

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

Financial Report

December 31, 2021

VILLAGE ON PARK

(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, Wisconsin

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Village on Park, 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Village on Park's 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 Village on Park, a business-type activity-enterprise fund of the Community Development Authority of the City of Madison, as of December 31, 2021 and 2020, 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 Village on Park 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 Village on Park 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, 2021 and 2020, 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.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Village on Park's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 Village on Park's 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Village on Park's ability to continue as a going concern for a reasonable period of time.

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 10, 2022

VILLAGE ON PARK

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

STATEMENTS OF NET POSITION

December 31, 2021 and 2020

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 773,093	\$ 603,720
Accounts receivable	28,301	6,812
Prepaid expenses	2,175	1,815
Total Current Assets	803,569	612,347
Noncurrent Assets		
Net Capital Assets	14,978,204	16,313,813
TOTAL ASSETS	\$ 15,781,773	\$ 16,926,160
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 16,432	\$ 5,182
Accrued expenses	20,570	28,319
Accrued PILOT	140,000	70,000
Accrued interest	27,404	31,030
Unearned revenue	28,389	40,920
Tenants' security deposits payable	18,560	19,060
Current portion of advances from primary government - City of Madison	636,722	642,509
Total Current Liabilities	888,077	837,020
Long-Term Liabilities		
Advances from primary government - City of Madison	4,342,395	4,984,905
Total Liabilities	\$ 5,230,472	\$ 5,821,925
NET POSITION		
Net investment in capital assets	9,999,087	10,686,399
Unrestricted	552,214	417,836
Total Net Position	10,551,301	11,104,235
TOTAL LIABILITIES AND NET POSITION	\$ 15,781,773	\$ 16,926,160

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

VILLAGE ON PARK

(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, 2021 and 2020

	2021	2020
Operating revenues:		
Rental income	\$ 1,616,807	\$ 1,499,899
Vacancies and concessions	0	(30,292)
Other revenues	160,899	162,137
Total operating revenues	1,777,706	1,631,744
Operating expenses:		
Rent and administrative	86,710	103,923
Utilities	97,606	107,330
Operating and maintenance	370,894	414,841
PILOT, taxes and insurance	98,637	91,260
Depreciation	659,227	650,712
Total operating expenses	1,313,074	1,368,066
Operating income	464,632	263,678
Non-operating revenues (expenses)		
Interest income	51	2,521
Interest expense	(122,294)	(136,846)
Impairment loss on capital assets	(676,382)	0
Total non-operating revenues (expenses)	(798,625)	(134,325)
Loss before special item	(333,993)	129,353
Special item - North building disconnection costs	(218,941)	0
Change in net position	(552,934)	129,353
Net position, beginning	11,104,235	10,974,882
Net position, ending	\$ 10,551,301	\$ 11,104,235

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

VILLAGE ON PARK

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

STATEMENTS OF CASH FLOWS

Years ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,743,186	\$ 1,671,369
Paid to vendors for goods and services	(580,706)	(704,381)
Net cash provided by operating activities	1,162,480	966,988
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of advance from primary government	(648,297)	(642,509)
Interest paid	(125,920)	(141,088)
North building disconnection costs paid	(218,941)	0
Acquisition of capital assets	0	(242,947)
Net cash used in capital and related financing activities	(993,158)	(1,026,544)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	51	2,521
Change in cash and cash equivalents	169,373	(57,035)
Cash and cash equivalents:		
Beginning	603,720	660,755
Ending	<u>\$ 773,093</u>	<u>\$ 603,720</u>
RECONCILIATION OF CHANGE IN OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 464,632	\$ 263,678
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	659,227	650,712
Change in assets and liabilities:		
Accounts receivable	(21,489)	(4,575)
Prepaid expenses	(360)	4,734
Accounts payable	11,250	2,770
Accrued expenses	62,251	1,787
Unearned revenue	(12,531)	40,920
Tenants' security deposits payable	(500)	3,280
Pension related amounts	0	3,682
Net cash provided by operating activities	<u>\$ 1,162,480</u>	<u>\$ 966,988</u>

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

VILLAGE ON PARK

(A Business -Type Activity-Enterprise Fund of the Community Development Authority of the City of Madison)
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE A -- Summary of significant accounting policies

Reporting entity

Village on Park (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 retail and commercial center located in Madison, Wisconsin, that was purchased by the CDA in 2004 and substantially rehabilitated in 2009-2012.

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 (excluding those that are special items) not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenue includes interest income. Special items, which are significant transactions within the control of management that are either unusual in nature or infrequent in occurrence, are reported as separate line in statements of revenues, expenses and changes in net position.

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 Villager Mall project. Under the Villager Mall project, the CDA owns and operates a retail and commercial center. 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.

VILLAGE ON PARK

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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 written-off when management determines an account is uncollectible.

Rental revenue is recognized when earned. The fund leases commercial space to various tenants under operating leases (see Note E). 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 method based upon the following estimated useful lives of the assets:

	<u>Years</u>
Buildings and improvements	10-30

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.

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

Impairment of capital assets

The fund reviews capital 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. A capital asset generally is considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. As of December 31, 2021, management determined that the value of the North building is impaired due to it being disconnected from the rest of the building and eventual demolition of it. The net book value of the building was reduced by \$676,382 to fair value using Level 2 inputs (quoted prices for similar assets in active markets). Management estimated the fair value of the property to be \$0 as the North building will be demolished in near future.

VILLAGE ON PARK

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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 and buildings and improvements 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 10, 2022, 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

The fund's cash and cash equivalents as of December 31, 2021 were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits	\$ 773,093	\$ 777,335	Custodial credit risk

The fund's cash and cash equivalents as of December 31, 2020 were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits	\$ 603,720	\$ 619,595	Custodial credit risk

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.

VILLAGE ON PARK

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE B -- Cash and cash equivalents (Continued)

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, 2021 and 2020, \$527,335 and \$369,595 of the fund's total bank balance of \$777,335 and \$619,595, respectively, was exposed to custodial credit risk as uninsured and uncollateralized.

NOTE C -- Capital assets, net

The balance of and changes in capital assets as of and for the year ended December 31, 2021 is summarized as follows:

	December 31, 2020	Additions	Deletions	December 31, 2021
Capital assets not being depreciated				
Land	\$ 4,580,151	\$ 0	\$ 0	\$ 4,580,151
Total capital assets not being depreciated	4,580,151	0	0	4,580,151
Capital assets being depreciated:				
Buildings and improvements	19,077,782	0	(1,612,565)	17,465,217
Total capital assets being depreciated	19,077,782	0	(1,612,565)	17,465,217
Accumulated depreciation	(7,344,120)	(659,227)	936,183	(7,067,164)
Total capital assets being depreciated, net	11,733,662	(659,227)	(676,382)	10,398,053
Total capital assets, net	\$ 16,313,813	\$ (659,227)	\$ (676,382)	\$ 14,978,204

See Note A, capital assets, for discussion of the impairment of the North building.

VILLAGE ON PARK

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE C -- Capital assets, net (Continued)

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	\$ 4,580,151	\$ 0	\$ 0	\$ 4,580,151
Total capital assets not being depreciated	4,580,151	0	0	4,580,151
Capital assets being depreciated:				
Buildings and improvements	18,834,835	242,947	0	19,077,782
Total capital assets being depreciated	18,834,835	242,947	0	19,077,782
Accumulated depreciation	(6,693,408)	(650,712)	0	(7,344,120)
Total capital assets being depreciated, net	12,141,427	(407,765)	0	11,733,662
Total capital assets, net	\$ 16,721,578	\$ (407,765)	\$ 0	\$ 16,313,813

NOTE D -- Long-term debt

	Beginning Balance 2020	Increases	Decreases	Ending Balance 2021	Amounts Due Within One Year
Advances from primary government – City of Madison:					
2011 Advance	\$ 4,757,500	\$ 0	\$ 432,500	\$ 4,325,000	\$ 432,500
2012 Advance	269,966	0	140,770	129,196	129,196
2018 Advance	599,948	0	75,027	524,921	75,026
Total advances from primary government – City of Madison:	\$ 5,627,414	\$ 0	\$ 648,297	\$ 4,979,117	\$ 636,722

VILLAGE ON PARK

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE D -- Long-term debt (Continued)

	Beginning Balance 2019	Increases	Decreases	Ending Balance 2020	Amounts Due Within One Year
Advances from primary government – City of Madison:					
2011 Advance	\$ 5,190,000	\$ 0	\$ 432,500	\$ 4,757,500	\$ 432,500
2012 Advance	404,949	0	134,983	269,966	134,983
2018 Advance	674,974	0	75,026	599,948	75,026
Total advances from primary government – City of Madison:	<u>\$ 6,269,923</u>	<u>\$ 0</u>	<u>\$ 642,509</u>	<u>\$ 5,627,414</u>	<u>\$ 642,509</u>

Advances from primary government – City of Madison consist of the following:

	<u>2021</u>	<u>2020</u>
2011 Advance; in the original amount of \$8,650,000; annual payments of \$432,500, including interest at 2.7% (paid semi-annually); due October 1, 2031;	\$ 4,325,000	\$ 4,757,000
2012 Advance; in the original amount of \$1,350,000; annual payments of \$134,983, including interest at 4.00% (paid semi-annually); due October 1, 2022;	129,196	269,966
2018 Advance; in the original amount of \$750,000; annual payments ranging from \$74,983 to \$75,026, including interest at 4.00% (paid semi-annually); due October 1, 2028;	<u>524,921</u>	<u>599,948</u>
	<u>\$ 4,979,117</u>	<u>\$ 5,627,414</u>

Future maturities of principal and interest on long-term debt as of December 31, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>
2022	\$ 636,722	\$ 109,617
2023	507,482	92,877
2024	507,482	81,307
2025	507,483	69,738
2026	507,483	178,148
2027 – 2031	<u>2,312,465</u>	<u>15,318</u>
	<u>\$ 4,979,117</u>	<u>\$ 547,005</u>

VILLAGE ON PARK

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE E -- Commercial rental revenue

Commercial rental revenue is earned pursuant to contractual agreements classified as operating leases that expire at various intervals from approximately 1 to 10 years. Under the terms of the lease agreements, the fund receives monthly rental payments in varying amounts, increasing annually.

Future minimum lease payments to be received are as follows:

Year ending December 31,

2022	\$ 1,429,586
2023	1,273,463
2024	825,098
2025	405,991
2026	<u>61,233</u>
	<u>\$ 3,995,371</u>

NOTE F -- Commitments and contingencies

Payment in Lieu of Taxes (PILOT)

The CDA has a PILOT arrangement 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 \$70,000. The PILOT arrangement shall terminate on the day before the respective January 1st of the year during which the City determines that Village on Park no longer qualifies for property tax exemption or termination of ownership of Village on Park by the CDA. PILOT expense totaled \$70,000 for each of years ended December 31, 2021 and 2020.

NOTE G -- Related-party transactions

Accounts receivable

Accounts receivable includes amounts due from the CDA for reimbursable expenses totaling \$28,301 and \$0 as of December 31, 2021 and 2020, respectively.