

Monona Shores
(A Business -Type Activity-Enterprise Fund of the
Community Development Authority of the City of Madison)

Financial Report

December 31, 2023



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MONONA SHORES

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Community Development Authority
of the City of Madison
Madison, WI

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Monona Shores, a business-type activity-enterprise fund of the Community Development Authority of the City of Madison, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Monona Shores' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monona Shores, a business-type activity-enterprise fund of the Community Development Authority of the City of Madison, as of December 31, 2023 and 2022, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Monona Shores and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Monona Shores fund, a business-type activity-enterprise fund of the Community Development Authority of the City of Madison, and do not purport to, and do not, present fairly the financial position of the Community Development Authority of the City of Madison as of December 31, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Monona Shores' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

May 6, 2024

MONONA SHORES

(A Business-Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

STATEMENTS OF NET POSITION

December 31, 2023 and 2022

ASSETS	2023	2022
Current Assets		
Cash and cash equivalents	\$ 405,698	\$ 632,730
Restricted cash - tenants' security deposits	71,170	70,630
Accounts receivable	50,785	73,370
Prepaid expenses	46	450
Total Current Assets	527,699	777,180
Noncurrent Assets		
Net capital assets	2,925,981	3,202,377
Deposit	10,500	10,500
Total noncurrent assets	2,936,481	3,212,877
TOTAL ASSETS	\$ 3,464,180	\$ 3,990,057
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 49,603	\$ 66,608
Accrued expenses	33,613	22,750
Accrued PILOT	40,000	40,000
Accrued interest	4,909	5,453
Unearned revenue	32,095	39,062
Tenants' security deposits payable	76,292	71,808
Current portion of long-term debt	228,507	211,041
Total Current Liabilities	465,019	456,722
Long-Term Liabilities		
Mortgage notes payable, net of current maturities	1,721,818	1,950,369
NET POSITION		
Net investment in capital assets	975,656	1,040,967
Unrestricted	301,687	541,999
Total Net Position	1,277,343	1,582,966
TOTAL LIABILITIES AND NET POSITION	\$ 3,464,180	\$ 3,990,057

The accompanying notes are an integral part of these financial statements.

MONONA SHORES

(A Business-Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended December 31, 2023 and 2022

	2023	2022
Operating revenues:		
Rental income	\$ 1,348,415	\$ 1,311,998
Vacancies and concessions	(54,822)	(22,708)
Other revenues	17,859	20,224
Total operating revenues	1,311,452	1,309,514
Operating expenses:		
Rent and administrative	250,351	232,960
Utilities	106,638	98,363
Operating and maintenance	556,923	447,697
PILOT, taxes and insurance	63,133	58,251
Depreciation	474,137	455,680
Total operating expenses	1,451,182	1,292,951
Operating income (loss)	(139,730)	16,563
Non-operating revenues (expenses)		
Interest income	2,823	560
Interest expense	(60,716)	(67,061)
Total non-operating revenues (expenses)	(57,893)	(66,501)
Loss before transfers	(197,623)	(49,938)
Transfers out	108,000	88,000
Change in net position	(305,623)	(137,938)
Net position, beginning	1,582,966	1,720,904
Net position, ending	<u>\$ 1,277,343</u>	<u>\$ 1,582,966</u>

The accompanying notes are an integral part of these financial statements.

MONONA SHORES

(A Business-Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

STATEMENTS OF CASH FLOWS

Years ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from tenants	\$ 1,331,554	\$ 1,332,434
Paid to suppliers for goods and services	(973,104)	(835,220)
Net cash provided by operating activities	358,450	497,214
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(108,000)	(88,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(211,085)	(189,219)
Interest paid	(61,260)	(67,590)
Acquisition of capital assets	(207,420)	(110,888)
Net cash used in capital and related financing activities	(479,765)	(367,697)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	2,823	560
Change in cash and cash equivalents	(226,492)	42,077
Cash and cash equivalents:		
Beginning	703,360	661,283
Ending	\$ 476,868	\$ 703,360
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 405,698	\$ 632,730
Restricted cash - tenants' security deposits	71,170	70,630
Cash and cash equivalents, ending	\$ 476,868	\$ 703,360
RECONCILIATION OF CHANGE IN OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (139,730)	\$ 16,563
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	474,137	455,680
Bad debt expense	37,276	27,355
Change in assets and liabilities:		
Accounts receivable	(14,691)	(13,105)
Prepaid expenses	404	197
Accounts payable	(2,842)	6,612
Accrued expenses	10,863	2,102
Unearned revenue	(6,967)	1,810
Net cash provided by operating activities	\$ 358,450	\$ 497,214
SUPPLEMENTAL SCHEDULE(S) OF NONCASH NONCAPITAL FINANCING, CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Accounts payable capitalized into capital assets	\$ 15,397	\$ 25,076

The accompanying notes are an integral part of these financial statements.

MONONA SHORES

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE A -- Summary of significant accounting policies

Reporting entity

Monona Shores (the fund) is a business-type activity-enterprise fund of the Community Development Authority of the City of Madison (CDA). The CDA is a component unit of the City of Madison. The fund consists of a 104-unit, low-income housing project called Monona Shores Apartments, located in Madison, Wisconsin, and was placed in service in December 1999.

Measurement focus, basis of accounting and basis of presentation

The financial statements of the fund have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the fund are described below.

The accounts of the fund are organized and operated on the basis of a proprietary fund.

The fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's operations. The principal operating revenues of the fund include activities that have characteristics of exchange transactions, mainly rental income. Operating expenses for the fund include the cost of services provided, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenue includes activities that have characteristics of non-exchange transactions such as most federal, state, and local grants and subsidies. Non-operating revenue also includes interest income.

Proprietary Fund - The proprietary fund is an *Enterprise Fund* used to account for those operations that are financed and operated in a manner similar to private business or where the CDA has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Enterprise Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of this fund are included on the statement of net position. The enterprise fund is used to account for the activities of the low-rent housing program. Under the low-rent housing program, the CDA owns and operates housing units. Financing for the acquisition and rehabilitation of this property was obtained through long-term debt issues. The operations and maintenance are funded principally through tenant rent.

Use of estimates

The preparation of financial statements 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.

MONONA SHORES

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE A -- Summary of significant accounting policies (Continued)

Cash and cash equivalents and restricted cash

For purposes of reporting cash flows, the fund considers all investments purchased with a maturity of three months or less to be cash equivalents, with the exception of cash not available to the fund due to restrictions placed on it.

Accounts receivable and revenue recognition

The fund utilizes the direct write-off method of accounting for bad debts. The use of this method has no material effect on the financial statements.

Accounts receivable are not interest bearing. A receivable is considered past due if payments have not been received by the fund after 5 days. Accounts receivable are written-off when management determines an account is uncollectible, based on its history of past write-offs, collections, and current credit conditions. Accounts receivable are written-off only after the tenant vacates the unit. A late payment fee of \$30 or \$35 is charged for accounts 5 days past due.

Rental revenue is recognized when earned. The fund leases apartments to eligible applicants under operating leases which are substantially all on a yearly basis. Other revenue consists of various tenant charges and other services and is recognized when the service is complete.

Capital assets

Capital assets are stated at cost. Depreciation of rental property is computed on the straight-line and declining-balance methods based upon the following estimated useful lives of the assets:

	<u>Years</u>
Land improvements	15
Buildings and improvements	27.5
Furnishings and equipment	5

All purchases of capital assets in excess of \$5,000, and/or extends the useful life will be capitalized.

Maintenance and repairs of rental property are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of rental property, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Impairment of long-lived assets

The fund reviews long-lived assets, including rental property, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

MONONA SHORES

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE A -- Summary of significant accounting policies (Continued)

Net position

The fund's net position is subdivided into two categories: 1) net investment in capital assets, and 2) unrestricted. Each component of net position is reported separately on the statements of net position. Net investment in capital assets represents the balance of land, land improvements, buildings and improvements, and furnishings and equipment less accumulated depreciation, net of any related debt incurred in the acquisition of capital assets. The remaining net position, not related to capital assets, is reported as unrestricted.

Subsequent events

These financial statements have not been updated for subsequent events occurring after May 6, 2024, which is the date these financial statements were available to be issued. The fund has no responsibility to update these financial statements for events and circumstances occurring after this date.

NOTE B -- Cash and cash equivalents and restricted cash

The fund's cash and cash equivalents and restricted cash as of December 31, 2023 were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits	\$ 476,868	\$ 483,478	Custodial credit risk

Reconciliation to financial statements:

Per statement of net position

Cash and cash equivalents	\$ 405,698
Restricted cash – tenants' security deposits	<u>71,170</u>

Total cash and cash equivalents and restricted cash	<u>\$ 476,868</u>
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MONONA SHORES

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE B -- Cash and cash equivalents and restricted cash (Continued)

The fund's cash and cash equivalents and restricted cash as of December 31, 2022 were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits	<u>\$ 703,360</u>	<u>\$ 711,902</u>	Custodial credit risk

Reconciliation to financial statements:

Per statement of net position

Cash and cash equivalents	\$ 632,730
Restricted cash – tenants' security deposits	<u>70,630</u>

Total cash and cash equivalents and restricted cash \$ 703,360

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 accounts, which, at times, may exceed federally insured limits. The fund has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and cash equivalents.

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 municipalities. This coverage has not been considered in computing custodial credit risk.

Custodial credit risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the fund's deposits may not be returned to the fund.

As of December 31, 2023 and 2022, \$233,478 and \$461,902 of the fund's total bank balance of \$483,478 and \$711,902, respectively was exposed to custodial credit risk as uninsured and uncollateralized.

MONONA SHORES

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE C -- Capital assets, net

The balance of and changes in capital assets as of and for the year ended December 31, 2023 is summarized as follows:

	December 31, 2022	Additions	Deletions	December 31, 2023
Capital assets not being depreciated				
Land	\$ 173,501	\$ 0	\$ 0	\$ 173,501
Total capital assets not being depreciated	173,501	0	0	173,501
Capital assets being depreciated:				
Buildings and improvements	10,957,760	86,994	0	11,044,754
Land improvements	679,726	0	0	679,726
Furniture and equipment	698,180	110,747	0	808,927
Total capital assets being depreciated	12,335,666	197,741	0	12,533,407
Accumulated depreciation	(9,306,790)	(474,137)	0	(9,780,927)
Total capital assets being depreciated, net	3,028,876	(276,396)	0	2,752,480
Total capital assets, net	\$ 3,202,377	\$ (276,396)	\$ 0	\$ 2,925,981

MONONA SHORES

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE C -- Capital assets, net (Continued)

The balance of and changes in capital assets as of and for the year ended December 31, 2022 is summarized as follows:

	December 31, 2021	Additions	Deletions	December 31, 2022
Capital assets not being depreciated				
Land	\$ 173,501	\$ 0	\$ 0	\$ 173,501
Total capital assets not being depreciated	173,501	0	0	173,501
Capital assets being depreciated:				
Buildings and improvements	10,921,469	36,291	0	10,957,760
Land improvements	653,976	25,750	0	679,726
Furniture and equipment	624,257	73,923	0	698,180
Total capital assets being depreciated	12,199,702	135,964	0	12,335,666
Accumulated depreciation	(8,851,110)	(455,680)	0	(9,306,790)
Total capital assets being depreciated, net	3,348,592	(319,716)	0	3,028,876
Total capital assets, net	\$ 3,522,093	\$ (319,716)	\$ 0	\$ 3,202,377

NOTE D -- Long-term debt

	Beginning Balance 2022	Increases	Decreases	Ending Balance 2023	Amounts Due Within One Year
Mortgage notes payable:					
Johnson Bank	\$ 1,948,343	\$ 0	\$ 195,549	\$ 1,752,794	\$ 201,886
WHEDA	213,067	0	15,536	197,531	26,621
Total long-term debt	\$ 2,161,410	\$ 0	\$ 211,085	\$ 1,950,325	\$ 228,507

MONONA SHORES

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE D -- Long-term debt (Continued)

	Beginning Balance 2021	Increases	Decreases	Ending Balance 2022	Amounts Due Within One Year
Mortgage notes payable:					
Johnson Bank	\$ 2,137,562	\$ 0	\$ 189,219	\$ 1,948,343	\$ 195,505
WHEDA	213,067	0	0	213,067	15,536
Total long-term debt	<u>\$ 2,350,629</u>	<u>\$ 0</u>	<u>\$ 189,219</u>	<u>\$ 2,161,410</u>	<u>\$ 211,041</u>

Mortgage notes payable consist of the following:

	2023	2022
Johnson Bank; nonrecourse; monthly payments of \$21,503, including interest at 3.48%; originally due September 1, 2021; mortgage note was amended on August 26, 2021 with a due date of August 26, 2026 and new monthly payments of \$21,401, including interest at 3.25%; collateralized by a first mortgage on the rental property and the assignment of leases, rentals, issues, profits, and proceeds; prepayment of the note in full is allowed, subject to a prepayment premium.	1,752,794	1,948,343
Wisconsin Housing and Economic Development Authority (WHEDA); nonrecourse; non-interest bearing; monthly principal payments of \$2,219 beginning on June 1, 2023; due May 1, 2031; collateralized by a third mortgage on the rental property; prepayment of the note is not allowed until May 2023.	197,531	213,067
	<u>\$ 1,950,325</u>	<u>\$ 2,161,410</u>

Future maturities of principal and interest on long-term debt as of December 31, 2023 are as follows:

	Principal	Interest
2024	\$ 228,507	\$ 54,923
2025	235,420	48,010
2026	1,368,730	30,811
2027	26,621	0
2028	26,621	0
2029 – 2032	<u>64,426</u>	<u>0</u>
	<u>\$ 1,950,325</u>	<u>\$ 133,744</u>

MONONA SHORES

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE E -- Related-party transactions

Asset management oversight fee

The annual operating budget provides for the fund to pay an annual asset management oversight fee to the CDA general fund at a rate of \$120 per unit per year, increasing by 5% each year. Accrued asset management oversight fees included in accounts payable were \$18,416 and \$17,539 as of December 31, 2023 and 2022, respectively. Asset management oversight fees incurred totaled \$18,416 and \$17,539 for the years ended December 31, 2023 and 2022, respectively.

NOTE F -- Commitments and contingencies

Land Use Restriction Agreement (LURA)

The CDA was assigned and has assumed a LURA with WHEDA as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, the fund must continuously comply with IRC Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under the IRC Section 42. The CDA is obligated to certify tenant eligibility.

Payment in Lieu of Taxes (PILOT)

The CDA has entered into a PILOT Agreement with the City of Madison, Wisconsin (the City), under which the CDA agrees to make annual PILOT payments to the City in the amount of \$40,000 beginning in 2015 and ending with 2025. The PILOT Agreement shall terminate on the day before the respective January 1st of the year during which the City determines that Monona Shores no longer qualifies for property tax exemption or termination of ownership of Monona Shores by the CDA. PILOT expense totaled \$40,000 for each of the years ended December 31, 2023 and 2022.