



April 11, 2019

Board of Commissioners
Monona Shores, a business-type activity-enterprise fund (the fund)
c/o Community Development Authority of the City of Madison
215 Martin Luther King Jr Blvd, Suite 161
Madison, WI 53703

Sue Briohahn
Briohahn Management & Consulting, LLC
6200 Gisholt Drive, Suite 104
Madison, WI 53713

This letter includes a summary of our comments and suggestions with respect to financial, administrative and other matters that came to our attention during the course of our audit engagement. These matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of improving accounting controls and other financial practices and procedures. This letter also includes a brief summary of our responsibilities regarding considerations of fraud and internal control in the performance of our audit engagement. In addition, this letter summarizes certain matters required to be communicated to you under professional standards in your oversight responsibilities for the fund's financial reporting process.

Financial information presented in this letter was derived from the fund's financial statements which were audited by us, and such financial information should be read in conjunction with those financial statements and our report thereon.

Recommendations and suggestions

Tenants' accounts receivable

Tenants' accounts receivable was \$38,582 as of December 31, 2018, which approximates 3% of gross potential rent and is higher than the industry norm. We recommend that management continue to monitor this balance and write off receivables when deemed uncollectible.

Underfunded security deposit account

During our audit, we noted that the security deposit bank account was underfunded by \$2,504 as of December 31, 2018. We recommend that management maintain a balance in the security deposit cash account to ensure that the balance sufficiently funds the liability.

Required communications

Professional standards require that we provide you with certain information related to our audit. This required communication is attached to this letter as Exhibit A.

Consideration of internal control and fraud

Fraud Considerations

As described in our engagement letter, we planned and performed our audit to obtain reasonable assurance about whether the financial statements were free of material misstatements, whether from errors, fraudulent reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the fund or to acts by management or employees acting on behalf of the fund. An audit is not designed to provide absolute assurance, and because we do not perform a detailed testing of all transactions, there is a risk that material misstatements may exist and not be detected by us. An audit is also not designed to detect immaterial misstatements or violations of laws or regulations that do not have a direct and material effect on the financial statements.

Internal Control Considerations

As described in our engagement letter, our audit included obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or identify deficiencies in internal control, that is, significant deficiencies in the design or operation of internal control. However, we would communicate to you internal control matters that are required to be communicated under professional standards. Our findings are presented in the internal control communication attached to this letter as Exhibit B.

Conclusion

We would like to thank you and your employees for the assistance provided to us in the performance of our engagement. We hope we have provided you with valuable information during the course of our engagement. We have already discussed many of these recommendations and suggestions with various fund personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any other additional study of these matters, or to assist you in implementing the recommendations.

Monona Shores
Page 3
April 11, 2019

This information is intended solely for the information and use of management, the board of commissioners, and others within the Community Development Authority (CDA), and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Lynn C. Heslinga, CPA
Senior Manager
SVA Certified Public Accountants, S.C.
P: 608-826-2384
heslinga@sva.com

px/15418.0/2018 aud/1400.02/End of Audit Auditor comm ltr

Encl.

Exhibit A: Required Communications

We have audited the financial statements of Monona Shores, a business-type activity-enterprise fund (the fund) for the year ended December 31, 2018, and have issued our report thereon dated April 11, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 28, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Monona Shores, a business-type activity-enterprise fund (the fund) are described in Note A to the financial statements. As described in Note A, the fund adopted a new capitalization policy. No other new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the fund during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of depreciable assets and the related depreciation methods, as described in the notes to the financial statements, are based on historical factors and industry practice. We evaluated the key factors and assumptions used to develop the estimated useful lives and related depreciation methods in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosures of the Land Use Restriction Agreement and PILOT Agreement in the notes to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

The following material misstatements detected as a result of audit procedures were corrected by management:

- To adjust current year depreciation out of fixed assets and into accumulated depreciation. The entry increased total fixed assets and accumulated depreciation by \$408,240.
- To adjust prior year transfer to CDA from owner draws to retained earnings as it is not a distribution. The entry was to decrease owner distributions and decrease retained earnings by \$128,849.
- To adjust the current year transfer to CDA out of owner distributions. The entry was to decrease owner distributions and increase transfer out by \$145,351.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 11, 2019. A copy of this letter is included as Exhibit C.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the fund's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the fund's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Exhibit B: Internal Control Communication

In planning and performing our audit of the financial statements of Monona Shores, a business-type activity-enterprise fund of the CDA (the fund) as of and for the year ended December 31, 2018 in accordance with auditing standards generally accepted in the United States of America, we considered the fund's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the fund's internal control to be material weaknesses:

Segregation of Duties over Cash Disbursements

The basic premise of segregation of duties over the financial records is that no one employee should have access to both the physical assets and the related accounting records or to all phases of a transaction. There is a lack of proper segregation of duties over cash disbursements in that the owner of the management company has full access to all stages of the disbursement process. As of March 22, 2019, the owner no longer has access in the accounting system to cut checks.

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 following deficiencies in the fund's internal control to be significant deficiencies:

Financial Statement Preparation and Reporting

Not all transactions in the fund's books and records have been recorded in accordance with general accepted accounting principles (GAAP) although members of management possess the necessary skills, knowledge and experience to perform this function. The fund relies on its auditors to assist in the preparation and drafting of financial statements that include a complete presentation and proper footnote disclosures.

This communication is intended solely for the information and use of management, the board of commissioners, and others within the CDA, and is not intended to be, and should not be, used by anyone other than these specified parties.

Exhibit C

Signed Management Representation Letter

SVA Certified Public Accountants, S.C.
P.O. Box 44966
Madison, WI 53744-4966

Dear Sir or Madam:

This representation letter is provided in connection with your audits of the financial statements of Monona Shores (a business-type activity-enterprise fund of the Community Development Authority of the City of Madison (CDA)) which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 28, 2018, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. The measurement process used in determining accounting estimates is appropriate and consistent.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to, or disclosure in, the financial statements.
8. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
9. Material concentrations have been properly disclosed in accordance with U.S. GAAP. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
10. Guarantees, whether written or oral, under which the entity is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
11. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements have been properly disclosed.
12. Amounts of contractual obligations for construction and/or purchase of real property, equipment, other assets, and intangibles have been properly disclosed.
13. All liabilities which are subordinated to any other actual or possible liabilities of Monona Shores have been properly disclosed.
14. All leases and material amounts of rental obligations under long-term leases have been properly disclosed.
15. Receivables recorded in the financial statements represent valid claims against tenants and other parties for rent or other charges arising on or before the balance sheet dates.

Information Provided

16. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, and all audit or relevant monitoring reports, if any, received from funding sources. Among other things, relevant information may include such matters as completeness and availability of all minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared and communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
 - b. Additional information that you have requested from us for the purpose of the audit.

- c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- 17. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 18. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 19. We have no knowledge of any fraud or suspected fraud that affects Monona Shores and involves:
 - a. Management
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
- 20. We have no knowledge of any allegations of fraud or suspected fraud affecting Monona Shores' financial statements communicated by employees, former employees, analysts, regulators, or others.
- 21. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse whose effects should be considered when preparing the financial statements.
- 22. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 23. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government - Specific

- 24. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 25. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 26. Monona Shores has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

27. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
28. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
29. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
30. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
31. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
32. Except as made known to you and disclosed in the notes to the financial statements, the CDA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
33. The fund has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
34. The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
35. Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balances (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
37. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and if applicable, depreciated.

39. In regards to the services to prepare the financial statements and related notes as well as depreciation schedule maintenance services performed by you, we have:
- a. Assumed all management responsibilities.
 - b. Designated an individual (with senior management) with suitable skill, knowledge, or experience to oversee the services.
 - c. Evaluated the adequacy and results of services performed.
 - d. Accepted responsibility for the results of the services.

The above representations related to your audits are made to you as of 4/11/ 2019, the date of your audit report.

Sincerely,

Monona Shores, a business-type activity-enterprise fund of the CDA



Natalie Erdman, Executive Director
Community Development Authority of the City of Madison



Sue Broihahn, President
Broihahn Management & Consulting, LLC, Management Agent

Monona Shores

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

Financial Report

December 31, 2018



SVA

Certified Public Accountants, S.C.

Tax, Audit and Business Strategy

MONONA SHORES

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

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of net position	3
Statements of revenues, expenses and changes in net position	4
Statements of cash flows	5
Notes to financial statements	6



INDEPENDENT AUDITOR'S REPORT

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

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, 2018 and 2017, and the related notes to the 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 the 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor's 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 relevant to the entity'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 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 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 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, 2018 and 2017, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2018 and 2017, 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.

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

April 11, 2019

MONONA SHORES

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

STATEMENTS OF NET POSITION

December 31, 2018 and 2017

	ASSETS	2018	2017
Current Assets			
Cash and cash equivalents		\$ 457,832	\$ 606,559
Restricted cash - tenants' security deposits		65,060	68,965
Accounts receivable		45,871	45,099
		<hr/>	<hr/>
Total Current Assets		568,763	720,623
Noncurrent Assets			
Net Capital Assets		4,684,042	4,898,676
		<hr/>	<hr/>
TOTAL ASSETS		\$ 5,252,805	\$ 5,619,299
		<hr/> <hr/>	<hr/> <hr/>
	LIABILITIES		
Current Liabilities			
Accounts payable		\$ 31,151	\$ 44,268
Accrued expenses		5,944	6,971
Accrued PILOT		40,000	40,000
Accrued interest		8,407	8,407
Unearned revenue		28,724	23,652
Tenants' security deposits payable		67,564	68,964
Current portion of long-term debt		167,443	161,647
		<hr/>	<hr/>
Total Current Liabilities		349,233	353,909
Long-Term Liabilities			
Mortgage notes payable, net of current maturities		2,689,446	2,856,888
	NET POSITION		
Net investment in capital assets		1,827,153	1,880,141
Unrestricted		386,973	528,361
		<hr/>	<hr/>
Total Net Position		2,214,126	2,408,502
		<hr/>	<hr/>
TOTAL LIABILITIES AND NET POSITION		\$ 5,252,805	\$ 5,619,299
		<hr/> <hr/>	<hr/> <hr/>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Rental income	\$ 1,203,088	\$ 1,176,682
Vacancies and concessions	(75,553)	(63,093)
Other revenues	35,915	31,664
Total operating revenues	1,163,450	1,145,253
Operating expenses:		
Rent and administrative	206,821	189,861
Utilities	70,432	70,190
Operating and maintenance	316,492	342,707
PILOT, taxes and insurance	88,792	86,140
Depreciation	433,554	415,023
Total operating expenses	1,116,091	1,103,921
Operating income	47,359	41,332
Non-operating revenues (expenses)		
Interest income	0	32
Interest expense	(96,384)	(101,512)
Total non-operating revenues (expenses)	(96,384)	(101,480)
Loss before transfers	(49,025)	(60,148)
Transfers out	145,351	128,881
Change in net position	(194,376)	(189,029)
Net position, beginning	2,408,502	2,597,531
Net position, ending	<u>\$ 2,214,126</u>	<u>\$ 2,408,502</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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,166,350	\$ 1,144,554
Paid to suppliers for goods and services	(696,681)	(650,499)
Net cash provided by operating activities	469,669	494,055
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(145,351)	(128,881)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(161,646)	(156,051)
Interest paid	(96,384)	(101,980)
Acquisition of capital assets	(218,920)	0
Net cash used in capital and related financing activities	(476,950)	(258,031)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	0	32
Change in cash and cash equivalents	(152,632)	107,175
Cash and cash equivalents:		
Beginning	675,524	568,349
Ending	<u>\$ 522,892</u>	<u>\$ 675,524</u>
RECONCILIATION OF CHANGE IN OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 47,359	\$ 41,332
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	433,554	415,023
Change in assets and liabilities:		
Accounts receivable	(772)	6,914
Accounts payable	(14,517)	38,417
Accrued expenses	(1,027)	(602)
Unearned revenue	5,072	(7,029)
Net cash provided by operating activities	<u>\$ 469,669</u>	<u>\$ 494,055</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 457,832	\$ 606,559
Restricted cash - tenants' security deposits	65,060	68,965
Cash and cash equivalents, ending	<u>\$ 522,892</u>	<u>\$ 675,524</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)
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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, 2018

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.

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

On September 20, 2018, the fund adopted a new capitalization policy which is the same policy used by the CDA. All purchases of capital assets in excess of \$5,000, and/or extends the useful life will be capitalized. Prior to September 20, 2018, all purchases of capital assets in excess of \$10,000, renovations or building improvements greater than \$25,000 and any purchases and/or construction of infrastructure that exceeds \$50,000 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, 2018

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 April 11, 2019, 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, 2018 were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits	\$ 522,892	\$ 673,529	Custodial credit risk

Reconciliation to financial statements:

Per statement of net position

Cash and cash equivalents	\$ 457,832
Restricted cash – tenants' security deposits	65,060

Total cash and cash equivalents and restricted cash	\$ 522,892
---	------------

MONONA SHORES

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

The fund's cash and cash equivalents and restricted cash as of December 31, 2017 were comprised of the following:

	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Associated Risks</u>
Deposits	\$ 675,524	\$ 683,638	Custodial credit risk

Reconciliation to financial statements:

Per statement of net position

Cash and cash equivalents	\$ 606,559
Restricted cash – tenants' security deposits	<u>68,965</u>

Total cash and cash equivalents and restricted cash	<u>\$ 675,524</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 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, 2018 and 2017, \$423,529 and \$404,187 of the fund's total bank balance of \$673,529 and \$683,638, 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, 2018

NOTE C -- Capital assets, net

The balance of and changes in capital assets as of and for the year ended December 31, 2018 is summarized as follows:

	December 31, 2017	Additions	Deletions	December 31, 2018
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	10,823,949	97,520	0	10,921,469
Land improvements	580,129	0	0	580,129
Furniture and equipment	438,633	121,400	0	560,033
Total capital assets being depreciated	11,842,711	218,920	0	12,061,631
Accumulated depreciation	(7,117,536)	(433,554)	0	(7,551,090)
Total capital assets being depreciated, net	4,725,175	(214,634)	0	4,510,541
Total capital assets, net	<u>\$ 4,898,676</u>	<u>\$ (214,634)</u>	<u>\$ 0</u>	<u>\$ 4,684,042</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, 2018

NOTE C -- Capital assets, net (Continued)

The balance of and changes in capital assets as of and for the year ended December 31, 2017 is summarized as follows:

	December 31, 2016	Additions	Deletions	December 31, 2017
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	10,823,949	0	0	10,823,949
Land improvements	580,129	0	0	580,129
Furniture and equipment	438,633	0	0	438,633
Total capital assets being depreciated	11,842,711	0	0	11,842,711
Accumulated depreciation	(6,702,513)	(415,023)	0	(7,117,536)
Total capital assets being depreciated, net	5,140,198	(415,023)	0	4,725,175
Total capital assets, net	<u>\$ 5,313,699</u>	<u>\$ (415,023)</u>	<u>\$ 0</u>	<u>\$ 4,898,676</u>

NOTE D -- Long-term debt

	Beginning Balance 2017	Increases	Decreases	Ending Balance 2018	Amounts Due Within One Year
Mortgage notes payable:					
Johnson Bank	\$ 2,805,468	\$ 0	\$ 161,646	\$ 2,643,822	\$ 167,443
WHEDA	213,067	0	0	213,067	0
Total long-term debt	<u>\$ 3,018,535</u>	<u>\$ 0</u>	<u>\$ 161,646</u>	<u>\$ 2,856,889</u>	<u>\$ 167,443</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, 2018

NOTE D -- Long-term debt (Continued)

	Beginning Balance 2016	Increases	Decreases	Ending Balance 2017	Amounts Due Within One Year
Mortgage notes payable:					
Johnson Bank	\$ 2,961,519	\$ 0	\$ 156,051	\$ 2,805,468	\$ 161,647
WHEDA	213,067	0	0	213,067	0
Total long-term debt	<u>\$ 3,174,586</u>	<u>\$ 0</u>	<u>\$ 156,051</u>	<u>\$ 3,018,535</u>	<u>\$ 161,647</u>

Mortgage notes payable consist of the following:

	<u>2018</u>	<u>2017</u>
Johnson Bank; nonrecourse; monthly payments of \$21,503, including interest at 3.48%; due September 1, 2021; 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.	2,643,822	2,805,468
Wisconsin Housing and Economic Development Authority (WHEDA); nonrecourse; non-interest bearing; monthly principal payments 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.	<u>213,067</u>	<u>213,067</u>
	<u>\$ 2,856,889</u>	<u>\$ 3,018,535</u>

Future maturities of principal and interest on long-term debt as of December 31, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>
2019	\$ 167,443	\$ 90,587
2020	173,205	84,826
2021	2,303,174	58,157
2022	0	0
2023	15,536	0
2024 – 2027	106,532	0
2028 – 2032	<u>90,999</u>	<u>0</u>
	<u>\$ 2,856,889</u>	<u>\$ 233,570</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, 2018

NOTE E -- Related-party transactions

Accounts payable

Included in accounts payable shown on the statements of net position are amounts due to the CDA general fund for reimbursable expenses totaling \$0 and \$15,007 as of December 31, 2018 and 2017, 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, 2018 and 2017.

