

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

Stoughton, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2019

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, 2019, 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, 2019 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 the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the City of Stoughton's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2020 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 Virchow Krause, LLP

Madison, Wisconsin
April 28, 2020

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) As of and For the Year Ended December 31, 2019

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 decreased by \$42,162 in 2019. 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 \$(128,403) and (\$86,241) for 2019 and 2018, respectively.

The business-type activities revenue increased by \$44,998 or 8% in 2019 and totaled \$607,888 and \$562,890 for 2019 and 2018, respectively.

The total expenses of the Authority's programs increased by \$37,019 or 6% in 2019. Total expenses were \$650,050 and \$613,031 for 2019 and 2018, 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 (Unaudited) For the Year Ended December 31, 2019

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; nonoperating revenues, such as interest subsidies and housing assistance payments; and nonoperating expenses, such as interest expense.

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

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

MAJOR FUNDS

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

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

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

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

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
For the Year Ended December 31, 2019

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>2019</u>	<u>2018</u>
ASSETS		
Current assets	\$ 211,682	\$ 212,378
Noncurrent assets		
Restricted assets	385,689	498,418
Capital assets, net of accumulated depreciation	<u>1,520,580</u>	<u>1,372,361</u>
Total Assets	<u>2,117,951</u>	<u>2,083,157</u>
LIABILITIES		
Current liabilities	81,801	63,967
Long-term liabilities	<u>2,164,553</u>	<u>2,105,431</u>
Total Liabilities	<u>2,246,354</u>	<u>2,169,398</u>
NET POSITION		
Net investment in capital assets (deficit)	(666,070)	(745,474)
Restricted for reserve account	385,689	498,418
Unrestricted	<u>151,978</u>	<u>160,815</u>
Total Net Position (Deficit)	<u>\$ (128,403)</u>	<u>\$ (86,241)</u>

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
For the Year Ended December 31, 2019

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

	2019	2018
REVENUES		
Program Revenues		
Rents	\$ 297,760	\$ 283,328
Interest subsidies income	67,182	65,331
Housing assistance payments	187,630	179,926
Debt subsidy payments	24,662	24,662
General Revenues		
Investment income	924	923
Other income	29,730	8,720
Total Revenue	607,888	562,890
EXPENSES		
Administration	142,444	132,665
Maintenance	156,380	146,825
Depreciation	118,443	112,487
Utilities	60,094	59,510
Tax/Insurance	77,709	75,174
Overage	5,385	234
Interest expense	89,595	86,136
Total Expenses	650,050	613,031
Change in net position	(42,162)	(50,141)
TOTAL NET POSITION – Beginning of Year (Deficit)	(86,241)	(36,100)
TOTAL NET POSITION– END OF YEAR (DEFICIT)	\$ (128,403)	\$ (86,241)

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

Total revenue increase by \$44,498 due mainly to an increase in rents and interest subsidies. Total expenses increased by \$37,019 in part due to an increase in administration and maintenance and operating expenses.

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) For the Year Ended December 31, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of December 31, 2019, the Authority had \$1,520,580 in net capital assets as reflected in the following table. The increase is due to remodeling work completed at Greenspire I & II during 2019.

**Table 3
Capital Assets**

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 329,146	\$ 326,106
Buildings and improvements	3,873,320	3,684,350
Equipment/furniture/fixtures	<u>250,011</u>	<u>244,289</u>
Total Capital Assets	4,452,477	4,254,745
Less: accumulated depreciation	<u>(2,931,897)</u>	<u>(2,882,384)</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,520,580</u>	<u>\$ 1,372,761</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, 2019 consisted of mortgage notes payable to Rural Development of \$2,186,650 an increase from the prior year of \$68,815 due to new debt issuances in 2019 for building projects.

**Table 4
Outstanding Debt**

	<u>2019</u>	<u>2018</u>
Mortgage loan – beginning balance	\$ 2,117,835	\$ 1,487,600
Current year additions	92,277	650,635
Current year payments	<u>(23,462)</u>	<u>(20,400)</u>
Mortgage Loan – Ending Balance	<u>\$ 2,186,650</u>	<u>\$ 2,117,835</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, 2019

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, 2019

	Major Funds		Totals
	Greenspire I	Greenspire III	
ASSETS			
Current Assets			
Cash and investments	\$ 140,508	\$ 26,109	\$ 166,617
Cash and investments - security deposit account	18,214	10,813	29,027
Cash and investments - escrow account	-	5,113	5,113
Accounts receivable	1,787	4,520	6,307
Prepaid insurance	3,233	1,385	4,618
Total Current Assets	<u>163,742</u>	<u>47,940</u>	<u>211,682</u>
Restricted Assets			
Cash and investments - reserve account	<u>304,746</u>	<u>80,943</u>	<u>385,689</u>
Total Restricted Assets	<u>304,746</u>	<u>80,943</u>	<u>385,689</u>
Land	70,851	46,340	117,191
Property and equipment	3,091,195	1,244,091	4,335,286
Less: Accumulated depreciation	<u>(2,001,068)</u>	<u>(930,829)</u>	<u>(2,931,897)</u>
Net Property and Equipment	<u>1,160,978</u>	<u>359,602</u>	<u>1,520,580</u>
TOTAL ASSETS	<u>\$ 1,629,466</u>	<u>\$ 488,485</u>	<u>\$ 2,117,951</u>

	Major Funds		Totals
	Greenspire I	Greenspire III	
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 20,747	\$ 6,640	\$ 27,387
Accrued interest payable	2,652	638	3,290
Tenant security deposits payable	18,214	10,813	29,027
Current portion of long-term debt	15,063	7,034	22,097
Total Current Liabilities	<u>56,676</u>	<u>25,125</u>	<u>81,801</u>
Long-Term Debt Net of Current Maturities			
Mortgage notes	<u>1,388,139</u>	<u>776,414</u>	<u>2,164,553</u>
Total Liabilities	<u>1,444,815</u>	<u>801,539</u>	<u>2,246,354</u>
Net Position			
Net investment in capital assets (deficit)	(242,224)	(423,846)	(666,070)
Restricted for reserve account	304,746	80,943	385,689
Unrestricted	<u>122,129</u>	<u>29,849</u>	<u>151,978</u>
Total Net Position (Deficit)	<u>184,651</u>	<u>(313,054)</u>	<u>(128,403)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,629,466</u>	<u>\$ 488,485</u>	<u>\$ 2,117,951</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, 2019

	Major Funds		Totals
	Greenspire I	Greenspire III	
OPERATING REVENUES			
Rental income	\$ 173,490	\$ 124,270	\$ 297,760
Other income	23,961	5,769	29,730
Total Operating Revenues	<u>197,451</u>	<u>130,039</u>	<u>327,490</u>
OPERATING EXPENSES			
Advertising	4,408	1,935	6,343
Office supplies	1,402	489	1,891
Management fees	38,394	16,578	54,972
Professional fees	13,805	7,209	21,014
Other administrative expense	44,997	13,227	58,224
Utilities	41,153	18,941	60,094
Maintenance payroll and benefits	25,718	11,022	36,740
Other maintenance and operating expense	80,845	38,795	119,640
Depreciation	80,267	38,176	118,443
Insurance expense	21,083	9,394	30,477
Payments in lieu of taxes	33,062	14,170	47,232
Total Operating Expenses	<u>385,134</u>	<u>169,936</u>	<u>555,070</u>
Operating Loss	<u>(187,683)</u>	<u>(39,897)</u>	<u>(227,580)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest subsidy income	11,184	55,998	67,182
Debt subsidy payments	-	24,662	24,662
Housing assistance payments	187,630	-	187,630
Investment income	878	46	924
Overage expense	(5,385)	-	(5,385)
Interest expense	(25,272)	(64,323)	(89,595)
Total Nonoperating Revenues (Expenses)	<u>169,035</u>	<u>16,383</u>	<u>185,418</u>
CHANGE IN NET POSITION	(18,648)	(23,514)	(42,162)
NET POSITION (DEFICIT) – Beginning of Year	<u>203,299</u>	<u>(289,540)</u>	<u>(86,241)</u>
NET POSITION (DEFICIT) – END OF YEAR	<u>\$ 184,651</u>	<u>\$ (313,054)</u>	<u>\$ (128,403)</u>

See accompanying notes to financial statements.

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

	Major Funds		Totals
	Greenspire I	Greenspire III	
CASH FLOWS FROM OPERATING ACTIVITIES			
Rental income	\$ 173,490	\$ 125,290	\$ 298,780
Other operating receipts	27,518	5,826	33,344
Paid to suppliers for goods and services	(259,026)	(114,162)	(373,188)
Paid to city in lieu of tax	(33,062)	(14,168)	(47,230)
Net Cash Flows From Operating Activities	<u>(91,080)</u>	<u>2,786</u>	<u>(88,294)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Housing assistance payments	<u>187,630</u>	<u>-</u>	<u>187,630</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Debt proceeds	84,054	-	84,054
Debt retired	(7,243)	-	(7,243)
Interest paid	(17,781)	-	(17,781)
Acquisition and construction of capital assets	(238,577)	(28,086)	(266,663)
Net Cash Flows From Capital and Related Financing Activities	<u>(179,547)</u>	<u>(28,086)</u>	<u>(207,633)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	<u>878</u>	<u>22</u>	<u>900</u>
Net Increase in Cash and Cash Equivalents	(82,119)	(25,278)	(107,397)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>545,587</u>	<u>83,520</u>	<u>629,107</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 463,468</u>	<u>\$ 58,242</u>	<u>\$ 521,710</u>

See accompanying notes to financial statements.

	Major Funds		Totals
	Greenspire I	Greenspire III	
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss	\$ (187,683)	\$ (39,897)	\$ (227,580)
Adjustments to reconcile operating loss to net cash flows from operating activities			
Depreciation	80,267	38,176	118,443
Capitalized interest	8,223	-	8,223
Change in assets and liabilities			
Accounts receivable	3,830	2,222	6,052
Accounts payable	4,556	3,430	7,986
Tenant security deposits payable	(273)	(1,145)	(1,418)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (91,080)	\$ 2,786	\$ (88,294)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION			
Cash and investments	\$ 140,508	\$ 26,109	\$ 166,617
Cash and investments - security deposit account	18,214	10,813	29,027
Cash and investments - escrow account	-	5,113	5,113
Cash and investments - reserve account	304,746	80,943	385,689
Less: Noncash equivalents	-	(64,736)	(64,736)
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 463,468	\$ 58,242	\$ 521,710

NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES

In 2019, Rural Housing Service of the U.S. Department of Agriculture made direct payments on the Greenspire III Phase I and Phase II loans of \$16,218 and interest payments of \$8,444.

The interest expense on the Rural Rental Housing Loans of \$67,182 was forgiven for the year ended December 31, 2019; \$11,184 of interest expense related to Greenspire I and \$55,998 related to Greenspire III.

In 2019, Rural Housing Service of the U.S. Department of Agriculture capitalized interest in the amount of \$8,223.

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

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As of and for the Year Ended December 31, 2019

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**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

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

In March 2018, the GASB issued statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines for purposes of disclosures in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This standard was implemented January 1, 2019.

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.

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

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

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.

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.
- 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, 2019

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. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average balances. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

See Note III.A. for further information.

2. Receivables

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

3. Prepaid Items

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

4. Restricted Assets

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

5. Capital Assets

Capital assets are generally defined by the Authority as assets with an initial cost of more than \$500 for general capital assets, and an estimated useful life in excess of one year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The Authority has no infrastructure assets.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year.

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

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:

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

6. Long-Term Obligations

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

7. Equity Classifications

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

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

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

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, 2019

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

A. DEFICIT BALANCES (cont.)

As of December 31, 2019, the following individual fund held a deficit balance:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
Greenspire III	\$ 313,054	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	\$ 586,186	\$ 591,653	Custodial credit
Petty cash	<u>260</u>	<u>-</u>	N/A
Total Cash and Investments	<u>\$ 586,446</u>	<u>\$ 591,653</u>	

Reconciliation to financial statements

Per statement of net position

Cash and investments	\$ 166,617
Cash and investments – security deposit account	29,027
Cash and investments – escrow account	5,113
Cash and investments – reserve account	<u>385,689</u>
Total Cash and Investments	<u>\$ 586,446</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, 2019

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. At December 31, 2019, Greenspire I had excess funds in the general account of \$30,514. 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, 2019
Reserve account – Greenspire I	\$ 304,746
Reserve account – Greenspire III	<u>80,943</u>
Total	<u>\$ 385,689</u>

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

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

B. RESTRICTED ASSETS (cont.)

The statement of cash flows shows an decrease in total cash and cash equivalents for 2019 of \$107,397. The changes in cash and cash equivalents are further broken down between restricted and unrestricted balances as follows:

	2019
Increase in Cash and Cash Equivalents	
Restricted balances	\$ (112,729)
Unrestricted balances	5,352
Total decrease in Cash and Cash Equivalents	\$ (107,397)

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	\$ 117,191	\$ -	\$ -	\$ 117,191
Total Capital Assets Being Depreciated	\$ 117,191	\$ -	\$ -	\$ 117,191
Capital assets being depreciated				
Land improvements	\$ 208,915	\$ 8,600	\$ 5,560	\$ 211,955
Buildings	2,864,736	214,576	55,714	3,079,312
Building improvements	819,614	39,008	8,900	849,722
Furniture and fixtures	187,534	3,227	1,277	189,484
Equipment	56,755	5,904	2,132	60,527
Total Capital Assets Being Depreciated	4,137,554	271,315	73,583	4,335,286
Less: Accumulated depreciation for				
Land improvements	(139,164)	(11,960)	5,560	(145,564)
Buildings	(1,940,314)	(60,089)	55,714	(1,944,689)
Buildings and improvements	(601,740)	(35,098)	6,379	(630,459)
Furniture and fixtures	(160,702)	(7,811)	1,277	(167,236)
Machinery and equipment	(40,464)	(3,485)	-	(43,949)
Total Accumulated Depreciation	2,882,384	(118,443)	68,930	(2,931,897)
Total Capital Assets Being Depreciated	\$ 1,255,170	\$ 152,872	\$ 4,653	\$ 1,403,389

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

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

C. CAPITAL ASSETS (cont.) start

Depreciation expense was charged to functions as follows:

Greenspire I	\$ 80,267
Greenspire III	38,176
Total Depreciation Expense	\$ 118,443

D. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Notes Payable:					
Mortgage Notes from direct borrowings or direct placement	\$ 2,117,835	\$ 92,277	\$ 23,462	\$ 2,186,650	\$ 22,097

Mortgage Notes

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

	2019
Greenspire I construction loan \$389,760, the interest rate is 3.25% with the interest reduced to an effective rate of 1% through an interest credit agreement. The loan is due in monthly installments of \$826 including principal and interest and is due July 1, 2067.	\$ 381,941
Greenspire II construction loan \$285,585, the interest rate is 3.25% reduced to an effective rate of 1% through an interest credit agreement. This loan is due in monthly installments of \$605 including principal and interest and is due July 1, 2067.	279,857
Greenspire I – remodel loan, at 1.00%. As of 12/31/19, USDA dispersed \$380,000 to the housing authority for construction costs. This loan is currently a 30-year loan amortized over 50 years. Currently, there is not a due date or repayment schedule on the loan since the funds have not been fully dispersed.	383,640
Greenspire I – remodel loan, at 1.00%. As of 12/31/19, USDA dispersed \$350,000 to the housing authority for construction costs. This loan is currently a 30-year loan amortized over 50 years. Currently, there is not a due date or repayment schedule on the loan since the funds have not been fully dispersed.	357,764
Greenspire III - Phase I construction loan for \$427,802, 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.	345,363
Greenspire III - Phase II construction loan for \$535,180, 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.	438,085
Total Mortgage Notes Payable	\$ 2,186,650

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

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.

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

	Principal	Interest	Interest-Subsidized	Total Interest
2020	\$ 15,063	\$ 21,479	\$ 37,704	\$ 59,183
2021	15,423	21,121	37,347	58,468
2022	15,792	20,751	36,976	57,727
2023	16,174	20,371	36,596	56,967
2024	16,565	19,978	36,203	56,181
2025 - 2029	89,127	93,589	174,715	268,304
2030 - 2034	100,855	81,861	162,986	244,847
2035 - 2039	114,486	68,231	149,361	217,592
2040 - 2044	130,346	52,370	133,501	185,871
2045 - 2049	148,833	33,885	115,014	148,899
2050 - 2054	170,409	13,174	93,435	106,609
2055 - 2059	195,626	4,875	68,219	73,094
2060 - 2064	225,125	2,526	38,716	41,242
2065 - 2068	149,378	346	7,316	7,662
Totals	<u>\$ 1,403,202</u>	<u>\$ 454,557</u>	<u>\$ 1,128,089</u>	<u>\$ 1,582,646</u>

Greenspire III

	Principal	Interest	Interest-Subsidized	Total Interest
2020	\$ 7,034	\$ 17,628	\$ 52,883	\$ 70,511
2021	7,193	17,469	52,408	69,877
2022	7,355	17,307	51,922	69,229
2023	7,520	17,142	51,426	68,568
2024	7,689	16,973	50,918	67,891
2025 - 2029	41,120	82,190	246,569	328,759
2030 - 2034	45,959	77,751	232,052	309,403
2035 - 2039	659,578	59,621	178,866	238,487
Totals	<u>\$ 783,448</u>	<u>\$ 305,681</u>	<u>\$ 917,044</u>	<u>\$ 1,222,725</u>

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

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

D. LONG-TERM OBLIGATIONS (cont.)

Mortgage Notes (cont.)

The Authority's outstanding debt from direct borrowings or direct placement related to mortgage notes totaling \$2,186,650; 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 proved herein or by present or future laws.

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	1,090,127	313,262	1,403,389
Less: Mortgage notes outstanding	(1,403,202)	(783,448)	(2,186,650)
Total Net Investment in Capital Assets (Deficit)	(242,224)	(423,846)	(666,070)
Restricted			
Reserve account	304,746	80,943	385,689
Unrestricted	122,129	29,849	151,978
Total Business-type Activities Net Position (Deficit)	\$ 184,651	\$ (313,054)	\$ (128,403)

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 2019 were payable in 2019, the payments for 2020 are due in March and September 2020, etc.

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2019

NOTE IV – OTHER INFORMATION (cont.)

B. HOUSING ASSISTANCE PAYMENTS

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

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

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, 2019, 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 and II expires December 31, 2019.

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.

SUPPLEMENTARY INFORMATION

**HOUSING AUTHORITY
OF THE CITY OF STOUGHTON**

SUPPLEMENTARY LETTER
As of and for the Year Ended December 31, 2019

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 Virchow Krause, LLP

Madison, Wisconsin
April 28, 2020

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2019

Federal Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Rural Rental Housing Loans (See Note 4)	10.415	
Greenspire I:		
Beginning Loan Balance		\$ 1,318,168
Interest Subsidy		11,184
Greenspire III:		
Beginning Loan Balance		799,667
Interest Subsidy		55,998
Rural Rental Housing Loans Total		<u>2,185,017</u>
Rural Rental Assistance Payments	10.427	
Greenspire III		<u>24,662</u>
Total U.S. Department of Agriculture		<u>2,209,679</u>
U.S. Department of Housing and Urban Development		
Housing Voucher Cluster		
Section 8 Housing Choice Vouchers	14.871	
Greenspire I		<u>187,630</u>
Total Housing Voucher Cluster		<u>187,630</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 2,397,309</u></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, 2019

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, 2019. 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, 2019 consist of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding balance at December 31, 2019</u>
10.415	Rural Rental Housing Loans	\$ 1,403,202
10.415	Rural Rental Housing Loans	\$ 783,448

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 for 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 for City of Stoughton, WI (the "Authority") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Housing Authority for City of Stoughton's basic financial statements, and have issued our report thereon dated April 28, 2020.

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 2019-001 and 2019-002 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 2019-003 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 Virchow Krause, LLP

Madison, Wisconsin
April 28, 2020

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 for City of Stoughton
Stoughton, Wisconsin

Report on Compliance for the Major Federal Program

We have audited Housing Authority for 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, 2019. 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, 2019.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 28, 2020

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2019

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? yes X none reported

Type of auditor’s report issued on compliance for major programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 52 CFR 200.516(a) of the Uniform Guidance?

 yes X 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, 2019

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

FINDING 2019-001: INTERNAL CONTROL OVER FINANCIAL REPORTING

REPEAT OF PRIOR YEAR FINDING 2018-001

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 2019-002: INTERNAL CONTROLS ENVIRONMENT

REPEAT OF PRIOR YEAR FINDING 2018-002

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, 2019

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

FINDING 2019-002: INTERNAL CONTROLS ENVIRONMENT (cont.)

CONTROLS OVER MONTHLY AND YEAR-END ACCOUNTING

- > Account reconciliations, including monthly bank 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.
- > All adjusting journal entries should contain supporting documentation and should be reviewed and approved by an appropriate person who is not the original preparer.
- > The monthly requests for HAP payments and journal entries were performed by the same person during 2019. Separation of these activities is important to maintain adequate segregation of duties.

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 2019-003: INFORMATION TECHNOLOGY SYSTEM INTERNAL CONTROLS

REPEAT OF PRIOR YEAR FINDING 2018-003

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

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

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

HOUSING AUTHORITY OF THE CITY OF STOUGHTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2019

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

FINDING 2019-003: 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.