

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

Financial Report

December 31, 2020

MONONA SHORES

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

C O N T E N T S

	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
SUPPLEMENTARY INFORMATION	
SUPPLEMENTAL INFORMATION REQUIRED BY WHEDA	
WHEDA Standardized Financials Input Template	14

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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

May 25, 2021

MONONA SHORES

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

STATEMENTS OF NET POSITION

December 31, 2020 and 2019

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 543,513	\$ 659,092
Restricted cash - tenants' security deposits	69,591	69,529
Accounts receivable	37,055	37,116
Prepaid expenses	0	32,511
Total Current Assets	650,159	798,248
Noncurrent Assets		
Net Capital Assets	3,812,836	4,238,027
Deposit	10,500	10,500
Total Noncurrent Assets	3,823,336	4,248,527
TOTAL ASSETS	\$ 4,473,495	\$ 5,046,775
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 7,138	\$ 27,752
Accrued expenses	15,363	12,225
Accrued PILOT	40,000	40,000
Accrued interest	6,722	7,421
Unearned revenue	48,210	25,421
Tenants' security deposits payable	63,052	69,507
Current portion of long-term debt	2,303,173	173,205
Total Current Liabilities	2,483,658	355,531
Long-Term Liabilities		
Mortgage notes payable, net of current maturities	213,067	2,516,240
NET POSITION		
Net investment in capital assets	1,296,596	1,548,582
Unrestricted	480,174	626,422
Total Net Position	1,776,770	2,175,004
TOTAL LIABILITIES AND NET POSITION	\$ 4,473,495	\$ 5,046,775

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, 2020 and 2019

	2020	2019
Operating revenues:		
Rental income	\$ 1,262,921	\$ 1,227,695
Vacancies and concessions	(60,180)	(30,205)
Other revenues	33,723	42,633
Total operating revenues	1,236,464	1,240,123
Operating expenses:		
Rent and administrative	205,564	261,899
Utilities	73,040	77,199
Operating and maintenance	329,316	356,448
PILOT, taxes and insurance	63,171	48,928
Depreciation	425,191	446,015
Total operating expenses	1,096,282	1,190,489
Operating income	140,182	49,634
Non-operating revenues (expenses)		
Interest income	217	845
Interest expense	(84,127)	(89,601)
Total non-operating revenues (expenses)	(83,910)	(88,756)
Income (loss) before transfers	56,272	(39,122)
Transfers out	454,506	0
Change in net position	(398,234)	(39,122)
Net position, beginning	2,175,004	2,214,126
Net position, ending	\$ 1,776,770	\$ 2,175,004

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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,252,859	\$ 1,247,518
Paid to suppliers for goods and services	(656,056)	(784,603)
Net cash provided by operating activities	596,803	462,915
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(454,506)	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(173,205)	(167,444)
Interest paid	(84,826)	(90,587)
Net cash used in capital and related financing activities	(258,031)	(258,031)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	217	845
Change in cash and cash equivalents	(115,517)	205,729
Cash and cash equivalents:		
Beginning	728,621	522,892
Ending	<u>\$ 613,104</u>	<u>\$ 728,621</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 543,513	\$ 659,092
Restricted cash - tenants' security deposits	69,591	69,529
Cash and cash equivalents, ending	<u>\$ 613,104</u>	<u>\$ 728,621</u>
RECONCILIATION OF CHANGE IN OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 140,182	\$ 49,634
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	425,191	446,015
Change in assets and liabilities:		
Accounts receivable	61	8,755
Prepaid expenses	32,511	(32,511)
Deposit	0	(10,500)
Accounts payable	(27,069)	(1,456)
Accrued expenses	3,138	6,281
Unearned revenue	22,789	(3,303)
Net cash provided by operating activities	<u>\$ 596,803</u>	<u>\$ 462,915</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, 2020

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, 2020

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, 2020

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 25, 2021, 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, 2020 were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits	\$ 613,104	\$ 615,369	Custodial credit risk

Reconciliation to financial statements:

Per statement of net position

Cash and cash equivalents	\$ 543,513
Restricted cash – tenants' security deposits	69,591

Total cash and cash equivalents and restricted cash	<u>\$ 613,104</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, 2020

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

The fund's cash and cash equivalents and restricted cash as of December 31, 2019 were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits	<u>\$ 728,621</u>	<u>\$ 769,194</u>	Custodial credit risk

Reconciliation to financial statements:

Per statement of net position

Cash and cash equivalents \$ 659,092

Restricted cash – tenants' security deposits 69,529

Total cash and cash equivalents and restricted cash \$ 728,621

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, 2020 and 2019, \$365,369 and \$519,194 of the fund's total bank balance of \$615,369 and \$769,194, 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, 2020

NOTE C -- Capital assets, net

The balance of and changes in capital assets as of and for the year ended December 31, 2020 is summarized as follows:

	December 31, 2019	Additions	Deletions	December 31, 2020
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	0	0	10,921,469
Land improvements	580,129	0	0	580,129
Furniture and equipment	560,033	0	0	560,033
Total capital assets being depreciated	12,061,631	0	0	12,061,631
Accumulated depreciation	(7,997,105)	(425,191)	0	(8,422,296)
Total capital assets being depreciated, net	4,064,526	(425,191)	0	3,639,335
Total capital assets, net	\$ 4,238,027	\$ (425,191)	\$ 0	\$ 3,812,836

MONONA SHORES

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE C -- Capital assets, net (Continued)

The balance of and changes in capital assets as of and for the year ended December 31, 2019 is summarized as follows:

	December 31, 2018	Additions	Deletions	December 31, 2019
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	0	0	10,921,469
Land improvements	580,129	0	0	580,129
Furniture and equipment	560,033	0	0	560,033
Total capital assets being depreciated	12,061,631	0	0	12,061,631
Accumulated depreciation	(7,551,090)	(446,015)	0	(7,997,105)
Total capital assets being depreciated, net	4,510,541	(446,015)	0	4,064,526
Total capital assets, net	\$ 4,684,042	\$ (446,015)	\$ 0	\$ 4,238,027

NOTE D -- Long-term debt

	Beginning Balance 2019	Increases	Decreases	Ending Balance 2020	Amounts Due Within One Year
Mortgage notes payable:					
Johnson Bank	\$ 2,476,378	\$ 0	\$ 173,205	\$ 2,303,173	\$ 2,303,173
WHEDA	213,067	0	0	213,067	0
Total long-term debt	\$ 2,689,445	\$ 0	\$ 173,205	\$ 2,516,240	\$ 2,303,173

MONONA SHORES

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE D -- Long-term debt (Continued)

	Beginning Balance 2018	Increases	Decreases	Ending Balance 2019	Amounts Due Within One Year
Mortgage notes payable:					
Johnson Bank	\$ 2,643,822	\$ 0	\$ 167,444	\$ 2,476,378	\$ 173,205
WHEDA	213,067	0	0	213,067	0
Total long-term debt	<u>\$ 2,856,889</u>	<u>\$ 0</u>	<u>\$ 167,444</u>	<u>\$ 2,689,445</u>	<u>\$ 173,205</u>

Mortgage notes payable consist of the following:

	2020	2019
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.	2,303,173	2,476,378
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.	213,067	213,067
	<u>\$ 2,516,240</u>	<u>\$ 2,689,445</u>

Future maturities of principal and interest on long-term debt as of December 31, 2020 are as follows:

	Principal	Interest
2021	\$ 2,303,173	\$ 58,157
2022	0	0
2023	15,536	0
2024	26,633	0
2025	26,633	0
2026 – 2029	133,165	0
2030 – 2034	11,100	0
	<u>\$ 2,516,240</u>	<u>\$ 58,157</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, 2020

NOTE E -- 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, 2020 and 2019.

Uncertainty

In March 2020, the World Health Organization (WHO) characterized the coronavirus disease (COVID-19) as a global pandemic. Since that time, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the company as of May 25, 2021, management believes that a material impact on the company's financial position and results of future operations is reasonably possible.