

MADISON DEVELOPMENT CORPORATION

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

December 31, 2014 and 2013

CONTENTS

| | |
|---|----|
| Independent Auditor's Report..... | 1 |
| Consolidated Statements of Financial Position..... | 3 |
| Consolidated Statements of Activities..... | 4 |
| Consolidated Statements of Cash Flows..... | 5 |
| Notes to Consolidated Financial Statements..... | 7 |
| Schedule of Expenditures of Federal Awards..... | 13 |
| Notes to Schedule of Expenditures of Federal Awards..... | 14 |
| Schedules of Expenses..... | 15 |
| Schedule of Revenue and Expenses by Funding Source..... | 16 |
| Schedule of Real Property and Real Debt..... | 17 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 18 |
| Independent Auditor's Report on Compliance for Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133..... | 20 |
| Schedule of Findings and Questioned Costs..... | 22 |
| City of Madison Community Development Division Schedule of Findings and Questioned Costs..... | 23 |



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Madison Development Corporation
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Madison Development Corporation, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Madison Development Corporation as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the supplementary information on pages 15-17 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for presenting the indirect cost allocation on the schedule of revenue and expenses by funding source, the information is fairly stated in all material respects in relation to the consolidated 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 13, 2015 on our consideration of Madison Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Madison Development Corporation's internal control over financial reporting and compliance.

Wegner CPAs, LLP

Wegner CPAs, LLP
Madison, Wisconsin
March 13, 2015

MADISON DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013.

| | 2014 | 2013 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash | \$ 885,643 | \$ 832,685 |
| Accounts receivable | 22,611 | 21,878 |
| Accrued interest receivable | 86,540 | 76,912 |
| Prepaid expenses | 45,305 | 47,033 |
| Loans receivable | 5,957,006 | 4,895,873 |
| Investments | 506,516 | 531,578 |
| Mortgage costs | 60,322 | 72,579 |
| EQUIPMENT | | |
| Machinery and equipment | 183,119 | 185,769 |
| Furniture and fixtures | 148,642 | 117,802 |
| Less accumulated depreciation | (282,840) | (205,474) |
| Equipment - net | 48,921 | 98,097 |
| PROPERTY HELD FOR LEASE | | |
| Land | 2,090,517 | 1,976,732 |
| Buildings and improvements | 13,081,086 | 11,114,141 |
| Less accumulated depreciation | (5,736,896) | (5,447,665) |
| Property held for lease - net | 9,434,707 | 7,643,208 |
| Total assets | <u>\$ 17,047,571</u> | <u>\$ 14,219,843</u> |
| LIABILITIES | | |
| Trade accounts payable | 83,527 | 63,857 |
| Accrued property taxes | 85,492 | 91,961 |
| Accrued payroll liabilities | 17,604 | 30,255 |
| Accrued security deposits and other liabilities | 105,955 | 100,683 |
| Unearned rents | 23,181 | 39,963 |
| Due to venture debt lenders | 3,476,543 | 2,779,919 |
| Due to Community Development Block Grant | 2,592,188 | 2,249,813 |
| Long-term debt | 6,655,362 | 4,949,602 |
| Total liabilities | 13,039,852 | 10,306,053 |
| NET ASSETS | | |
| Unrestricted | 4,007,719 | 3,913,790 |
| Total liabilities and net assets | <u>\$ 17,047,571</u> | <u>\$ 14,219,843</u> |

See accompanying notes.

MADISON DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---------------------------------|--------------|--------------|
| UNRESTRICTED NET ASSETS | | |
| SUPPORT AND REVENUE | | |
| Rental income | \$ 1,911,841 | \$ 1,902,853 |
| Grant revenue | 399,315 | 337,234 |
| Investment return | 65,827 | 9,414 |
| Program fees and other | 455 | 1,175 |
| Management service fees | 13,722 | 13,023 |
| Total support and revenue | 2,391,160 | 2,263,699 |
| EXPENSES | | |
| Housing | 1,936,461 | 1,881,197 |
| Economic development | 373,680 | 345,072 |
| Total expenses | 2,310,141 | 2,226,269 |
| GAINS | | |
| Gain on sales of assets | - | 199,169 |
| Equity in gains of investee | 12,910 | - |
| Total gains | 12,910 | 199,169 |
| Change in net assets | 93,929 | 236,599 |
| Net assets - beginning of year | 3,913,790 | 3,677,191 |
| Net assets - end of year | \$ 4,007,719 | \$ 3,913,790 |

See accompanying notes.

MADISON DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 93,929 | \$ 236,599 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation and amortization | 493,680 | 478,811 |
| Equity in gains of investee | (12,190) | - |
| Gain on sales of assets | - | (199,169) |
| Realized and unrealized gains | (44,764) | - |
| (Increase) decrease in assets | | |
| Accounts receivable | (733) | (11,876) |
| Accrued interest receivable | (9,628) | (11,200) |
| Prepaid expenses | 1,728 | (9,629) |
| Increase (decrease) in liabilities | | |
| Trade accounts payable | 19,670 | (83,545) |
| Accrued property taxes | (6,469) | 15,603 |
| Accrued payroll liabilities | (12,651) | 13,355 |
| Accrued security deposits and other liabilities | 5,272 | 17,498 |
| Unearned rents | (16,782) | 8,006 |
| Deferred grant revenue | - | (35,000) |
| Net cash flows from operating activities | 511,062 | 419,453 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property held for lease | (2,214,471) | (489,785) |
| Purchases of equipment | (9,275) | (29,900) |
| Additions to construction in process | - | (6,944) |
| Proceeds from sales of fixed assets | - | 265,000 |
| Additions to loans receivable | (2,050,688) | (2,671,500) |
| Collections of loans receivable | 989,555 | 1,599,646 |
| Proceeds from sale of investments | 122,626 | 28,280 |
| Net cash flows from investing activities | (3,162,253) | (1,305,203) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term debt | 2,096,522 | 152,000 |
| Repayments of long-term debt | (390,762) | (395,933) |
| Proceeds from venture debt | 1,297,000 | 1,660,000 |
| Repayments of venture debt | (600,376) | (1,046,294) |
| Repayments of Community Development Block Grant | (476,235) | (569,548) |
| Proceeds from Community Development Block Grant | 778,000 | 976,500 |
| Net cash flows from financing activities | 2,704,149 | 776,725 |
| Net change in cash | 52,958 | (109,025) |
| Cash - beginning of year | 832,685 | 941,710 |
| Cash - end of year | <u>\$ 885,643</u> | <u>\$ 832,685</u> |

See accompanying notes.

MADISON DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2014 and 2013.

| | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 419,810 | \$ 350,652 |
| NONCASH INVESTING AND FINANCING TRANSACTIONS | | |
| Forgiveness of loans receivable for investment in corporation | 40,610 | 41,414 |

See accompanying notes.

MADISON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

Madison Development Corporation (MDC) coordinates the activities of the public and private sectors to efficiently use the resources of each to achieve economic development, affirmative action, increased employment, and local neighborhood improvement in the city of Madison, Wisconsin. MDC is the sole member of Madison Mutual Housing Association, Inc. (MMHA). MMHA plans, develops, acquires, and leases affordable housing rental units primarily for the benefit of low to moderate income people, and engages in other activities to create, promote, and retain affordable housing in the Dane County area.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of MDC and its wholly-owned subsidiary, MMHA. All material intra-entity transactions have been eliminated.

Basis of Presentation

MDC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Property and Equipment

All acquisitions of property and equipment in excess of \$2,000 are capitalized. Property and equipment are carried at cost or, if donated, the approximate fair value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|-------------------------|-------------|
| Buildings improvements | 15-40 years |
| Machinery and equipment | 5 years |
| Furniture and fixtures | 5 years |

Grant Revenue

Grant revenue is recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related expenses are incurred. Amounts received in excess of expenses incurred are reflected as deferred grant revenue.

Expense Allocation

Directly identifiable expenses are charged to program services and supporting activities. Expenses related to more than one function are charged to program services and supporting activities on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of MDC and MMHA. Management estimates that 66% of expenses are for housing program services, 16% of expenses are for economic development program services, and 18% of expenses are for management and general activities for 2014. Management estimates that 68% of expenses are for housing program services, 16% of expenses are for economic development program services, and 16% of expenses are for management and general activities for 2013.

MADISON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax Status

MDC and MMHA are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. MDC and MMHA's federal exempt organization returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed. With few exceptions, MDC and MMHA are no longer subject to such examinations for tax years before 2011.

Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Investments in limited partnership interests and other equity securities without readily determinable fair values are carried at cost.

Mortgage Costs

Mortgage costs incurred by MMHA total \$335,889. These costs are being amortized using the straight-line method over the term of the loans or bonds. Amortization expense was \$12,257 each year for 2014 and 2013.

Due to Community Development Block Grant (CDBG)

CDBG advances money to MDC for certain loan programs and equity investments. MDC is obligated to repay CDBG when the loan customers repay their loans or proceeds are received from the sale of equity investments. The amount due CDBG represents the outstanding advances from CDBG less amounts provided as allowance for doubtful loans for individual debtors.

Due to Venture Debt Lenders

MDC's venture debt program is a partnership with several banks and communities in Dane County to loan funds to area start-up businesses. CDBG is also a participant in this program. The debt agreements are between MDC and the lenders; however, the debt is non-recourse debt to MDC as the banks have assumed the risk of loss in case of a default.

Date of Management's Review

Management has evaluated subsequent events through March 13, 2015, the date which the financial statements were available to be issued.

MADISON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 2 – INVESTMENTS

MMHA is the general partner of and has a 30% interest in the 641 West Main Street Limited Partnership, which is accounted for using the equity method. The value of this investment was \$308,140 and \$267,530 at December 31, 2014 and 2013.

Investments also include investments in common stock of less than 20%-owned companies, carried at cost.

NOTE 3 – SPECIAL REVENUE FUND

MDC carries three asset accounts on its books; CDBG Contract Due – Administration, CDBG Contract Due – Capital, and CDBG Deferred Contract that reflect the balances carried by the City of Madison in a special revenue fund for use by MDC under an annual purchase of services for CDBG funds administered by the City of Madison. CDBG Contract Due – Administration is the balance of administrative funds available through several separate contracts. Similarly, CDBG Contract Due – Capital is the balance of funds available for capital expenditures under the same collection of contracts. The contra account, CDBG Deferred Contract, offsets these two accounts to zero to reflect the fact that these assets are only available to MDC when used to meet program purposes, and thus are not reflected in the accompanying consolidated financial statements. The amount available to MDC is approximately \$840,000 and \$840,000 at December 31, 2014 and 2013.

NOTE 4 – LOANS RECEIVABLE

MDC lends funds to qualifying businesses and individuals under separate loan programs. Loans outstanding longer than the contractual payment terms are considered past due. The allowance for doubtful loans is determined by considering a number of factors, including the length of time loans receivable are past due, MDC's previous loss history, the customer's current ability to pay its obligation, the condition of the general economy, and the industry as a whole. All of the loan programs are funded by CDBG, who ultimately carries the entire risk of loss. Therefore, MDC has incurred no bad debt expense for these loans. The loans receivable are collateralized and consist of the following at December 31:

| | 2014 | 2013 |
|-----------------------------------|--------------|--------------|
| Business loan program | \$ 2,662,785 | \$ 2,261,388 |
| Venture debt loan program | 3,497,721 | 2,837,985 |
| Other loans | 85,000 | 85,000 |
| Total loans | 6,245,506 | 5,184,373 |
| Less allowance for doubtful loans | 288,500 | 288,500 |
| Loans receivable | \$ 5,957,006 | \$ 4,895,873 |

The terms of the loans vary for each debtor and program. The loan principal amounts range from \$500 to \$400,000 and are generally due within five years. Interest rates range from 3% to 9%.

MADISON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 5 – LONG-TERM DEBT

Long-term debt consists of the following at December 31:

| | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| City of Madison-HOME Funds Grant loan, no payments unless collateral sold, transferred, or used in unauthorized project, collateralized by land at 641 West Main Street, Madison. | \$ 155,521 | \$ 155,521 |
| City of Madison-Community Development Block Grant loan, no payments due unless collateral sold, transferred, or used in unauthorized project, collateralized by land at 641 West Main Street, Madison (A). | 138,412 | 138,412 |
| Home Funds note payables to the City of Madison, collateralized by a real estate mortgage on property held for lease (103 North Butler, 427 West Mifflin, 437-439 West Mifflin, 441-443 West Mifflin, 310 East Mifflin and 1242 East Mifflin), payable upon sale of such property, interest free (B). | 205,713 | 426,458 |
| Note payable to the City of Madison, collateralized by a real estate mortgage on property held for lease (5021 Old Middleton Road), payable upon sale of such property, interest free (C). | 181,000 | 181,000 |
| Note payable to Capitol Bank, collateralized by a real estate mortgage on property held for lease (5021 Old Middleton Road), payable in monthly installments of \$5,227 including interest at 5.375%, due April 1, 2017. | 559,671 | 590,815 |
| Note payable to Monona State Bank, collateralized by real estate property held for lease (2029-2037 S. Park Street and 2032 Taft Street) payable in monthly installments of \$830 including interest at 4.25%, paid off during 2014. | - | 62,742 |
| Note payable to Wells Fargo, collateralized by a real estate mortgage on property held for lease (2050-2080 Allen Blvd.), payable in monthly installments of \$10,998 including interest of 3.35%, due July 15, 2017. | 1,256,702 | 1,317,060 |
| Note payable to Town Bank, collateralized by a real estate mortgage on property held for lease at 437-443 West Mifflin, and 435 W Mifflin, Madison, payable in monthly installments of \$5,193, with an interest rate of 5.25% with final balloon payment due May 1, 2015. | - | 799,871 |

MADISON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 5 – LONG-TERM DEBT (continued)

| | | |
|--|--------------|--------------|
| <p>Note payable to Town Bank, \$400,000 was used in 2010, and an additional draw of \$185,777 was taken in 2012. Payable in equal monthly payments of \$3,671, with a balloon payment due on May 1, 2015. Collateralized by property at 738 E. Dayton Street.</p> | 383,449 | 551,244 |
| <p>Note payable to City of Madison - Community Development Block Grant. No payments due unless collateral is sold, transferred or used in an unauthorized project. Collateralized by property at 738 E. Dayton Street.</p> | 229,383 | 229,383 |
| <p>Note payable to Town Bank, collateralized by real estate mortgage on property held for lease at 2117 Taft Street, Madison, payable in monthly installments of \$506, with interest rate of 4.8% with final balloon payment due May 31, 2017.</p> | 80,765 | 82,335 |
| <p>Note payable to Settlers Bank, collateralized by a real estate mortgage on property located at 1948-1954 East Washington Avenue, 1953 East Mifflin Street, and 22 N. 2nd Street, payable in monthly installments of \$12,800, with an interest rate of 5.125% with a final payment due November 30, 2016.</p> | 291,212 | 414,761 |
| <p>Note payable to Wells Fargo, collateralized by a real estate mortgage on property located at 437-443 West Mifflin Street, Madison, payable in monthly installments of \$6,676, with an interest rate of 3.35% with a final balloon payment due June 1, 2017.</p> | 1,140,964 | - |
| <p>Note payable to Monona State Bank, collateralized by a real estate mortgage on property located at 1 N. Bedford in monthly installments of \$8,430, with an interest rate of 3.65% with a final balloon payment due February 12, 2017</p> | 854,989 | - |
| <p>Note payable to Monona State Bank, collateralized by a real estate mortgage on property located at 2041 South Park Street in monthly installments of \$3,662, with an interest rate of 3.65% with a final balloon payment due May 13, 2017.</p> | 1,177,581 | - |
| | \$ 6,655,362 | \$ 4,949,602 |

Interest expense was \$429,437 and \$350,652 for 2014 and 2013.

MADISON DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 5 – LONG-TERM DEBT (continued)

The following is a schedule by years of future minimum principal payments required as of December 31, 2014:

| | |
|---------------------------|--------------|
| 2015 | \$ 395,014 |
| 2016 | 439,979 |
| 2017 | 348,205 |
| 2018 | 341,662 |
| 2019 | 325,082 |
| Thereafter | 3,895,391 |
| Due upon sale of property | 910,029 |
| | \$ 6,655,362 |

MDC and MMHA have mortgage indebtedness with the City of Madison. Certain mortgages are interest-free. The principal is due in one lump sum at the greater of the face value of the note or a designated percentage of the fair value on the sale, transfer or use of the property. The following is a schedule of mortgages bearing these terms:

| Property | Original Mortgage | Percent of Fair Value |
|-----------------------------|----------------------|--------------------------|
| (A) 641 West Main Street | \$ 138,412 | 3.40% |
| (B) 103 North Butler Street | 60,415 | 33.56% |
| 103 North Butler Street | 43,291 | 24.05% |
| 310 East Mifflin Street | 62,007 | 24.32% |
| | \$ 165,713 | |
| (C) 5021 Old Middleton Road | \$ 181,000 | 18.80% |

NOTE 6 – PENSION PLAN

MDC has a simplified employee pension (SEP) plan for substantially all employees who met the eligibility requirements set forth in the plan. MDC contributions are made at 11.2% of qualified compensation and totaled \$49,754 and \$62,967 for 2014 and 2013.

NOTE 7 – MANAGEMENT SERVICE FEES

MDC provides management services to Dane County Development Company, Inc. (DCDC), an organization that provides business development loans on a countywide basis. MDC received \$13,722 and \$13,023 in 2014 and 2013 for management services provided to DCDC.

NOTE 8 – LAND LEASE AGREEMENT

MMHA, Main Street general partner, has entered into a 40-year, triple net land lease agreement with Main Street dated June 26, 1992. The lease currently requires monthly payments to MMHA of \$4,699. Income under this agreement totaled \$56,385 each year for 2014 and 2013. Future minimum rentals are \$56,385 per year for 2015, 2016, 2017, 2018 and 2019 and \$676,620 for later years.

MADISON DEVELOPMENT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2014

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|--------------------------------|---|---------------------------------|
| Department of Housing and Urban Development Pass-Through Programs from City of Madison Community Development Block Grant Office Community Development Block Grants/ Entitlement Grants | 14.218 | | \$ 1,318,426 |
| Home Investment Partnerships Program | 14.239 | | 116,829 |
| Department of Housing and Urban Development Pass-Through Program from City of Madison Community Development Authority Section 8 Housing Assistance Payments Program | 14.195 | | 103,342 |
| Department of Housing and Urban Development Pass-Through Program from Dane County Housing Authority Section 8 Housing Assistance Payments Program | 14.195 | | <u>17,410</u> |
| Total 14.195 | | | <u>120,752</u> |
| Total expenditures of federal awards | | | <u><u>\$ 1,556,007</u></u> |

See accompanying notes to schedule of expenditures of federal awards.

MADISON DEVELOPMENT CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Madison Development Corporation under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Madison Development Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Madison Development Corporation.

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 OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 – LOANS OUTSTANDING

The federal expenditures reported on the schedule include the balances of loans from previous years for which the Department of Housing and Urban Development imposes continuing compliance requirements. At December 31, 2014, the balances of the loans outstanding totaled \$293,554.

MADISON DEVELOPMENT CORPORATION
SCHEDULES OF EXPENSES
Years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|-----------------------------------|---------------------|---------------------|
| Wages | \$ 524,894 | \$ 546,088 |
| Payroll taxes | 55,662 | 58,083 |
| Employee benefits | 106,954 | 112,598 |
| Contract labor - third party | 5,535 | 4,398 |
| Training and travel | 337 | 1,631 |
| Dues, meetings, and subscriptions | 7,773 | 11,227 |
| Accounting | 18,350 | 18,000 |
| Legal | 9,848 | 4,401 |
| Advertising | 3,930 | 3,255 |
| Computer | 19,520 | 12,946 |
| Supplies | 8,105 | 7,621 |
| Postage | 2,605 | 2,301 |
| Telephone | 11,998 | 9,519 |
| Leases | 6,631 | 8,134 |
| Fees and permits | 5,065 | 3,930 |
| Bad debt | 3,333 | 4,285 |
| Trash | 36,223 | 36,758 |
| Resident retention | - | 635 |
| Apartment turns | 26,184 | 31,422 |
| Building supplies | 42,653 | 47,191 |
| Cleaning and maintenance | 92,482 | 108,639 |
| Snow removal and landscaping | 17,577 | 14,072 |
| Electricity | 57,040 | 48,286 |
| Gas | 70,321 | 48,697 |
| Water and sewer | 54,640 | 57,580 |
| Property development costs | 535 | 1,000 |
| Depreciation and amortization | 493,680 | 478,811 |
| Property taxes | 86,505 | 96,117 |
| Insurance | 82,184 | 84,029 |
| Interest | 429,437 | 350,652 |
| Bank and admin fees | 30,140 | 13,963 |
| Total expenses | \$ 2,310,141 | \$ 2,226,269 |

MADISON DEVELOPMENT CORPORATION
SCHEDULE OF REVENUE AND EXPENSES BY FUNDING SOURCE
Year ended December 31, 2014

| | CDBG Business Loan Program | CDBG Consolidated Housing Program | Other Sources | Total |
|-----------------------------------|----------------------------------|---|------------------|------------------|
| REVENUE | | | | |
| Rental income | \$ - | \$ - | \$ 1,911,841 | \$ 1,911,841 |
| Program fees and other | - | - | 455 | 455 |
| Grant revenue | 395,935 | - | 3,380 | 399,315 |
| Investment return | - | - | 65,827 | 65,827 |
| Management service fees | - | - | 13,722 | 13,722 |
| Total revenue | 395,935 | - | 1,995,225 | 2,391,160 |
| EXPENSES | | | | |
| Wages | 89,302 | - | 435,592 | 524,894 |
| Payroll taxes | 11,460 | - | 44,202 | 55,662 |
| Employee benefits | 18,290 | - | 88,664 | 106,954 |
| Contract labor - third party | 324 | - | 5,211 | 5,535 |
| Training and travel | - | - | 337 | 337 |
| Dues, meetings, and subscriptions | 3,161 | - | 4,612 | 7,773 |
| Accounting | - | - | 18,350 | 18,350 |
| Legal | 754 | - | 9,094 | 9,848 |
| Advertising | 295 | - | 3,635 | 3,930 |
| Computer | 1,250 | - | 18,270 | 19,520 |
| Supplies | 125 | - | 7,980 | 8,105 |
| Postage | - | - | 2,605 | 2,605 |
| Telephone | - | - | 11,998 | 11,998 |
| Leases | - | - | 6,631 | 6,631 |
| Fees and permits | 416 | - | 4,649 | 5,065 |
| Bad debt | - | - | 3,333 | 3,333 |
| Trash | - | - | 36,223 | 36,223 |
| Resident retention | - | - | - | - |
| Apartment turns | - | - | 26,184 | 26,184 |
| Building supplies | - | - | 42,653 | 42,653 |
| Cleaning and maintenance | - | - | 92,482 | 92,482 |
| Snow removal and landscaping | - | - | 17,577 | 17,577 |
| Electricity | - | - | 57,040 | 57,040 |
| Gas | - | - | 70,321 | 70,321 |
| Water and sewer | - | - | 54,640 | 54,640 |
| Property development costs | - | - | 535 | 535 |
| Depreciation and amortization | - | - | 493,680 | 493,680 |
| Property taxes | - | - | 86,505 | 86,505 |
| Insurance | 30 | - | 82,154 | 82,184 |
| Interest | 145,416 | - | 284,021 | 429,437 |
| Bank and admin fees | - | - | 30,140 | 30,140 |
| Total expenses | 270,823 | - | 2,039,318 | 2,310,141 |
| Indirect cost allocation | 102,858 | - | (102,858) | - |
| Excess revenue (expenses) | \$ 22,254 | \$ - | \$ 58,765 | \$ 81,019 |

MADISON DEVELOPMENT CORPORATION
SCHEDULE OF REAL PROPERTY AND RELATED DEBT
Year ended December 31, 2014

| Property / Description | Cost | CDBG/HOME Deferred Loan | Other Debt |
|--|----------------------|----------------------------|---------------------|
| Land and buildings | | | |
| 641 W Main Street | \$ 716,169 | \$ 293,933 | \$ - |
| 103 North Butler, 427 West Mifflin, 437-439 West Mifflin, 441-443 West Mifflin, 310 East Mifflin, and 435 W. Mifflin | 1,744,804 | 205,713 | 1,140,964 |
| 5021 Old Middleton Road | 905,000 | 181,000 | 559,671 |
| 2050-2080 Allen Blvd | 2,695,323 | - | 1,256,702 |
| 550 W Washington Avenue | 1,209,791 | - | 854,989 |
| 738 E. Dayton Street | 649,999 | 229,383 | 383,449 |
| 2029 S. Park Street, 2033 S. Park Street, 2037 S. Park Street and 2032 Taft Street | 190,000 | - | 1,177,581 |
| 2117 Taft Street | 108,000 | - | 80,765 |
| 1948-1954 East Washington Avenue, 1953 East Mifflin Street and 22 N. 2nd Street | 1,803,494 | - | 291,212 |
| | <u>\$ 10,022,580</u> | <u>\$ 910,029</u> | <u>\$ 5,745,333</u> |



Wegner CPAs

INDEPENDENT AUDITOR'S 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 Board of Directors
Madison Development Corporation
Madison, 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 consolidated financial statements of Madison Development Corporation, which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madison Development Corporation's consolidated 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*.

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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.

Wegner CPAs, LLP

Wegner CPAs, LLP
Madison, Wisconsin
March 13, 2015



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Madison Development Corporation
Madison, Wisconsin

Report on Compliance for Major Federal Program

We have audited Madison Development Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Madison Development Corporation's major federal program for the year ended December 31, 2014. Madison Development Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Madison Development Corporation'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Madison Development Corporation'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 Madison Development Corporation's compliance.

Opinion on Major Federal Program

In our opinion, Madison Development Corporation 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, 2014.

Report on Internal Control Over Compliance

Management of Madison Development Corporation 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 Madison Development Corporation's internal control over compliance with the types of requirements that could have a direct

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and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Madison Development Corporation's internal control over compliance.

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

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wegner CPAs, LLP

Wegner CPAs, LLP
Madison, Wisconsin
March 13, 2015

MADISON DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2014

Section I—Summary of Auditor's Results

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | None reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|---------------|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | 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 510(a) of OMB Circular A-133? | No |

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|-------------------|---|
| 14.218 | Community Development Block Grants/Entitlement Grants |

| | |
|--|------------|
| Dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| Auditee qualified as low-risk auditee? | Yes |

Section II—Financial Statement Findings

No matters were reported

Section III—Federal Award Findings and Questioned Costs

No matters were reported

MADISON DEVELOPMENT CORPORATION
CITY OF MADISON COMMUNITY DEVELOPMENT DIVISION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2014

- | | |
|---|------------|
| 1. Single Audit required? | Yes |
| Dollar threshold used to distinguish between type A and type B programs | \$ 300,000 |
| 2. Type of auditor's report issued. | Unmodified |
| 3. Internal control over financial reporting - | |
| Material weakness identified? | No |
| Significant deficiency identified and not considered a material weakness? | No |
| Noncompliance material to financial statements noted? | No |
| 4. Internal control over major programs - | |
| Material weakness identified? | No |
| Significant deficiency identified not considered to be a material weakness? | No |
| 5. Indirect cost allocation plan reasonable and acceptable per OMB A-122? | Yes |
| 6. Actual costs reasonable and allocated appropriately per OMB A-122? | Yes |
| 7. Costs allocated to the CD Office contracts based on costs incurred and are supported by records and documents? | Yes |
| 8. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section 510(a)? | No |
| 9. Identification of all Federal revenue sources and dollar amounts by program. See Schedule of Expenditures of Federal Awards | |
| 10. Financial statement findings. No matters were reported | |
| 11. Federal and State award findings and questioned costs. No matters were reported | |
| 12. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? | No |
| 13. Does the audit report identify any additional audit issues related to the Agency's CD Office grants/contracts? | No |
| Does the audit include the - | |
| 14. Schedule of revenue and expenses by program and funding source? | Yes |
| 15. Schedule of CD Office funds expended by program? | Yes |
| 16. Schedule of real property assets and the debt recorded against each property? | Yes |
| 17. Was a management letter or other document conveying audit comments issued as a result of this audit? | No |

Signature of Partner in Charge
Name of Partner in Charge
Date of report



Glenn Miller, CPA
March 13, 2015