

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

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2016

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

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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, 2016, 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.

To the Commissioners
Housing Authority of the City of Stoughton

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, 2016 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.

To the Commissioners
Housing Authority of the City of Stoughton

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2017 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 24, 2017

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) As of and For the Year Ended December 31, 2016

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.

FINANCIAL HIGHLIGHTS

The Authority's total net position increased by \$15,199 in 2016. Since the Authority engages only in business-type activities, the increase is all in the category of business-type net position. Net positions were a deficit of (\$24,410) and (\$39,609) for 2016 and 2015, respectively.

The business-type activities revenue increased by \$5,270, or 0.8% in 2016 and totaled \$628,965 and \$623,695 for 2016 and 2015, respectively.

The total expenses of the Authority's programs increased by \$3,816 or 0.6%, in 2016. Total expenses were \$613,766 and \$609,950 for 2016 and 2015, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 "non-current."

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) For the Year Ended December 31, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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; non-operating revenues, such as interest subsidies and housing assistance payments; and non-operating 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, non-capital 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, 2016

AUTHORITY-WIDE FINANCIAL STATEMENT ANALYSIS

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

Table 1
Statement of Net Position

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets	\$ 198,091	\$ 199,916
Non-current assets		
Restricted assets	412,815	358,803
Capital assets, net of accumulated depreciation	<u>927,001</u>	<u>1,005,349</u>
Total Assets	<u>1,537,907</u>	<u>1,564,068</u>
LIABILITIES		
Current liabilities	80,900	77,347
Long-term liabilities	<u>1,481,417</u>	<u>1,526,330</u>
Total Liabilities	<u>1,562,317</u>	<u>1,603,677</u>
NET POSITION		
Net investment in capital assets (deficit)	(592,471)	(558,438)
Restricted for reserve account	412,815	358,803
Unrestricted	<u>155,246</u>	<u>160,026</u>
Total Net Position (Deficit)	<u>\$ (24,410)</u>	<u>\$ (39,609)</u>

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
For the Year Ended December 31, 2016

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

	<u>2016</u>	<u>2015</u>
REVENUES		
Program Revenues		
Rents	\$ 304,180	\$ 308,336
Interest subsidies income	111,956	111,889
Housing assistance payments	175,528	166,068
Debt subsidy payments	24,662	24,662
General Revenues		
Investment income	661	661
Other income	11,978	12,079
Total Revenue	<u>628,965</u>	<u>623,695</u>
EXPENSES		
Administration	105,843	101,135
Maintenance	121,153	118,383
Depreciation	121,758	120,759
Utilities	56,895	60,344
Tax/Insurance	76,952	76,855
Interest expense	131,165	132,474
Total Expenses	<u>613,766</u>	<u>609,950</u>
Change in net position	15,199	13,745
TOTAL NET POSITION – Beginning of Year (Deficit)	<u>(39,609)</u>	<u>(53,354)</u>
TOTAL NET POSITION– END OF YEAR (DEFICIT)	<u>\$ (24,410)</u>	<u>\$ (39,609)</u>

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

Total revenue increased by \$5,270 due mainly to an increase in housing assistance payments. Total expenses increased by \$3,816 in large part due to an increase in maintenance/repair work completed during 2016 and administrative expenses.

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) For the Year Ended December 31, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of December 31, 2016, the Authority had \$927,000 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 \$43,408, less the current year's provision for depreciation of \$121,757.

**Table 3
Capital Assets**

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 326,106	\$ 326,106
Buildings and improvements	3,220,428	3,218,363
Equipment/furniture/fixtures	<u>239,290</u>	<u>228,840</u>
Total Capital Assets	3,785,824	3,773,309
Less: accumulated depreciation	<u>(2,858,824)</u>	<u>(2,767,960)</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 927,000</u>	<u>\$ 1,005,349</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, 2016 consisted of mortgage notes payable to Rural Development of \$1,519,472, a decrease from the prior year of \$44,315 due to debt repayments.

**Table 4
Outstanding Debt**

	<u>2016</u>	<u>2015</u>
Mortgage loan – beginning balance	\$ 1,563,787	\$ 1,606,674
Current year additions	-	-
Current year payments	<u>(44,315)</u>	<u>(42,887)</u>
Mortgage Loan – Ending Balance	<u>\$ 1,519,472</u>	<u>\$ 1,563,787</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, 2016

ECONOMIC FACTORS

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.

FINANCIAL CONTACT

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, 2016

	Major Funds		Totals
	<u>Greenspire I</u>	<u>Greenspire III</u>	
ASSETS			
Current Assets			
Cash and investments	\$ 125,901	\$ 12,216	\$ 138,117
Cash and investments - security deposit account	19,247	11,842	31,089
Cash and investments - escrow account	-	13,753	13,753
Accounts receivable	8,176	2,338	10,514
Prepaid insurance	<u>3,233</u>	<u>1,385</u>	<u>4,618</u>
Total Current Assets	<u>156,557</u>	<u>41,534</u>	<u>198,091</u>
Restricted Assets			
Cash and investments - reserve account	<u>313,569</u>	<u>99,246</u>	<u>412,815</u>
Total Restricted Assets	<u>313,569</u>	<u>99,246</u>	<u>412,815</u>
Land	70,851	46,340	117,191
Property and equipment	2,453,537	1,215,097	3,668,634
Less: Accumulated depreciation	<u>(2,024,740)</u>	<u>(834,084)</u>	<u>(2,858,824)</u>
Net Property and Equipment	<u>499,648</u>	<u>427,353</u>	<u>927,001</u>
TOTAL ASSETS	<u>\$ 969,774</u>	<u>\$ 568,133</u>	<u>\$ 1,537,907</u>

	Major Funds		Totals
	Greenspire I	Greenspire III	
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 4,625	\$ 6,088	\$ 10,713
Accrued interest payable	75	968	1,043
Tenant security deposits payable	19,247	11,642	30,889
Interest on security deposits	-	200	200
Current portion of long-term debt	32,025	6,030	38,055
Total Current Liabilities	<u>55,972</u>	<u>24,928</u>	<u>80,900</u>
Long-Term Debt Net of Current Maturities			
Mortgage notes	<u>659,342</u>	<u>822,075</u>	<u>1,481,417</u>
Total Liabilities	<u>715,314</u>	<u>847,003</u>	<u>1,562,317</u>
Net Position			
Net investment in capital assets (deficit)	(191,719)	(400,752)	(592,471)
Restricted for reserve account	313,569	99,246	412,815
Unrestricted	132,610	22,636	155,246
Total Net Position (Deficit)	<u>254,460</u>	<u>(278,870)</u>	<u>(24,410)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 969,774</u>	<u>\$ 568,133</u>	<u>\$ 1,537,907</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, 2016

	Major Funds		Totals
	Greenspire I	Greenspire III	
OPERATING REVENUES			
Rental income	\$ 188,153	\$ 116,027	\$ 304,180
Other income	6,781	5,197	11,978
Total Operating Revenues	<u>194,934</u>	<u>121,224</u>	<u>316,158</u>
OPERATING EXPENSES			
Advertising	2,172	931	3,103
Office supplies	910	417	1,327
Management fees	35,424	14,352	49,776
Other administrative expense	36,625	15,012	51,637
Utilities	37,978	18,917	56,895
Maintenance payroll and benefits	24,656	10,567	35,223
Other maintenance and operating expense	61,346	24,584	85,930
Depreciation	83,893	37,865	121,758
Insurance expense	21,428	9,184	30,612
Payments in lieu of taxes	32,438	13,902	46,340
Total Operating Expenses	<u>336,870</u>	<u>145,731</u>	<u>482,601</u>
Operating Loss	<u>(141,936)</u>	<u>(24,507)</u>	<u>(166,443)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest subsidy income	52,613	59,343	111,956
Debt subsidy payments	-	24,662	24,662
Housing assistance payments	175,528	-	175,528
Investment income	591	70	661
Interest expense	<u>(59,695)</u>	<u>(71,470)</u>	<u>(131,165)</u>
Total Nonoperating Revenues (Expenses)	<u>169,037</u>	<u>12,605</u>	<u>181,642</u>
CHANGE IN NET POSITION	27,101	(11,902)	15,199
NET POSITION (DEFICIT) – Beginning of Year	<u>227,359</u>	<u>(266,968)</u>	<u>(39,609)</u>
NET POSITION (DEFICIT) – END OF YEAR	<u>\$ 254,460</u>	<u>\$ (278,870)</u>	<u>\$ (24,410)</u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	Major Funds		Totals
	Greenspire I	Greenspire III	
CASH FLOWS FROM OPERATING ACTIVITIES			
Rental income	\$ 188,153	\$ 116,027	\$ 304,180
Other operating receipts	298	5,946	6,244
Paid to suppliers for goods and services	(220,096)	(89,245)	(309,341)
Paid to city in lieu of tax	(32,438)	(13,902)	(46,340)
Net Cash Flows From Operating Activities	<u>(64,083)</u>	<u>18,826</u>	<u>(45,257)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Housing assistance payments	<u>175,528</u>	<u>-</u>	<u>175,528</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Debt retired	(31,872)	-	(31,872)
Interest paid	(7,061)	-	(7,061)
Acquisition and construction of capital assets	(26,194)	(17,216)	(43,410)
Net Cash Flows From Capital and Related Financing Activities	<u>(65,127)</u>	<u>(17,216)</u>	<u>(82,343)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	<u>591</u>	<u>24</u>	<u>615</u>
Net Increase in Cash and Cash Equivalents	46,909	1,634	48,543
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>411,808</u>	<u>70,785</u>	<u>482,593</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 458,717</u>	<u>\$ 72,419</u>	<u>\$ 531,136</u>

	Major Funds		Totals
	Greenspire I	Greenspire III	
RECONCILIATION OF OPERATING LOSS TO			
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss	\$ (141,936)	\$ (24,507)	\$ (166,443)
Adjustments to reconcile operating loss to net cash flows from operating activities			
Depreciation	83,893	37,865	121,758
Change in assets and liabilities			
Accounts receivable	(4,609)	1,011	(3,598)
Accounts payable	443	4,719	5,162
Tenant security deposits payable	(1,874)	(262)	(2,136)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (64,083)	\$ 18,826	\$ (45,257)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO			
THE STATEMENT OF NET POSITION			
Cash and investments	\$ 125,901	\$ 12,216	\$ 138,117
Cash and investments - security deposit account	19,247	11,842	31,089
Cash and investments - escrow account	-	13,753	13,753
Cash and investments - reserve account	313,569	99,246	412,815
Less: Noncash equivalents	-	(64,638)	(64,638)
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 458,717	\$ 72,419	\$ 531,136

NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES

In 2016, Rural Housing Service of the U.S. Department of Agriculture made direct payments on the Greenspire III Phase I and Phase II loans of \$12,443 and interest payments of \$12,219.

The interest expense on the Rural Rental Housing Loans of \$111,956 was forgiven for the year ended December 31, 2016. \$52,613 of interest expense related to Greenspire I and \$59,343 related to Greenspire III.

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

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As of and for the Year Ended December 31, 2016

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HOUSING AUTHORITY OF THE CITY OF STOUGHTON

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

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2016

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

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, 2016

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

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. Fair values are based on quoted market prices. 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 fair 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, 2016

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

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:

Land improvements	10-20 Years
Buildings	40 Years
Building improvements	10-20 Years
Furniture and fixtures	5-10 Years
Equipment	5-10 Years

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.

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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, 2016

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

A. DEFICIT BALANCES (cont.)

As of December 31, 2016, the following individual fund held a deficit balance:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
Greenspire III	\$ 278,870	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	\$ 595,514	\$ 601,049	Custodial credit
Petty cash	<u>260</u>	<u>-</u>	N/A
Total Cash and Investments	<u>\$ 595,774</u>	<u>\$ 601,049</u>	

Reconciliation to financial statements

Per statement of net position

Cash and investments	\$ 138,117
Cash and investments – security deposit account	31,089
Cash and investments – escrow account	13,753
Cash and investments – reserve account	<u>412,815</u>
Total Cash and Investments	<u>\$ 595,774</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 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, 2016

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, 2016, Greenspire I had excess funds in the general account of \$32,188 and the required reserve amount of \$256,000 was met.

At December 31, 2016, 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:

	<u>12/31/16</u>
Reserve account – Greenspire I	\$ 313,569
Reserve account – Greenspire III	<u>99,246</u>
Total	<u>\$ 412,815</u>

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

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

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 2016 of \$48,543. The changes in cash and cash equivalents are further broken down between restricted and unrestricted balances as follows:

	2016
Increase in Cash and Cash Equivalents	
Restricted balances	\$ 53,966
Unrestricted balances	(5,423)
Total Increase in Cash and Cash Equivalents	\$ 48,543

C. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	\$ 117,191	\$ -	\$ -	\$ 117,191
Capital assets being depreciated				
Land improvements	\$ 208,915	\$ -	\$ -	\$ 208,915
Buildings	2,411,320	-	-	2,411,320
Building improvements	807,043	19,899	17,834	809,108
Furniture and fixtures	181,469	4,891	2,200	184,160
Equipment	47,371	19,000	11,241	55,130
Total Capital Assets Being Depreciated	3,656,118	43,790	31,275	3,668,633
Less: Accumulated depreciation for				
Land improvements	(102,236)	(12,891)	-	(115,127)
Buildings	(1,941,669)	(61,009)	-	(2,002,678)
Buildings and improvements	(539,486)	(39,863)	17,452	(561,897)
Furniture and fixtures	(140,726)	(7,260)	2,200	(145,786)
Machinery and equipment	(43,843)	(734)	11,241	(33,336)
Total Accumulated Depreciation	(2,767,960)	(121,757)	30,893	(2,858,824)
Total Capital Assets Being Depreciated	\$ 888,158	\$ (77,967)	\$ 382	\$ 809,809

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

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

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

C. CAPITAL ASSETS (cont.)

Depreciation expense was charged to functions as follows:

Greenspire I	\$ 83,893
Greenspire III	<u>37,865</u>
Total Depreciation Expense	<u><u>\$ 121,758</u></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>\$ 1,563,787</u>	<u>\$ -</u>	<u>\$ 44,315</u>	<u>\$ 1,519,472</u>	<u>\$ 38,055</u>

Mortgage Notes

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

	2016
\$712,600 loan for Greenspire I construction, at 8%. Interest reduced to an effective rate of 1% through an interest credit agreement. Due in monthly installments of \$1,510 including principal and interest. Due December 6, 2028.	\$ 396,832
\$819,000 loan for Greenspire II construction, at 9%. Interest reduced to an effective rate of 1% through an interest credit agreement. Due in monthly installments of \$1,735 including principal and interest. Due May 15, 2030.	294,534
\$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.	365,995
\$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>462,111</u>
Total Mortgage Notes Payable	<u><u>\$ 1,519,472</u></u>

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

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

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
2017	\$ 32,025	\$ 6,914	\$ 51,341	\$ 58,255
2018	32,346	6,593	48,920	55,513
2019	32,669	6,270	46,476	52,746
2020	32,996	5,943	44,006	49,949
2021	33,326	5,613	41,513	47,126
2022 – 2026	171,694	23,001	169,273	192,274
2027 – 2030	356,311	7,927	58,598	66,525
Totals	<u>\$ 691,367</u>	<u>\$ 62,261</u>	<u>\$ 460,127</u>	<u>\$ 522,388</u>

Greenspire III

	Principal	Interest	Interest-Subsidized	Total Interest
2017	\$ 6,030	\$ 18,632	\$ 55,897	\$ 74,529
2018	6,165	18,497	55,490	73,987
2019	6,304	18,358	55,074	73,432
2020	6,446	18,216	54,649	72,865
2021	6,591	18,071	54,213	72,284
2022 – 2026	35,247	88,063	264,190	352,253
2027 – 2031	39,394	83,916	251,747	335,663
2032 – 2036	44,030	79,280	237,840	317,120
2037 – 2039	677,899	31,958	95,875	127,833
Totals	<u>\$ 828,106</u>	<u>\$ 374,991</u>	<u>\$ 1,124,975</u>	<u>\$ 1,499,966</u>

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

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

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
Other capital assets, net of accumulated depreciation	428,797	381,013	809,810
Less: Mortgage notes outstanding	(691,367)	(828,105)	(1,519,472)
Total Net Investment in Capital Assets (Deficit)	(191,719)	(400,762)	(592,471)
Restricted			
Reserve account	313,569	99,246	412,815
Unrestricted	132,610	22,636	155,246
Total Business-type Activities Net Position (Deficit)	\$ 254,460	\$ (278,870)	\$ (24,410)

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 2016 were payable in 2016, the payments for 2017 are due in March and September 2017, 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 forty 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, 2016

NOTE IV – OTHER INFORMATION (cont.)

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, 2016, 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 conditional commitment for the participation in Rural Development's Multi-Family Housing Preservation and Revitalization Restructuring Program (MPR). The program would defer loan programs for Greenspire I's existing loans and also issue a new loan to be used on apartment updates.

SUPPLEMENTARY INFORMATION

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

SUPPLEMENTARY LETTER
As of and for the Year Ended December 31, 2016

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 Veitchau Krause, LLP

Madison, Wisconsin
March 24, 2017

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

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

Federal Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Rural Rental Housing Loans (See Note 3)	10.415	
Greenspire I:		
Beginning Loan Balance		\$ 723,239
Interest Subsidy		52,613
Greenspire III:		
Beginning Loan Balance		840,548
Interest Subsidy		59,343
Rural Rental Housing Loans Total		<u>1,675,743</u>
Rural Rental Assistance Payments	10.427	
Greenspire III		<u>24,662</u>
Total U.S. Department of Agriculture		<u>1,700,405</u>
U.S. Department of Housing and Urban Development		
Section 8 Housing Choice Vouchers	14.871	
Greenspire I		<u>175,528</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,875,933</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, 2016

NOTE 1 – BASIS OF PRESENTATION

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, 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 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.

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.

NOTE 3 – INDIRECT COST RATE

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

NOTE 4 – LOAN AND LOAN GUARANTEE PROGRAMS

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, 2016 consist of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding balance at December 31, 2016</u>
10.415	Rural Rental Housing Loans	\$691,367
10.415	Rural Rental Housing Loans	\$828,105

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, 2016, 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 24, 2017.

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 opinion 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 significant deficiencies.

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 2016-001 and 2016-002 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-003 and 2016-004 to be significant deficiencies.

To the Commissioners
Housing Authority of the City of Stoughton

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 Virchow Krause, LLP

Madison, Wisconsin
March 24, 2017

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, 2016. 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.

To the Commissioners
Housing Authority of the City of Stoughton

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, 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-005, that we consider to be a significant deficiency.

The Authority's Response to Finding

The Authority's response to the internal control over compliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on the response.

To the Commissioners
Housing Authority of the City of Stoughton

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 24, 2017

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

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

SECTION I – SUMMARY OF AUDITORS’ RESULTS

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? X yes 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

10.415

Name of Federal Program

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

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

FINDING 2016-001: INTERNAL CONTROL OVER FINANCIAL REPORTING

REPEAT OF PRIOR YEAR FINDING 2015-001

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 2016-002: INTERNAL CONTROLS ENVIRONMENT

A PORTION OF THIS FINDING IS A REPEAT OF PRIOR YEAR FINDING 2015-002

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

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

FINDING 2016-002: 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 2016-003: INFORMATION TECHNOLOGY SYSTEM INTERNAL CONTROLS

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

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

FINDING 2016-003: 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.

FINDING 2016-004: OVERSIGHT BY THOSE CHARGED WITH GOVERNANCE

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 audit it was noted that the Authority Board did not meet regularly during 2016.

Cause: The board did not schedule monthly meetings and at some meetings no quorum existed.

Effect: The board may not be up to date and provide the appropriate oversight on the operations and activities of the Authority.

Recommendation: We recommend that the board meets regularly to go over financial and non-financial activities impacting the Authority.

Management's Response: Broihahn Management will keep scheduling quarterly meetings.

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

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

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 2016-005: 10.415 RURAL RENTAL HOUSING LOANS
FEDERAL GRANTOR: U.S. DEPARTMENT OF AGRICULTURE

Criteria: Per 2 CFR 200.303, The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition/Context: During the audit it was noted that the Housing Authority Board did not meet regularly during 2016. The sample was not a statistically valid sample.

Cause: The board did not schedule monthly meetings and at some meetings no quorum existed.

Effect: The board may not be up to date and provide the appropriate oversight on the operations and activities of the Authority.

Questioned Costs: None noted.

Recommendation: We recommend that the board meets regularly to go over financial and non-financial activities impacting the Authority.

Management’s Response: Broihahn Management will keep scheduling quarterly meetings.