

Housing Authority of the City of Stoughton

Financial Statements and
Supplementary Information

December 31, 2020

Housing Authority of the City of Stoughton

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Independent Auditors' Report

To the Commissioners of
Housing Authority of the City of Stoughton

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, 2020, 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, 2020 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, which includes the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 23, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Authority of the City of Stoughton's 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 US, LLP

Madison, Wisconsin
March 23, 2021

Housing Authority of the City of Stoughton

Management's Discussion and Analysis
December 31, 2020
(Unaudited)

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 \$19,680 in 2020. 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 \$(108,723) and \$(128,403) for 2020 and 2019, respectively.

The business-type activities revenue decreased by \$10,951 or 2 percent in 2020 and totaled \$596,937 and \$607,888 for 2020 and 2019, respectively.

The total expenses of the Authority's programs decreased by \$72,793 or 11 percent in 2020. Total expenses were \$577,257 and \$650,050 for 2020 and 2019, 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 noncurrent.

Housing Authority of the City of Stoughton

Management's Discussion and Analysis
December 31, 2020
(Unaudited)

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

December 31, 2020

(Unaudited)

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>2020</u>	<u>2019</u>
Assets		
Current assets	\$ 134,535	\$ 211,682
Noncurrent assets:		
Restricted assets	505,649	385,689
Capital assets, net accumulated depreciation	<u>1,462,442</u>	<u>1,520,580</u>
Total assets	<u>2,102,626</u>	<u>2,117,951</u>
Liabilities		
Current liabilities	55,570	81,801
Long-term liabilities	<u>2,155,779</u>	<u>2,164,553</u>
Total liabilities	<u>2,211,349</u>	<u>2,246,354</u>
Net Position		
Net investment in capital assets (deficit)	(703,681)	(666,070)
Restricted for reserve account	505,649	385,689
Unrestricted	<u>89,309</u>	<u>151,978</u>
Total net position (deficit)	<u>\$ (108,723)</u>	<u>\$ (128,403)</u>

Housing Authority of the City of Stoughton

Management's Discussion and Analysis
December 31, 2020
(Unaudited)

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>2020</u>	<u>2019</u>
Revenues		
Program revenues:		
Rents	\$ 314,974	\$ 297,760
Interest subsidies income	64,930	67,182
Housing assistance payments	182,461	187,630
Debt subsidy payments	24,662	24,662
General revenues:		
Investment income	629	924
Other income	9,281	29,730
 Total revenue	 <u>596,937</u>	 <u>607,888</u>
Expenses		
Administration	123,113	142,444
Maintenance	134,118	156,380
Depreciation	105,147	118,443
Utilities	59,633	60,094
Tax/insurance	76,910	77,709
Bad debts	2,285	5,385
Interest expense	76,051	89,595
 Total expenses	 <u>577,257</u>	 <u>650,050</u>
 Change in net position	 19,680	 (42,162)
 Net Position, Beginning (Deficit)	 <u>(128,403)</u>	 <u>(86,241)</u>
 Total Net Position, Ending (Deficit)	 <u>\$ (108,723)</u>	 <u>\$ (128,403)</u>

Major Factors Affecting Revenues, Expenses, Contributions and Changes in Net Position

Total revenue decreased by \$10,951 due mainly to an increase in insurance claims. Total expenses decreased by \$72,793 in part due to decreases in administration and maintenance and operating expenses.

Housing Authority of the City of Stoughton

Management's Discussion and Analysis
December 31, 2020
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2020, the Authority had \$1,462,442 in net capital assets as reflected in the following table. The increase is due to remodeling work completed at Greenspire I & II during 2020.

Table 3
Capital Assets

	<u>2020</u>	<u>2019</u>
Land and land improvement	\$ 329,146	\$ 329,146
Buildings and improvements	3,880,820	3,873,320
Equipment/furniture/fixtures	<u>260,261</u>	<u>250,011</u>
Total capital assets	4,470,227	4,452,477
Less accumulated depreciation	<u>(3,007,785)</u>	<u>(2,931,897)</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,462,442</u>	<u>\$ 1,520,580</u>

Additional information on the Authority's capital assets can be found in Note 3 of this report.

Debt Outstanding

As shown in the following table, the Authority's debt at December 31, 2020 consisted of mortgage notes payable to Rural Development of \$2,166,123 a decrease from the prior year of \$2,186,650 due to no new debt issuances in 2021.

Table 4
Outstanding Debt

	<u>2020</u>	<u>2019</u>
Mortgage loan, beginning	\$ 2,186,650	\$ 2,117,835
Current year additions	-	92,277
Current year payments	<u>(20,527)</u>	<u>(23,462)</u>
Mortgage loan, ending	<u>\$ 2,166,123</u>	<u>\$ 2,186,650</u>

Additional information on the Authority's long-term debt can be found in Note 3 of this report.

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

December 31, 2020

	Major Funds		Total
	Greenspire I	Greenspire III	
Assets			
Current Assets			
Cash and investments	\$ 81,696	\$ 9,152	\$ 90,848
Cash and investments, security deposit account	19,005	9,904	28,909
Cash and investments, escrow account	-	4,875	4,875
Accounts receivable	3,809	1,476	5,285
Prepaid insurance	3,233	1,385	4,618
	<u>107,743</u>	<u>26,792</u>	<u>134,535</u>
Total current assets			
Restricted Assets			
Cash and investments, reserve account	413,726	91,923	505,649
	<u>413,726</u>	<u>91,923</u>	<u>505,649</u>
Total restricted assets			
Land	70,851	46,340	117,191
Property and equipment	3,106,394	1,246,642	4,353,036
Less accumulated depreciation	(2,051,464)	(956,321)	(3,007,785)
	<u>1,125,781</u>	<u>336,661</u>	<u>1,462,442</u>
Net property and equipment			
Total assets	<u>\$ 1,647,250</u>	<u>\$ 455,376</u>	<u>\$ 2,102,626</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 10,461	\$ 4,818	\$ 15,279
Accrued interest payable	531	507	1,038
Tenant security deposits payable	19,005	9,904	28,909
Current portion of long-term debt	2,911	7,433	10,344
	<u>32,908</u>	<u>22,662</u>	<u>55,570</u>
Total current liabilities			
Long-Term Debt Net of Current Maturities			
Mortgage notes	1,397,480	758,299	2,155,779
	<u>1,430,388</u>	<u>780,961</u>	<u>2,211,349</u>
Total liabilities			
Net Position			
Net investment in capital assets (deficit)	(274,610)	(429,071)	(703,681)
Restricted for reserve account	413,726	91,923	505,649
Unrestricted	77,746	11,563	89,309
	<u>216,862</u>	<u>(325,585)</u>	<u>(108,723)</u>
Total net position (deficit)			
Total liabilities and net position	<u>\$ 1,647,250</u>	<u>\$ 455,376</u>	<u>\$ 2,102,626</u>

See notes to financial statements

Housing Authority of the City of Stoughton

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2020

	Major Funds		Total
	Greenspire I	Greenspire III	
Operating Revenues			
Rental income	\$ 196,693	\$ 118,281	\$ 314,974
Other income	3,495	5,786	9,281
Total operating revenues	200,188	124,067	324,255
Operating Expenses			
Advertising	3,671	1,574	5,245
Office supplies	838	325	1,163
Management fees	41,496	15,624	57,120
Professional fees	11,841	5,075	16,916
Other administrative expense	30,684	11,985	42,669
Utilities	39,737	19,896	59,633
Maintenance payroll and benefits	25,753	11,442	37,195
Other maintenance and operating expense	72,779	24,144	96,923
Depreciation	66,084	39,063	105,147
Insurance expense	20,526	8,790	29,316
Bad debts expense	-	2,285	2,285
Payments in lieu of taxes	33,316	14,278	47,594
Total operating expenses	346,725	154,481	501,206
Operating loss	(146,537)	(30,414)	(176,951)
Nonoperating Revenues (Expenses)			
Interest subsidy income	6,050	58,880	64,930
Debt subsidy payments	-	24,662	24,662
Housing assistance payments	182,461	-	182,461
Investment income	593	36	629
Interest expense	(10,356)	(65,695)	(76,051)
Total nonoperating revenues (expenses)	178,748	17,883	196,631
Change in net position	32,211	(12,531)	19,680
Net Position (Deficit), Beginning	184,651	(313,054)	(128,403)
Net Position (Deficit), Ending	\$ 216,862	\$ (325,585)	\$ (108,723)

See notes to financial statements

Housing Authority of the City of Stoughton

Statement of Cash Flows

Year Ended December 31, 2020

	Major Funds		Total
	Greenspire I	Greenspire III	
Cash Flows From Operating Activities			
Rental income	\$ 196,693	\$ 118,281	\$ 314,974
Other operating receipts	2,264	7,921	10,185
Paid to suppliers for goods and services	(257,581)	(102,962)	(360,543)
Paid to city in lieu of tax	(33,316)	(14,278)	(47,594)
	<u>(91,940)</u>	<u>8,962</u>	<u>(82,978)</u>
Net cash flows from operating activities			
Cash Flows From Noncapital Financing Activities			
Housing assistance payments	<u>182,461</u>	<u>-</u>	<u>182,461</u>
Cash Flows From Capital and Related Financing Activities			
Debt retired	(2,811)	-	(2,811)
Interest paid	(6,457)	-	(6,457)
Acquisition and construction of capital assets	(30,887)	(16,122)	(47,009)
	<u>(40,155)</u>	<u>(16,122)</u>	<u>(56,277)</u>
Net cash flows from capital and related financing activities			
Cash Flows From Investing Activities			
Investment income	<u>593</u>	<u>36</u>	<u>629</u>
Net increase in cash and cash equivalents	50,959	(7,124)	43,835
Cash and Cash Equivalents, Beginning	<u>463,468</u>	<u>122,978</u>	<u>586,446</u>
Cash and Cash Equivalents, Ending	<u>\$ 514,427</u>	<u>\$ 115,854</u>	<u>\$ 630,281</u>

See notes to financial statements

Housing Authority of the City of Stoughton

Statement of Cash Flows

Year Ended December 31, 2020

	Major Funds		Total
	Greenspire I	Greenspire III	
Reconciliation of Operating Loss to Net Cash Flows From Operating Activities			
Operating loss	\$ (146,537)	\$ (30,414)	\$ (176,951)
Adjustments to reconcile operating loss to net cash flows from operating activities:			
Depreciation	66,084	39,063	105,147
Change in assets and liabilities:			
Accounts receivable	(2,022)	3,044	1,022
Accounts payable	(10,256)	(1,822)	(12,078)
Tenant security deposits payable	791	(909)	(118)
Net cash flows from operating activities	<u>\$ (91,940)</u>	<u>\$ 8,962</u>	<u>\$ (82,978)</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and investments	\$ 81,696	\$ 9,152	\$ 90,848
Cash and investments, security deposit account	19,005	9,904	28,909
Cash and investments, escrow account	-	4,875	4,875
Cash and investments, reserve account	413,726	91,923	505,649
Cash and cash equivalents, ending	<u>\$ 514,427</u>	<u>\$ 115,854</u>	<u>\$ 630,281</u>

Noncash Investing, Capital and Related Financing Activities

In 2020, Rural Housing Service of the U.S. Department of Agriculture made direct payments on the Greenspire III Phase I and Phase II loans of \$17,716 and interest payments of \$6,946.

The interest expense on the Rural Rental Housing Loans of \$64,930 was forgiven for the year ended December 31, 2020; \$6,050 of interest expense related to Greenspire I and \$58,880 related to Greenspire III.

Housing Authority of the City of Stoughton

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Housing Authority of the City of Stoughton

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies

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.

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 nonmajor 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:

Total assets, liabilities, revenues or expenses of that individual enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.

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 uses 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.

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.

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.

Housing Authority of the City of Stoughton

Notes to Financial Statements

December 31, 2020

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.

Assets, Liabilities and Net Position or Equity

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.
- 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.

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 3. for further information.

Receivables

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

Housing Authority of the City of Stoughton

Notes to Financial Statements

December 31, 2020

Prepaid Items

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

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.

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.

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

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.

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.

Housing Authority of the City of Stoughton

Notes to Financial Statements
December 31, 2020

- 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.

2. Stewardship, Compliance and Accountability

Deficit Balances

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

As of December 31, 2020, the following individual fund held a deficit balance:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
Greenspire III	\$325,585	Expenses in excess of revenues

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

3. Detailed Notes on All Funds

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 Bank</u>
Deposits	\$ 630,021	\$ 636,266	Custodial credit
Petty cash	260	-	N/A
Total cash and investments	<u>\$ 630,281</u>	<u>\$ 636,266</u>	
Per statement of net position			
Cash and investments	90,848		
Cash and investments – security deposit account	28,909		
Cash and investments – escrow account	4,875		
Cash and investments – reserve account	<u>505,649</u>		
Total cash and investments	<u>\$ 630,281</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
December 31, 2020

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 1. for further information on deposit and investment policies.

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 percent 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 \$500,000 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.

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

	December 31, 2020
Reserve account – Greenspire I	\$ 413,726
Reserve account – Greenspire III	<u>91,923</u>
Total	<u>\$ 505,649</u>

The statement of cash flows shows an increase in total cash and cash equivalents for 2020 of \$43,835. The changes in cash and cash equivalents are further broken down between restricted and unrestricted balances as follows:

	December 31, 2020
Increase in Cash and Cash Equivalents:	
Restricted balances	\$ 119,960
Unrestricted balances	<u>(76,125)</u>
Total increase in cash and cash equivalents	<u>\$ 43,835</u>

Housing Authority of the City of Stoughton

Notes to Financial Statements
December 31, 2020

Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 117,191	\$ -	\$ -	\$ 117,191
Total capital assets not being depreciated	<u>\$ 117,191</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,191</u>
Capital assets being depreciated:				
Land improvements	\$ 211,955	\$ -	\$ -	\$ 211,955
Buildings	3,023,598	-	-	3,023,598
Building improvements	849,722	24,918	17,418	857,222
Furniture and fixtures	189,484	3,355	4,350	188,489
Equipment	60,527	18,383	7,138	71,772
Total capital assets being depreciated	<u>4,335,286</u>	<u>46,656</u>	<u>28,906</u>	<u>4,353,036</u>
Less accumulated depreciation for:				
Land improvements	(145,564)	(12,459)	-	(158,023)
Buildings	(1,944,689)	(46,241)	-	(1,990,930)
Buildings and improvements	(630,459)	(36,006)	16,109	(650,356)
Furniture and fixtures	(167,236)	(6,257)	4,270	(169,223)
Machinery and equipment	(43,949)	(4,184)	8,880	(39,253)
Total accumulated depreciation	<u>(2,931,987)</u>	<u>(105,147)</u>	<u>29,259</u>	<u>(3,007,785)</u>
Total capital assets being depreciated	<u>\$ 1,403,389</u>	<u>\$ (58,491)</u>	<u>\$ (353)</u>	<u>\$ 1,345,251</u>

Depreciation expense was charged to functions as follows:

Greenspire I	\$ 66,084
Greenspire III	<u>39,063</u>
Total depreciation expense	<u>\$ 105,147</u>

Long-Term Obligations

Long-term obligations activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Notes payable:					
Mortgage notes from direct borrowings or direct placement	\$ 2,186,650	\$ -	\$ 20,527	\$ 2,166,123	\$ 10,344

Housing Authority of the City of Stoughton

Notes to Financial Statements

December 31, 2020

Mortgage Notes

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

	<u>2020</u>
Greenspire I construction loan \$389,760, the interest rate is 3.25 percent with the interest reduced to an effective rate of 1 percent through an interest credit agreement. The loan has been deferred for a 20-year period and the final principal and interest payments are due in 2067.	\$ 381,941
Greenspire II construction loan \$285,585, the interest rate is 3.25 percent reduced to an effective rate of 1 percent through an interest credit agreement. The loan has been deferred for a 20-year period and the final principal and interest payments are due in 2067.	279,857
Greenspire I – remodel loan, at 1.00 percent. As of 12/31/20, USDA dispersed \$380,000 to the housing authority for construction costs. This loan is currently a 30-year loan amortized over 50 years. The loan has been deferred for a 20-year period.	383,640
Greenspire I – remodel loan, at 1.00 percent. As of 12/31/20, USDA dispersed \$350,000 to the housing authority for construction costs. This loan is currently a 30-year loan amortized over 50 years. Due in monthly installments of \$770 including principal and interest due in 2068.	354,953
Greenspire III - Phase I construction loan for \$427,802, at 9 percent. Interest reduced to an effective rate of 2.25 percent through an interest credit agreement with Rural Housing Service. Due in monthly installments of \$911 including principal and interest. Due October 1, 2037.	337,157
Greenspire III - Phase II construction loan for \$535,180, at 8.75 percent. Interest reduced to an effective rate of 2.25 percent 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>428,575</u>
Total mortgage notes payable	<u>\$ 2,166,123</u>

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.

The below table represents direct borrowings or direct placement mortgage notes that have been fully dispersed. Debt service requirements to maturity are as follows:

Greenspire I & II

	<u>Principal</u>	<u>Interest</u>	<u>Interest-Subsidized</u>	<u>Total Interest</u>
Years ending December 31:				
2021	\$ 2,911	\$ 6,327	\$ 6,050	\$ 12,377
2022	3,014	6,224	6,050	12,274
2023	3,122	6,117	6,050	12,167
2024	3,233	6,005	6,050	12,055
2025	3,348	5,891	6,050	11,941
2026 – 2030	18,612	27,578	30,250	57,828
2031 – 2035	22,166	24,787	30,250	55,037
2036 – 2040	348,991	270,607	243,946	514,553
2041 – 2045	133,820	48,897	81,130	130,027
2046 – 2050	152,883	29,833	81,130	110,963
2051 – 2055	175,143	10,035	81,130	91,165
2056 – 2060	201,161	4,415	81,130	85,545
2061 – 2065	231,604	2,042	81,130	83,172
2066 – 2068	100,383	133	33,758	33,891
Total	<u>\$ 1,400,391</u>	<u>\$ 448,891</u>	<u>\$ 774,104</u>	<u>\$ 1,222,995</u>

Housing Authority of the City of Stoughton

Notes to Financial Statements

December 31, 2020

Greenspire III

	<u>Principal</u>	<u>Interest</u>	<u>Interest-Subsidized</u>	<u>Total Interest</u>
Years ending December 31:				
2021	\$ 7,433	\$ 17,229	\$ 51,687	\$ 68,916
2022	7,600	17,062	51,185	68,247
2023	7,771	16,891	50,672	67,563
2024	7,946	16,716	50,148	66,864
2025	8,125	16,537	49,611	66,148
2026 – 2030	43,450	79,860	239,579	319,439
2031 – 2035	48,564	74,746	224,239	298,985
2036 – 2039	634,842	43,727	131,185	174,912
Total	<u>\$ 765,732</u>	<u>\$ 282,768</u>	<u>\$ 848,306</u>	<u>\$ 1,131,074</u>

The Authority's outstanding debt from direct borrowings or direct placement related to mortgage notes totaling \$2,166,123; these notes contain terms that in the event of default, declare the entire amount unpaid immediately due and payable; for the account of the Authority incur and pay reasonable expenses for repair or maintenance of and take possession of, operate or rent the property; upon application by it and production of this instrument, without other evidence and without notice of hearing of said application, have a receiver appointed for the property, with the usual powers of receivers in like cases; foreclose this instrument as provided herein or by law; and enforce any and all other rights and remedies provided herein or by present or future laws.

Net Position

Business-type Activities

	<u>Greenspire I</u>	<u>Greenspire III</u>	<u>Total</u>
Net investment in capital assets:			
Land	\$ 70,851	\$ 46,340	\$ 117,191
Other capital assets, net of accumulated depreciation	1,054,930	290,321	1,345,251
Less mortgage notes outstanding	<u>(1,400,391)</u>	<u>(765,732)</u>	<u>(2,166,123)</u>
Total net investment in capital assets (deficit)	<u>(274,610)</u>	<u>(429,071)</u>	<u>(703,681)</u>
Restricted:			
Reserve account	<u>413,726</u>	<u>91,923</u>	<u>505,649</u>
Unrestricted	<u>77,746</u>	<u>11,563</u>	<u>89,309</u>
Total business-type activities net position (deficit)	<u>\$ 216,862</u>	<u>\$ (325,585)</u>	<u>\$ (108,723)</u>

4. Other Information

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 2020 were payable in 2020, the payments for 2021 are due in March and September 2021, etc.

Housing Authority of the City of Stoughton

Notes to Financial Statements
December 31, 2020

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 Concentrations section of Note 4.

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, 2020, the security deposit accounts were funded at the proper levels for Greenspire I and Greenspire III.

Concentrations

The Authority, through its housing assistance payment contracts with the Department of Housing and Urban Development, receives over 50 percent of its revenues from the federal government. See Housing Assistance Payments section of Note 4 for terms of the related housing assistance payments contracts. The housing assistance payment contract for Greenspire I and II expires December 31, 2020.

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.

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.

SUPPLEMENTARY INFORMATION

Housing Authority of the City of Stoughton

Supplementary Letter

Year Ended December 31, 2020

To the Commissioners of
Housing Authority of the City of Stoughton

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 US, LLP

Madison, Wisconsin
March 23, 2021

Housing Authority of the City of Stoughton

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2020

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
Rural rental housing loans (see Note 4)	10.415	
Greenspire I:		
Beginning Loan Balance		\$ 1,403,202
Interest Subsidy		6,050
Greenspire III:		
Beginning loan balance		783,448
Interest subsidy		58,880
		<u>2,251,580</u>
Rural rental housing loans total		
		<u>2,251,580</u>
Rural rental assistance payments	10.427	
Greenspire III		24,662
		<u>24,662</u>
Total U.S. Department of Agriculture		<u>2,276,242</u>
U.S. Department of Housing and Urban Development		
Housing voucher cluster:		
Section 8 Housing Choice Vouchers	14.871	
Greenspire I		182,461
		<u>182,461</u>
Total housing voucher cluster		<u>182,461</u>
Total federal awards		<u>\$ 2,458,703</u>

All awards are direct and have not been passed through another entity.

Housing Authority of the City of Stoughton

Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

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, 2020. 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.

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.

3. Indirect Cost Rate

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

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. The balances of the loans outstanding at December 31, 2020 consist of:

CFDA Number	Program Name	Outstanding balance at December 31, 2020
10.415	Rural Rental Housing Loans	\$ 1,400,391
10.415	Rural Rental Housing Loans	765,732

Independent Auditors' 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*

To the Commissioners of
Housing Authority for City of Stoughton

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, 2020 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 23, 2021.

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 2020-001 and 2020-002 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 2020-003 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 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 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 US, LLP

Madison, Wisconsin
March 23, 2021

Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Commissioners of
Housing Authority for City of Stoughton

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, 2020. 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, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-004. Our opinion on the major federal program is not modified with respect to this matter.

Authority's Response to Finding

The Authority's response to the noncompliance 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.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-004, that we consider to be a significant deficiency.

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.

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.



Madison, Wisconsin
March 23, 2021

Housing Authority of the City of Stoughton

Schedule of Findings and Questioned Costs
Year Ended December 31, 2020

Section I: Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: *unmodified*

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> X </u> yes	<u> </u> none reported
Noncompliance material to the basic financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> X </u> yes	<u> </u> 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?	<u> X </u> yes	<u> </u> no
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Auditee qualified as low-risk auditee?	<u> </u> yes	<u> X </u> no
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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
Year Ended December 31, 2020

Section II: Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

Finding 2020-001: Internal Control Over Financial Reporting

Repeat of prior year finding 2019-001

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 2020-002: Internal Controls Environment

Repeat of prior year finding 2019-002

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
Year Ended December 31, 2020

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. These reconciliations should be reviewed by someone other than the 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 2020-003: Information Technology System Internal Controls

Repeat of prior year finding 2019-003

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.

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.

Housing Authority of the City of Stoughton

Schedule of Findings and Questioned Costs
Year Ended December 31, 2020

Section III: Federal Award Findings and Questioned Costs

Finding 2020-004

Program CFDA Number: 10.415 Rural Rental Housing Loans
Federal Award Identification Number: Loans 001, 002, 003, 006, 009, 010
Federal Grantor: U.S. Department of Agriculture

Criteria: 2 CFR 200.303 Internal Controls requires that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations and program compliance requirements. To minimize the risk of errors, internal controls should be in place for all program compliance requirements, including appropriate review and approval of reports.

USDA requires the Authority to submit an annual report according to program guidelines. This includes forms RD 3560-7 and 3560-10 relating to loans 001, 002, 003, 006, 009 and 010. Information included in these reports should reconcile to the accounting records supporting the audited financial statements.

Condition: During testing of the annual reports filed with USDA it was noted that the balance sheet amounts did not reconcile to the audited trial balance or audited financial statements. The sample was not statistically valid.

Cause: The Authority did not record one of the proposed accounting entries from the 2019 audit.

Effect: Amounts reported to the federal agency did not reconcile to the audited financial statements.

Questioned Costs: None noted.

Recommendation: The Authority should add steps in the internal review to ensure amounts in the annual report reconcile to the audited financial statements.

Management's Response: The Housing Authority will create a process to ensure the annual report will reconcile to the audited financial statements.