHTON

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2016

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#### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (cont.)

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##### *FINDING 2017-003: INFORMATION TECHNOLOGY SYSTEM INTERNAL CONTROLS (cont.)*

**Cause:** Due to staffing and financial limitations, certain controls are not easily implemented by the Authority.

**Effect:** Since this key control is not currently in place, errors or irregularities could occur as part of the accounting processes that might not be discovered by management or the governing body. Therefore, the absence of these controls is considered to be a significant deficiency.

**Recommendation:** We recommend that a designated employee review this potential control and determine whether additional controls should be implemented. This determination should take into consideration a cost / benefit analysis.

**Management's Response:** Appfolio, although somewhat limited in the security measures, will be used to its fullest ability to prevent any errors, whether intentional or unintentional.