CITY OF Beloit WISCONSIN

PUBLIC NOTICE & AGENDA
COMMUNITY DEVELOPMENT AUTHORITY
City Hall Forum - 100 State Street, Beloit, WI 53511
4:30 PM
Wednesday, July 25, 2018

1. CALL TO ORDER AND ROLL CALL

2. PUBLIC COMMENT

3. MINUTES

   3.a. Consider approval of Minutes of the regular meeting held on June 27, 2018
   Attachment

4. BELOIT HOUSING AUTHORITY

   4.a. Presentation of June Activity Report (Cole)
   Attachment

   4.b. Presentation of May Financial Report (Cole)
   Attachment

   4.c. Presentation of 2017 Audit Report (Christensen)
   Attachment

   4.d. Presentation of the Beloit Housing Authority Monitoring Review Letter and Report (Cole)
   Attachment

   4.e. Consideration of Resolution 2018-11, Approving the 2018 Beloit Housing Authority Second Quarter Write-offs (Cole)
   Attachment

   4.f. Consideration of Resolution 2018-12, Approving the Collateralization Policy (Christensen)
   Attachment

5. COMMUNITY AND HOUSING SERVICES

   5.a. Review of 2019 CDBG Planning and Budget Process (Downing)

6. ADJOURNMENT

** Please note that, upon reasonable notice, at least 24 hours in advance, efforts will be made to accommodate the needs of disabled individuals through appropriate aids and services. For additional information to request this service, please contact the City Clerk's Office at 364-6680, 100 State Street, Beloit, WI 53511.

REPORTS AND PRESENTATIONS TO COMMUNITY DEVELOPMENT AUTHORITY

Agenda Number:	4b		
Topic:	May 2018 Financial Report		
Date:	July 25, 2018		
Presenter:	Clinton Cole	Division:	Beloit Housing Authority

Overview/Background Information

Each month, the Housing Authority provides a financial report to the Community Development Authority. This report is for information only.

Key Issues

Attached is the Beloit Housing Authority Financial Statement prepared by the BHA Accountant for the month ending May 31, 2018.

Through the month of May, the Low Income Public Housing (LIPH) program income was $192,530.93 and the LIPH expenses were $217,905.35. There was a $(25,374.42) deficit in LIPH. The Operating Reserve for LIPH at 2018 Period End is $5,168,650.58.
Through the month of May, the Project Based Voucher (PBV) program income was $22,237.68 and the expenses were $14,027.29. The PBV had a surplus of $8,210.39. The PBV Operating Reserve at this Period End is $61,783.39.

Through the month of May, Phase 1 and Phase 2 program income was $278,117.57 and the expenses were $216,021.91. Phase 1 and Phase 2 had a surplus of $62,095.66. The Operating Reserve for these programs at this Period End is $211,394.66.

Through the month of May, the Housing Choice Voucher (HCV) program income was $1,360,541.92 and expenses were $1,303,465.90. The HCV program had a surplus of $964.02. The HCV Operating Reserve at this Period End is $262,192.02.

Debts owed BHA collected to date in 2018: $22,314.25 TRIP Program: $19,552.26 Repayments: $2,761.99

Conformance with Strategic Plan

Approval of this agreement would conform with the stated purpose of the following strategic goal:

- ☒ Goal #1 – Create and Sustain Safe and Healthy Neighborhoods
- ☒ Goal #2 – Create and Sustain a High Performing Organization
- ☐ Goal #3 – Create and Sustain Economic and Residential Growth
- ☒ Goal #4 – Create and Sustain a High Quality of Life
- ☐ Goal #5 – Create and Sustain High Quality Infrastructure and Connectivity
- ☐ Goal #6 – Create and Sustain a Positive Image, Enhance Communications and Engage the Community

Sustainability

(If applicable, briefly comment on the sustainable long term impact of this policy or program related to how it will impact both the built and natural environment. Consider whether the policy of program will reduce dependence upon fossil fuels, reduce dependence on chemicals and other manufacturing substances that accumulate in nature, reduce dependence on activities that harm life sustaining eco-systems, and/or meet the hierarchy of present and future human needs fairly and efficiently. **Write N/A if not applicable**)

N/A
Action Required/Recommendation
No action required. Information only.
Fiscal Note/Budget Impact
All fiscal/budget impacts are noted in the report.
Attachments
N/A

Consolidated 2018 Budget Report for Beloit Housing Authority - May 2018

		YTD Actual							Annual Board Approved Budget		
	Income	Approved YTD	LIPH	LIPH Grant	PBV	Phase 1 & 2	HCV	Agency Total	LIPH/LLC/PBV	HCV	Total
1	Dwelling Rental	130,899.58			22,054.00	97,014.00		119,068.00	314,159.00		314,159.00
2	Excess Utilities	-						-			-
3	Interest on Unrestricted Fund Investments	501.25	30.00			353.74	788.39	1,172.13	770.00	433.00	1,203.00
4	Income - Transfer In from PBV	-						-			-
5	Other Income - Tenants	12,925.00			47.40	16,158.77		16,206.17	31,020.00		31,020.00
6	HAP Fraud Recovery & FSS Forfeitures	-						-			-
7	Other Income - Bad Debt Collections	-	17,575.32					17,575.32			-
8	Other Income - Laundry/Copy Fees/Misc	19,882.50	7,384.61		136.28	46,926.24	590.53	55,037.66	47,718.00		47,718.00
9	Other Income - CFP Operation Money	12,500.00						-	30,000.00		30,000.00
10	Other Income - Sale of Asset Gain/Loss	-						-			-
11	Admin Fees Earned - HUD	129,070.83					130,713.00	130,713.00		309,770.00	309,770.00
12	Incoming Billable Admin Fees/Oper Sub	114,583.33				117,664.82		117,664.82	275,000.00		275,000.00
13	HAP Subsidy	-					1,228,450.00	1,228,450.00			-
14	Operating Subsidy	1,035,531.67	167,541.00					167,541.00	375,244.00	2,110,032.00	2,485,276.00
	Total Income	***1,455,894.17***	***192,530.93***	***-***	***22,237.68***	***278,117.57***	***1,360,541.92***	***1,853,428.10***	1,073,911.00	2,420,235.00	3,494,146.00
	Expenses	Approved YTD	LIPH	LIPH Grant	PBV	Phase 1 & 2	HCV	Agency Total	LIPH/LLC/PBV	HCV	Total
	Administrative Expenses										
15	Admin Salaries	167,873.75	32,527.83		4,406.37	46,590.44	80,970.67	164,495.31	186,433.00	216,464.00	402,897.00
16	FSS Coordinator Admin Salaries	-	12,172.86					12,172.86			-
17	Admin Employee Benefits	81,006.67	14,695.84		1,572.48		30,804.53	47,072.85	92,416.00	102,000.00	194,416.00
18	FSS Coordinator Admin Benefits	-	3,323.41					3,323.41			-
19	Advertising & Marketing	958.33						-	1,300.00	1,000.00	2,300.00
20	Legal	1,458.33				913.07		913.07	3,250.00	250.00	3,500.00
21	Staff Training	1,041.67						-	2,500.00	-	2,500.00
22	Travel	208.33						-	250.00	250.00	500.00
23	Accounting Consultants	14,254.17	3,365.00		535.00	4,962.00	2,435.00	11,297.00	28,710.00	5,500.00	34,210.00
24	Audit Fee	12,672.50	1,817.50			19,575.00	1,817.50	23,210.00	24,957.00	5,457.00	30,414.00
25	Telephone	2,687.92	1,649.79				1,945.56	3,595.35	2,940.00	3,511.00	6,451.00
26	Postage	3,416.67	625.67					625.67	2,700.00	5,500.00	8,200.00
27	Office Supplies	2,675.00	139.36				193.14	332.50	3,420.00	3,000.00	6,420.00
28	Memberships & Publications	955.83	70.00					70.00	1,147.00	1,147.00	2,294.00
29	Bank Fees	1,129.17	5.00			31.75	1,335.97	1,372.72	10.00	2,700.00	2,710.00
30	Computer Maintenance	-						-			-
31	Copier Expenses	2,083.33	1,185.70				1,213.02	2,398.72	2,500.00	2,500.00	5,000.00
32	Office Equipment Maintenance	-						-	-	-	-
33	Postage Machine	-					1,757.32	1,757.32			-
34	Software Maintenance	208.33	245.00				255.00	500.00	250.00	250.00	500.00
35	Outgoing Portable Admin Fees	-	122.48					122.48			-
36	Sundry Administration/Compliance Fees	4,375.00	222.88		693.57	7,876.80	2,392.38	11,185.63	9,500.00	1,000.00	10,500.00
37	Management Improvements	-						-			-
38	Management Fees	7,500.00				7,384.61		7,384.61	18,000.00		18,000.00
39	Eviction & Collection Agent Fees	-						-	-	-	-
40	HAP Expense (net fraud recovery to HUD)	879,180.00					1,172,338.00	1,172,338.00		2,110,032.00	2,110,032.00
	HAP Overfunding (Underfunding)	-					56,112.00				-
	Maintenance Expenses	-									
41	Maintenance Salaries	51,661.67	2,295.00		1,383.42	64,124.93		67,803.35	123,988.00		123,988.00
42	Casual Labor - Maintenance	-						-			-
43	Maintenance Benefits	21,134.58	393.83		797.58			1,191.41	50,723.00		50,723.00
44	Maintenance Materials & Supplies	12,083.33	331.94		123.64	6,748.04		7,203.62	29,000.00		29,000.00
45	Plumbing Supplies	-	715.78					715.78			-
46	Locks, Locksets & Keys	-						-			-
47	Electrical Supplies	-	812.87					812.87			-
48	Painting Supplies	-	82.14					82.14			-
49	Cleaning Supplies	-	866.67					866.67			-
50	Equipment Repair Parts	-						-			-

51	Maintenance Contracted Services	7,708.33	1,612.10		440.18	6,316.06		8,368.34	18,500.00		18,500.00
52	Refuse Removal Services	2,104.17				1,445.50		1,445.50	5,050.00		5,050.00
53	Plumbing Repair Services	625.00						-	1,500.00		1,500.00
54	Heating/AC Repair Services	1,333.33			42.68	670.96		713.64	3,200.00		3,200.00
55	Electric Repair Service	208.33						-	500.00		500.00
56	Window Repair Service	416.67						-	1,000.00		1,000.00
57	Automotive Repairs/Fuel	208.33	1,745.55			379.15		2,124.70	500.00		500.00
58	Elevator Repair & Maintenance	2,916.67	73.48					73.48	7,000.00		7,000.00
59	Pest Control Services	3,333.33						-	8,000.00		8,000.00
60	Cable TV	-				507.02		507.02			-
61	Answering Service	916.67	845.87					845.87	2,200.00		2,200.00
62	Misc Contracts	2,916.67						-	7,000.00		7,000.00
63	Clean/Paint Units	333.33						-	800.00		800.00
	Utilities Expenses	-									
64	Water/Sewer	9,337.50	342.30		995.32	2,194.86		3,532.48	22,410.00		22,410.00
65	Electricity	10,500.00	2,373.40		424.49	6,037.41		8,835.30	25,200.00		25,200.00
66	Natural Gas	4,750.00	921.39		768.05	2,403.57		4,093.01	11,400.00		11,400.00
	Other Operating Expenses	-									
67	Protective Services Contract	18,916.67	10,849.84			1,798.77		12,648.61	45,400.00		45,400.00
68	Insurance	18,904.58	3,810.05		1,184.10	11,446.32	1,931.68	18,372.15	40,144.00	5,227.00	45,371.00
69	PILOT	10,983.33			660.41	8,637.83		9,298.24	26,360.00		26,360.00
70	Compensated Absences	-						-			-
71	Collection Losses	2,500.00				11,338.47		11,338.47	6,000.00		6,000.00
72	Replacement Reserves & Debt Pmt-Princ	-						-			-
73	Other General Expense/Asset Mgmt Fees	117,062.50	117,664.82			4,639.35	4,076.13	126,380.30	280,950.00		280,950.00
74	Casualty Losses - Non Capitalized	-						-	-		-
75	Capital Expenditures - Operations	-						-	-		-
76	Transfer In / Out	-						-			-
	Total Expense	***1,484,540.00***	***217,905.35***	***-***	***14,027.29***	***216,021.91***	***1,303,465.90***	***1,751,420.45***	1,097,108.00	2,465,788.00	3,562,896.00

	LIPH	LIPH Grant	PBV	Phase 1 & 2	HCV	Agency Total	Budget LIPH	Budget HCV	Budget Total
Operating Reserve - FYE 12/31/17	5,194,025.00	-	53,573.00	149,299.00	261,228.00	5,658,125.00	5,396,897.00		5,396,897.00
Change in Operating Reserve FYE 12/31/17 (reserve/deficit)	(25,374.42)	-	8,210.39	62,095.66	964.02	45,895.65	(23,197.00)	(45,553.00)	(68,750.00)
Operating Reserve at end Period for 2018	5,168,650.58	-	61,783.39	211,394.66	262,192.02	5,704,020.65	5,373,700.00	(45,553.00)	5,328,147.00
*****LIPH Operating Reserve includes $5,380,074.02 of money unavailable due to tax credit revenue on paper only***									
Physical Operating Reserve at end of Period for 2018	(211,423.44)	-	61,783.39	211,394.66	262,192.02	1,619,627.82			

SECTION 8 Funding Analysis	
HAP	
HAP Funding received from HUD YTD	1,228,450.00
Fraud Recovery/FSS Forfeitures	-
Restricted Net Asset Interest Earned	-
HAP Payments made YTD	1,172,338.00
Under (Over) spending YTD	***56,112.00***
HAP Reserve FYE 12/31/17 *	-
HAP Reserve Balance at end of Period for 2018	56,112.00
ADMIN FEES	
Administrative Funding received from HUD YTD	130,713.00
Income from other funding sources	1,378.92
Administrative Expenses YTD	131,127.90
Under (Over) spending YTD	***964.02***
Admin Fee Reserve FYE 12/31/17	284,886.00
FSS Grant Shortage at end of Period for 2018	-
Admin Fee Reserve Balance at end of Period for 2018	285,850.02

Additional Notes:

FSS Grant Tracking	
FSS Grant Funding received from HUD YTD	-
FSS Coordinator Expenses YTD	-
Under (Over) spending YTD	-
FSS Grant Reserve FYE 12/31/14	-
FSS Grant Reserve Balance at end of Period for 2015	-

REPORTS AND PRESENTATIONS TO COMMUNITY DEVELOPMENT AUTHORITY

Agenda Number:	4c		
Topic:	2017 Comprehensive Annual Financial Report (audit) for the Community Development Authority		
Date:	July 25, 2018		
Presenter:	Julie Christensen	Division:	Beloit Housing Authority

Overview/Background Information

Each year, the Community Development Authority/Housing Authority is audited as a component unit of the City of Beloit. The Department of Housing and Urban Development (HUD) has suggested that we provide a copy of the Comprehensive Annual Financial Report (audit) to the CDA Board each year.

Key Issues

Baker Tilley Virchow Krause, LLP prepared the City's audit. Attached are the portions of the 2017 Comprehensive Annual Financial Report (audit) that pertain to the Community Development Authority/Housing Authority.

You will find that the report contains Beloit Housing Authority financial information as well as information on CDA Lease Revenue bonds that have been issued over the years to pay for public improvements in the City's Tax Increment Finance (TIF) Districts. The CDA is considered a component unit of the City. However, it is a legally separate organization.

Two LLCs (Limited Liability Corporations) were created when we used tax credits to redevelop the public housing units. Financial statements for those two entities are included in the audit as well. You will see that there are several pages on each LLC. A separate audit was prepared for each LLC by a different auditing firm.

One of the issues raised by the Baker Tilley auditors was custodial credit risk, which is explained on page 57 and in the Management Issues report attached to the back of the audit. Deposits in banks are insured by the FDIC to a specific level. Custodial credit risk is the risk that in the event of a bank failure, the CDA's funds may not be returned to the CDA. At this point in time, the CDA has uninsured and uncollateralized funds of $2,083,693. This would be the amount of funds in the bank that are not insured by FDIC. This issue was also raised by HUD at our recent monitoring visit. In response to those concerns, we have prepared a Collateralization Policy which is earlier on the agenda for action and are working with the bank to insure this balance of funds.

The Audit identified two findings for BHA. The first is on page 179 and is requiring evidence that adjusting journal entries and supporting documentation of the CDA have been reviewed and approved by a person who is not the original preparer. Beginning in 2018, we will be having the BHA Financial Assistant review and approve any journal entries prepared by the fee accountant, and any journal entries prepared by the BHA Financial Assistant will be reviewed and approved by the BHA Director.

The second audit finding is on page 180 and is one of the reasons we were monitored by HUD. At the beginning of 2017, we estimated the proportion of each person's salary that would be paid out of each fund: Public Housing, Section 8, FSS, Phase 1, and Phase 2. It is required that we actualize those by year end to ensure that funds are being allocated correctly. Beginning in 2018, rather than estimate the fund allocation, the BHA Administrative Assistant is entering the actual hours worked in each program (fund).

Conformance with Strategic Plan

Approval of this agreement would conform with the stated purpose of the following strategic goal:

- ☐ Goal #1 – Create and Sustain Safe and Healthy Neighborhoods
- ☒ Goal #2 – Create and Sustain a High Performing Organization
- ☐ Goal #3 – Create and Sustain Economic and Residential Growth
- ☐ Goal #4 – Create and Sustain a High Quality of Life
- ☐ Goal #5 – Create and Sustain High Quality Infrastructure and Connectivity
- ☐ Goal #6 – Create and Sustain a Positive Image, Enhance Communications and Engage the Community

Sustainability

(If applicable, briefly comment on the sustainable long term impact of this policy or program related to how it will impact both the built and natural environment. Consider whether the policy of program will reduce dependence upon fossil fuels, reduce dependence on chemicals and other manufacturing substances that accumulate in nature, reduce dependence on activities that harm life sustaining eco-systems, and/or meet the hierarchy of present and future human needs fairly and efficiently. **Write N/A if not applicable**)

N/A

Action Required/Recommendation

No action required. Information only.

Fiscal Note/Budget Impact

All fiscal/budget impacts are noted in the report.

Attachments

Baker Tilley audit, management letter, Phase 1 audit, and Phase 2 audit.

CITY OF BELOIT

Beloit, Wisconsin

COMPREHENSIVE ANNUAL FINANCIAL REPORT

As of and for the Year Ended
December 31, 2017

Prepared By:

DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES
Eric Miller, Director
Dawn DeuVall, Director of Accounting and Purchasing

CITY OF BELOIT

STATEMENT OF NET POSITION
As of December 31, 2017

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
ASSETS				
Cash and investments	$ 28,300,541	$ 10,941,148	$ 39,241,689	$ 1,693,609
Receivables (net of allowance for uncollectibles)				
Taxes	22,828,200	634,719	23,462,919	-
Delinquent personal property taxes	46,988	-	46,988	-
Accounts	1,287,693	3,519,448	4,807,141	58,448
Pledges	-	-	-	3,750
Special assessments	676,695	-	676,695	-
Loans	3,038,189	-	3,038,189	-
Accrued interest	143,192	-	143,192	541
Land contract	1,495,203	-	1,495,203	-
Other	163,127	621,952	785,079	-
Due from other governmental units	371,915	692,275	1,064,190	3,429
Internal balances - interfunds	974,355	(974,355)	-	-
Internal balances - advances	1,548,701	(1,548,701)	-	-
Due from component unit	153,706	-	153,706	-
Inventories	558,571	228,488	787,059	-
Tax credit fees	-	-	-	137,777
Prepaid items	3,920	-	3,920	648
Lease receivable from primary government	-	-	-	8,848,028
Restricted Assets				
Temporarily Restricted				
Cash and investments	-	4,397,785	4,397,785	2,965,579
Deposit with risk pool	1,575,475	-	1,575,475	-
Other assets	-	238,615	238,615	-
Land held for resale	6,483,428	-	6,483,428	-
Capital Assets				
Land	5,279,114	3,707,005	8,986,119	601,285
Capital assets net of depreciation	100,232,790	74,029,149	174,261,939	16,158,489
Total Assets	175,161,803	96,487,528	271,649,331	30,471,583
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on advanced refunding	985,291	21,572	1,006,863	-
Pension related amounts	11,345,906	1,940,562	13,286,468	233,662
Total Deferred Outflows of Resources	12,331,197	1,962,134	14,293,331	233,662
LIABILITIES				
Accounts payable	1,114,391	369,419	1,483,810	25,347
Accrued liabilities	914,177	159,575	1,073,752	1,312,963
Claims payable	2,469,847	-	2,469,847	-
Due to primary government	-	-	-	153,703
Other liabilities	-	97,469	97,469	-
Deposits	-	10,000	10,000	161,168
Noncurrent liabilities				
Due within one year	9,495,984	2,233,073	11,729,057	3,335,000
Due in more than one year	93,465,180	26,424,910	119,890,090	8,448,626
Total Liabilities	107,459,579	29,294,446	136,754,025	13,436,807
DEFERRED INFLOWS OF RESOURCES				
Property tax levied for next period	22,819,480	634,388	23,453,868	1,099,920
Pension related amounts	4,668,196	807,458	5,475,654	100,911
Total Deferred Inflows of Resources	27,487,676	1,441,846	28,929,522	1,200,831
NET POSITION (DEFICIT)				
Net investment in capital assets	67,681,103	52,335,132	116,257,070	16,759,774
Restricted for debt service	1,241,939	516,903	1,758,842	-
Restricted for library operations	485,045	-	485,045	-
Restricted for replacement	-	1,595,400	1,595,400	-
Restricted for economic development	7,389,444	-	7,389,444	
Restricted for grant programs	4,013,555	-	4,013,555	5,435,449
Restricted for solid waste	537,603	-	537,603	
Restricted for cemetery perpetual care	2,275,980	-	2,275,980	-
Unrestricted (deficit)	(31,078,924)	13,265,935	(14,053,824)	(6,127,616)
TOTAL NET POSITION	$ 52,545,745	$ 67,713,370	$ 120,259,115	$ 16,067,607

See accompanying notes to financial statements.

CITY OF BELOIT

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government				
City Council, Manager, Attorney	$ 1,007,820	$ 37,381	$ -	$ -
Finance and Administrative Services	6,476,937	3,317,896	40,819	-
Community Development	3,266,790	91,562	37,986	-
Economic Development	420,046	-	-	-
Public Safety				
Police Services	15,777,635	1,111,992	930	-
Fire Services	10,658,395	40,258	72,325	-
Public works	14,973,850	2,742,428	404,925	79,484
Parks, recreation, and education	2,627,298	317,482	275,319	-
Interest and fiscal charges	2,010,600	-	-	-
Total Governmental Activities	57,219,371	7,658,999	832,304	79,484
Business-type Activities				
Water	3,995,317	5,873,464	-	59,245
Sewer	9,012,687	7,614,184	-	-
Golf course	445,828	369,608	-	-
Cemeteries	282,334	164,101	-	-
Ambulance	1,342,082	1,285,321	-	-
Storm sewer	977,034	1,127,563	-	-
Transit	2,363,530	165,147	1,179,413	-
Total Business-type Activities	18,418,812	16,599,388	1,179,413	59,245
Total Primary Government	$ 75,638,183	$ 24,258,387	$ 2,011,717	$ 138,729
Component Units - Business-type Activities				
Community Development Authority	$ 5,792,384	$ 336,719	$ 4,023,039	$ 55,006
Beloit Public Library Foundation, Inc.	239,947	-	94,898	-
Total Component Units	$ 6,032,331	$ 336,719	$ 4,117,937	$ 55,006

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Property taxes, tax increment

Property taxes, levied for other

Other taxes

Intergovernmental revenues not restricted to specific programs

Investment income

Gain on sale of property

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in net position

NET POSITION - Beginning

NET POSITION - ENDING

Governmental Activities	Business-type Activities	Totals	Component Units
Net (Expense) Revenue and Changes in Net Position			
Primary Government			
$ (970,439)	$ -	$ (970,439)	$ -
(3,118,222)	-	(3,118,222)	-
(3,137,242)	-	(3,137,242)	-
(420,046)	-	(420,046)	-
(14,664,713)	-	(14,664,713)	-
(10,545,812)	-	(10,545,812)	-
(11,747,013)	-	(11,747,013)	-
(2,034,497)	-	(2,034,497)	-
(2,010,600)	-	(2,010,600)	-
(48,648,584)	-	(48,648,584)	-
-	1,937,392	1,937,392	-
-	(1,398,503)	(1,398,503)	-
-	(76,220)	(76,220)	-
-	(118,233)	(118,233)	-
-	(56,761)	(56,761)	-
-	150,529	150,529	-
-	(1,018,970)	(1,018,970)	-
-	(580,766)	(580,766)	-
(48,648,584)	(580,766)	(49,229,350)	-
-	-	-	(1,377,620)
-	-	-	(145,049)
-	-	-	(1,522,669)
7,246,136	662,833	7,908,969	-
4,850,000	-	4,850,000	-
7,736,261	-	7,736,261	-
1,936,877	-	1,936,877	-
660,550	-	660,550	-
21,686,774	-	21,686,774	-
205,821	266,130	471,951	643,578
1,650	-	1,650	-
858,406	10,077	868,483	128,142
837,543	(837,543)	-	-
46,020,018	101,497	46,121,515	771,720
(2,628,566)	(479,269)	(3,107,835)	(750,949)
55,174,311	68,192,639	123,366,950	16,818,556
$ 52,545,745	$ 67,713,370	$ 120,259,115	$ 16,067,607

See accompanying notes to financial statements.

CITY OF BELOIT

STATEMENT OF NET POSITION - COMPONENT UNITS
As of December 31, 2017

	Major	Nonmajor	
	Community Development Authority	Beloit Public Library Foundation, Inc.	Totals
ASSETS			
Current Assets			
Cash and investments	$ 1,012,776	$ 680,833	$ 1,693,609
Receivables			
Accounts	57,923	525	58,448
Pledges	-	3,750	3,750
Accrued interest	-	541	541
Lease receivable from primary government	3,335,000	-	3,335,000
Due from other governmental units	3,429	-	3,429
Prepaid items	648	-	648
Tax credit fees	137,777	-	137,777
Total Current Assets	4,547,553	685,649	5,233,202
Noncurrent Assets			
Restricted Assets			
Cash and investments	2,965,579	-	2,965,579
Capital Assets			
Land	601,285	-	601,285
Land improvements	612,630	-	612,630
Buildings	2,046,944	-	2,046,944
Building improvements	17,613,559	-	17,613,559
Machinery, equipment, furnishings and vehicles	800,554	-	800,554
Less: Accumulated depreciation	(4,915,198)	-	(4,915,198)
Total Capital Assets, Net	16,759,774	-	16,759,774
Other Assets			
Lease receivable from primary government	5,513,028	-	5,513,028
Total Other Assets	5,513,028	-	5,513,028
Total Noncurrent Assets	25,238,381	-	25,238,381
Total Assets	29,785,934	685,649	30,471,583
DEFERRED OUTFLOWS OF RESOURCES			
Pension related amounts	233,662	-	233,662
LIABILITIES			
Current Liabilities			
Accounts payable	25,347	-	25,347
Accrued liabilities	1,312,963	-	1,312,963
Due to primary government	153,703	-	153,703
Deposits	161,168	-	161,168
Lease revenue bonds payable	3,335,000	-	3,335,000
Total Current Liabilities	4,988,181	-	4,988,181
Noncurrent Liabilities			
Compensated absences	69,740	-	69,740
Other notes payable	738,770	-	738,770
Net pension liability	30,116	-	30,116
Lease revenue bonds payable	7,610,000	-	7,610,000
Total Noncurrent Liabilities	8,448,626	-	8,448,626
Total Liabilities	13,436,807	-	13,436,807
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	1,099,920	-	1,099,920
Pension related amounts	100,911	-	100,911
Total Deferred Inflows of Resources	1,200,831	-	1,200,831
NET POSITION (DEFICIT)			
Net investment in capital assets	16,759,774	-	16,759,774
Restricted for grant programs	5,423,459	11,990	5,435,449
Unrestricted (deficit)	(6,801,275)	673,659	(6,127,616)
TOTAL NET POSITION	$ 15,381,958	$ 685,649	$ 16,067,607

See accompanying notes to financial statements.

CITY OF BELOIT

STATEMENT OF ACTIVITIES - COMPONENT UNITS
For the Year Ended December 31, 2017

	Major	Nonmajor	
	Community Development Authority	Beloit Public Library Foundation, Inc.	Totals
EXPENSES			
Community development	$ 5,026,539	$ -	$ 5,026,539
Library services	-	239,947	239,947
Total Expenses	5,026,539	239,947	5,266,486
PROGRAM REVENUES			
Charges for services	336,719	-	336,719
Operating grants and contributions	4,023,039	94,898	4,117,937
Other revenue	82,858	-	82,858
Total Program Revenues	4,442,616	94,898	4,537,514
Net Revenues (Expenses)	(583,923)	(145,049)	(728,972)
GENERAL REVENUES (EXPENSES)			
Investment income	540,368	103,210	643,578
Interest and amortization expense	(765,845)	-	(765,845)
Miscellaneous	45,284	-	45,284
Total General Revenues (Expenses)	(180,193)	103,210	(76,983)
Revenues (Expenses) Before Contributions	(764,116)	(41,839)	(805,955)
Capital contributions	55,006	-	55,006
Change in Net Position	(709,110)	(41,839)	(750,949)
TOTAL NET POSITION - Beginning	16,091,068	727,488	16,818,556
TOTAL NET POSITION - ENDING	$ 15,381,958	$ 685,649	$ 16,067,607

See accompanying notes to financial statements

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Beloit, Wisconsin (the "City") conform to generally accepted accounting principles as applicable to governmental units. The accepted standard setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

This report includes all of the funds of the City. The reporting entity for the City consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and is able to impose its will on that organization; (2) it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government; (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organizations should also be reported as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government, or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the primary government, or its component units, is entitled to, or had the ability to otherwise access, are significant to the primary government.

Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and its component unit have substantively the same governing body and a financial benefit or burden relationship exists; (2) the primary government and the component unit have substantially the same governing body and management of the primary government has operational responsibility for the component unit; (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens; or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the primary government.

Discretely Presented Component Units

City of Beloit Community Development Authority

The government-wide financial statements include the City of Beloit Community Development Authority ("CDA") as a component unit. The CDA is a legally separate organization. The board of the CDA is appointed by the city council. Wisconsin Statutes provide for circumstances whereby the City can impose their will on the CDA, and also create a potential financial benefit to or burden on the City (see Note IV.I.). As a component unit, the CDA's financial statements are shown as a discrete column (proprietary) in the financial statements. The CDA's financial statements include transactions of two limited liability companies which are used to promote redevelopment of CDA properties. The information presented is for the fiscal year ended December 31, 2017. The CDA does not issue separate financial statements. Additional information may be obtained from the CDA's office.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

G. LEASE DISCLOSURES (cont.)

Lessee – Community Development Authority

The City, through TIF District No. 13, TIF District No. 10, TIF District No. 6, and TIF District No. 5, is obligated to make lease payments to the Community Development Authority of Beloit (CDA) to retire debt issued by the CDA for TIF purposes.

Each lease obligation is directly attributable to the underlying debt issues noted.

Lessee – Capital Asset Capital Leases

The Lease Rental Payments are expressly limited to: (i) tax increments generated by the tax incremental district No. 13, tax incremental district No. 10, tax incremental district No. 6, and tax incremental district No. 5; (ii) special assessments, as may be levied by the City for eligible projects; (iii) proceeds from a portion of land sales as provided in the Development Agreement by and among the City, the Authority, and the Lease; and (iv) gas and electric reimbursement amounts generated by the tax incremental district No. 13, tax incremental district No. 10, tax incremental district No. 6, and tax incremental district No. 5 (the "Rental Payments").

The future minimum lease payments are required as follows:

Calendar Years	TIF No. 13	TIF No. 10	TIF No. 6	TIF No. 5
2018	$ 103,141	$ 2,075,193	$ 256,035	$ 1,330,042
2019	100,816	2,033,865	255,438	-
2020	103,295	1,989,800	-	-
2021	105,383	758,663	-	-
2022	107,055	736,194	-	-
2023	103,433	717,313	-	-
2024	99,675	706,513	-	-
2025	95,873	689,069	-	-
2026	91,980	-	-	-
Sub-Totals	910,651	9,706,610	511,473	1,330,042
Less: Reserve funds to be applied to final principal payment	(90,517)	(1,650,398)	(94,015)	(262,045)
Less: Amount representing interest	(145,650)	(1,331,608)	(21,473)	(15,042)
Present Value of Minimum Lease Payments	$ 674,484	$ 6,724,604	$ 395,985	$ 1,052,955
Total TIF No. 13, TIF No. 10, TIF No. 6, and TIF No. 5				$ 8,848,028

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS

This report contains the City of Beloit Community Development Authority (“CDA”), the Beloit Apartments Redevelopment – Phase 1 and 2, LLC’s, component units of the CDA, and the Beloit Public Library Foundation, Inc. (“foundation”) which are included as component units. Financial information is presented as a discrete column in the statement of net position and statement of activities.

In addition to the basic financial statements and the preceding notes to financial statements which apply, the following additional disclosures are considered necessary for a fair presentation.

Community Development Authority – Primary Government

a. Basis of Accounting/Measurement Focus

The CDA prepares its financial statements in accordance with generally accepted accounting principles. The accounting records are kept on the accrual basis of accounting and flow of economic resources measurement focus.

b. Cash and Investments

The CDA’s cash and investments (not including its component units) at year-end were comprised of the following:

	Carrying Value	Statement Balance	Associated Risks
Demand deposits	$ 2,824,191	$ 2,833,693	Custodial credit risk
Total Cash and Investments	$ 2,824,191	$ 2,833,693	

Reconciliation to financial statements	
Per statement of net position	
Unrestricted cash and investments	$ 727,219
Restricted cash and investments	2,096,972
Total Cash and Investments	$ 2,824,191

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 amounts (interest-bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of $250,000 for the combined amount of all deposits.

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 calculating custodial credit risk.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority – Primary Government (cont.)

b. Cash and Investments (cont.)

Although the CDA has an investment policy, it does not discuss any of the risks below.

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of a financial institution failure, the CDA's deposits may not be returned to the CDA.

As of December 31, 2017, $2,083,693 of the CDA's total bank balances of $2,833,693 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 2,083,693

c. Restricted Assets

Restricted assets at December 31, 2017, consist of the following:

Cash and cash equivalents – bond redemption	$ 2,096,972
Total Restricted Assets	$ 2,096,972

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority – Primary Government (cont.)

d Capital Assets

The useful life assigned to buildings is 40 years. Machinery and equipment are assigned useful lives ranging from 5-10 years. The change in capital assets for 2017 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	$ 414,539	$ -	$ -	$ 414,539
Capital assets being depreciated				
Buildings	841,964	-	-	841,964
Furniture, equipment, and machinery-dwellings	59,120	-	-	59,120
Furniture, equipment, and machine-administrative	167,196	-	-	167,196
Total Capital Assets Being Depreciated	1,068,280	-	-	1,068,280
Less: Accumulated Depreciation	(703,772)	(26,520)	-	(730,292)
Total Capital Assets, Net of Depreciation	$ 779,047			$ 752,527

e. Long-Term Obligations

Lease Revenue Bonds

The CDA has pledged future revenues from the City of Beloit resulting from TIF increments to repay $24,915,000 in lease revenue bonds issued between 2007-2012. Proceeds from the bonds provided financing for infrastructure improvements and other TIF district investments. The bonds are payable solely from TIF increment revenues and are payable through 2026. Annual principal and interest payments on the bonds are expected to require 100% of TIF increment lease payments. The total principal and interest remaining to be paid on the bonds is $12,458,771. Principal and interest paid for the current year and total pledged revenues were both $3,162,257.

The following is a summary of the lease revenue bond transactions for the year ended December 31, 2017.

	Balance 1-1-17	Increases	Decreases	Balance 12-31-17
Lease revenue bonds	$ 13,570,000	$ -	$ 2,625,000	$ 10,945,000

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority – Primary Government (cont.)

e. Long-Term Obligations (cont.)

Lease Revenue Bonds (cont.)

Title of Issue	Date of Issue	Due Date	Interest Rates	Original Indebted-Ness	Balance 12-31-17
2007A Lease Revenue Refunding Bonds	2-21-07	3-1-20	3.50-4.20%	$ 8,915,000	$ 3,570,000
2007B Lease Revenue Bonds	7-12-07	6-1-19	3.70-4.35	2,015,000	490,000
2008A Lease Revenue Refunding Bonds	6-19-08	3-1-25	4.00-6.75	2,640,000	1,765,000
2009A Lease Revenue Bonds	7-1-09	3-1-25	1.30-5.00	5,340,000	3,040,000
2011A Lease Revenue Bonds	6-27-11	6-1-18	1.00-3.05	3,175,000	500,000
2011B Lease Revenue Bonds	6-27-11	6-1-26	2.90-4.40	1,165,000	765,000
2012A Lease Revenue Bonds	6-21-12	6-1-18	0.80-1.82	1,665,000	815,000
Totals					$ 10,945,000

Debt service requirements to maturity are as follows:

Calendar Years	Principal	Interest	Totals
2018	$ 3,335,000	$ 429,410	$ 3,764,410
2019	2,065,000	325,119	2,390,119
2020	1,855,000	238,095	2,093,095
2021	685,000	179,045	864,045
2022	700,000	143,249	843,249
2023	715,000	105,745	820,745
2024	740,000	66,188	806,188
2025	760,000	24,940	784,940
2026	90,000	1,980	91,980
Totals	$ 10,945,000	$ 1,513,771	$ 12,458,771

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority – Primary Government (cont.)

f. Employee Retirement System

All eligible authority employees participate in the Wisconsin Retirement System ("system"), a cost-sharing defined benefit multiple-employer public employee retirement system (PERS). All authority employees are considered to be City employees. Refer to Note V.A. for details.

g. Lease Disclosures

Refer to Note IV.G.

h. Net Position

Net position at December 31, 2017 includes the following:

Net investment in capital assets	
Land	$ 414,539
Other capital assets, net of accumulated depreciation	377,988
Total Net Investment in Capital Assets	752,527
Restricted	
Low Rent Public Housing	5,423,459
Total Restricted	5,423,459
Unrestricted	472,042
Total Net Position	$ 6,648,028

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 1, LLC

a. Nature of Business and Significant Accounting Policies

Nature of Business

Beloit Apartments Redevelopment – Phase 1, LLC (the company) was organized on January 14, 2009, as a limited liability company (LLC) formed under the Wisconsin Limited Liability Company Act (the Act). The company was formed to acquire, rehabilitate, and operate a 39 building, 65-unit duplex and single family home complex located on scattered sites in Beloit, Wisconsin, called Beloit Apartments Redevelopment, Phase 1 (the project). The project qualifies for low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code (IRC).The original property, including the buildings and land, was acquired under a capital lease dated September 22, 2010. The company completed the rehabilitation of 14 units on various dates in December 2010 and completed the rehabilitation of the remaining 51 units on various dates from January through July of 2011.

The company consists of one managing member and three investor members, with rights, preferences, and privileges as described in the Amended and Restated Operating Agreement (operating agreement). Each member's liability for the debts and obligations of the company shall be limited to the maximum extent permitted by the Act and other applicable laws.

The company shall be operated in a manner consistent with its treatment as a partnership for federal and state income tax purposes. Therefore, the accompanying financial statements do not include the personal or corporate assets and liabilities of the members, their obligation for income taxes on their distributive shares of the net income of the company or their rights to refunds on its net loss, nor any provision for income tax expense.

The operating agreement states that the company shall be perpetual unless sooner terminated in accordance with the operating agreement.

Significant Accounting Policies

A summary of significant accounting policies follows:

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.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 1, LLC (cont.)

a. Nature of Business and Significant Accounting Policies (cont.)

Significant Accounting Policies (cont.)

Cash and Cash Equivalents
For purposes of reporting cash flows, the company 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 project due to restrictions placed on it.

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

Accounts Receivable and Revenue Recognition
The company utilizes the direct write-off method of accounting for bad debts. The use of this method has no material effect on the financial statements. A receivable is considered past due if payments have not been received by the company for 10 days. Accounts are generally written off as uncollectible if no payments are received after 30 days. No fee is charged to customers for late payment.

Rental revenue is recognized when earned. The company leases apartments to eligible applicants under operating leases which are substantially all on a yearly basis.

Rental Property
Rental property is stated at cost. Depreciation of rental property is computed on the straight-line method based upon the following estimated useful lives of the assets:

	Years
Land and buildings under capital lease	98
Building improvements	15-40
Land improvements	15
Furnishings and equipment	5

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

It is the company's policy to include amortization expense on assets acquired under capital leases with depreciation expense on owned assets.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 1, LLC (cont.)

a. Nature of Business and Significant Accounting Policies (cont.)

Significant Accounting Policies (cont.)

Impairment of Long-Lived Assets
The company reviews long-lived assets, including rental property and intangible assets, 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.

Financing Costs
Financing costs incurred by the company totaled $15,000. The company is amortizing these costs into interest expense on the straight-line method over 39 years and 9 months, the life of the loans. The use of the straight-line method rather than the effective interest method has no material effect on the financial statements.

Amortized costs included in interest expense amounted to $377 for the year ended December 31, 2017.

Tax Credit Fees
In connection with obtaining an allocation of low-income housing tax credits, the company paid fees totaling $114,034 to the Wisconsin Housing and Economic Development Authority (WHEDA). The company is amortizing these fees over the related tax credit compliance period of 15 years using the straight-line method.

Unearned Revenue
Governmental agencies have provided grant funding to the company to encourage the development of affordable housing. The company received funds under the Tax Credit Exchange Program (TCEP) (See Note I.h. in this section). The unearned revenue relating to this grant is recognized as other income in the statement of operations (shown as amortization of unearned revenue) under the straight-line method over the estimated useful lives of the underlying assets purchased or constructed.

Current Vulnerability Due to Certain Concentrations
The project's operations are concentrated in the low-income, public housing residential real estate market. In addition, the project operates in a heavily regulated environment. The operations of the project are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies including, but not limited to, the Community Development Authority of the City of Beloit (CDA) under the Regulatory & Operating Agreement (R&O Agreement). Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the CDA. Such changes may occur with little or inadequate funding to pay for the related cost, including additional administrative burden to comply with a change.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 1, LLC (cont.)

a. Nature of Business and Significant Accounting Policies (cont.)

Significant Accounting Policies (cont.)

Subsequent Events
These financial statements have not been updated for subsequent events occurring after March 28, 2018, which is the date these financial statements were available to be issued. The company has no responsibility to update these financial statements for events and circumstances occurring after this date.

b. Restricted Cash

Restricted cash is comprised of the following:

Replacement reserve	$	81,326
Operating reserve		145,645
Tenants' security deposits		31,717
Total	$	258,688

Replacement Reserve
The operating agreement and R&O Agreement require the company to make monthly deposits to the replacement reserve initially equal to $300 per unit per year, and increasing annually by 3%. Disbursements are restricted to capital improvements and repairs of the project. Disbursements in excess of $5,000 or 10% of the balance in the reserve at such time will require written approval of the investor members. Any funds remaining at the end of the compliance period shall be distributed to the members as provided for in the operating agreement.

Balance, beginning	$	58,643
Monthly deposits		22,607
Interest earned		76
Balance, Ending	$	81,326

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 1, LLC (cont.)

b. Restricted Cash (cont.)

Operating Reserve
The R&O Agreement and the operating agreement require the company to fund and maintain an operating reserve in the amount of $100,000. To the extent funds in the reserve fall below the initial deposit, the managing member must replenish the reserve from available cash flow as defined in the operating agreement. Disbursements in excess of $10,000 or 10% of the then balance of the reserve require written approval from the investor members.

Balance, beginning	$	145,499
Interest earned		146
Deposits		-
Balance, Ending	$	145,645

c. Rental Property, Net

Rental property, net is comprised of the following:

Land	$	11,349
Land and buildings under capital lease		1,950,000
Building improvements		8,397,386
Land improvements		215,575
Furnishings and equipment		263,509
		10,837,819
Less: Accumulated depreciation		1,896,763
Total	$	8,941,056

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 1, LLC (cont.)

d. Mortgage and Other Notes Payable

Mortgage and other notes payable consists of the following:

CDA; managing member; non-recourse mortgage note payable under the capital lease described in Note I.e.; due in one installment on September 21, 2050, together with interest at 4.47% compounded annually; collateralized by a mortgage on the project's rental property; interest expense totaled $114,781 for the year ended December 31, 2017; accrued interest was $732,607 as of December 31, 2017.	$ 1,950,000
CDA; nonrecourse mortgage note in the original amount of $500,000; noninterest bearing; due in one installment on September 21, 2040; collateralized by a mortgage on the project's rental property.	500,000
CDA; nonrecourse mortgage note in the original amount of $619,253; noninterest bearing; due in one installment on September 21, 2040; collateralized by a mortgage on the project's rental property.	430,559
CDA; nonrecourse mortgage note in the original amount of $350,000; due in one installment on September 23, 2040, together with interest at 4.0% compounded annually; collateralized by a security interest on the project's rental property; interest expense totaled $16,924 for the year ended December 31, 2017; accrued interest was $90,023 as of December 31, 2017.	350,000
City of Beloit; nonrecourse mortgage note in the original amount up to $170,639; noninterest bearing; principal due in one installment on September 21, 2040; collateralized by a mortgage on the project's rental property; the mortgage note was not funded as of December 31, 2017.	-
Total Long-term Debt	3,230,559
Less: Unamortized debt issuance costs	12,360
Total	$ 3,218,199

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 1, LLC (cont.)

d. Mortgage and Other Notes Payable (cont.)

Repayment of principal on the mortgage and other notes payable as of December 31, 2017, is as follows:

Years Ending December 31,	
2018	$ -
2019	-
2020	-
2021	-
2022	-
Thereafter	3,230,559
Total	$ 3,230,559

e. Capital Lease

The company has entered into a capital lease agreement with the CDA dated September 22, 2010, to operate and manage the project during the term of the capital lease in accordance with all applicable public housing requirements. Rental property recorded under this non-cancellable capital lease consists of:

Land	$ 409,500
Buildings	1,540,500
Total	$ 1,950,000

In accordance with accounting principles generally accepted in the United States of America, the land and building are capitalized as a single unit and amortized over the lease term of 98 years. Accumulated depreciation on the land and buildings under the capital lease was $144,273 as of December 31, 2017.

Base rent under the lease was payable in a single installment of $1,950,000 on September 22, 2010. The balance of unpaid base rent accrues interest at 4.47%, compounded annually (see Note I.d. in this section). Payments made by the company shall be applied first to accrued interest and then against the unpaid base rent amount. The base rent and all accrued interest thereon is due September 21, 2050. The capital lease obligation is secured by a mortgage note as described in Note I.d. The lease expires September 21, 2108.

In addition to the base rent and related interest payments, the company is obligated to make an annual payment in lieu of taxes (PILOT) to the City of Beloit (see Note I.g. in this section).

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 1, LLC (cont.)

f. Members' Capital Contributions

The company has one managing member, the CDA, which has a .01% interest, and three investor members, BMO, First National Bank and Trust Company (FNB), and Blackhawk State Bank (BSB) which have 19.998%, 39.996%, and 39.996% interests, respectively.

The CDA is required to make capital contributions of $100,000. The investor members are required to make capital contributions totaling $6,439,817. All contributions were made as of December 31, 2017.

g. Related Party Transactions

Accounts Payable
Included in accounts payable are amounts owed to the CDA for reimbursement of operating expenses totaling $16,072 as of December 31, 2017.

Property Management Agreement
The company has entered into a property management agreement with the CDA under which the company is obligated to pay a property management fee equal to 5% of gross residential rents on a monthly basis. The agreement is automatically renewed from year to year unless otherwise terminated. Property management fees totaled $6,065 for the period ended December 31, 2017.

Asset Management Fee
The company is obligated to pay BMO an annual asset management fee of $3,250. The fee is payable solely from cash flow as defined in the operating agreement, is cumulative, and accrues interest at the Prime Rate plus 3%. Included in accrued expenses are accrued asset management fees of $9,750 and accrued interest on the asset management fees of $0 as of December 31, 2017. Interest incurred on the asset management fee totaled $0 for the year ended December 31, 2017.

PILOT
The company and the CDA entered into a PILOT agreement with the City of Beloit, Wisconsin (the City), under which the company will make an annual PILOT payment to the City beginning in 2010 and ending in the final calendar year of the project's compliance period (2025). The PILOT shall be equal to 10% of the difference between the annual tenant's portion of the collected rents for all of the residential rental units in the buildings and the annual utility bills incurred by the company with respect to the project. The PILOT is required for as long as the land and building under capital lease constitutes property of the CDA that is exempt from taxation under the Wisconsin Statutes. PILOT expense incurred and accrued totaled $11,939 as of December 31, 2017.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 1, LLC (cont.)

g. Related Party Transactions (cont.)

Operating Deficit Guaranty
The managing member is obligated, after all funds in the operating reserve account have been depleted, to fund operating deficits during the operating deficit guaranty period. The operating deficit guaranty period is defined as the period beginning with the date of achievement of breakeven operations and ending on the later of the third anniversary of the date of achievement of breakeven operations or when the project has maintained the operating reserve target amount of $100,000 during the compliance period and the project has made all required deposits to the replacement reserve. The obligation to fund operating deficits shall be limited to $145,000. Such loans are non-interest bearing and repayable solely from available cash flow as defined in the operating agreement. There was no operating deficit loans as of December 31, 2017.

R&O Agreement
The company has entered into an R&O Agreement with the CDA. Provisions of the agreement require the company to maintain all units as public housing units. The CDA is to pay operating subsidies to the company equal to the project expenses less project income. The agreement will expire upon the earliest to occur of the expiration of 40 years from the date of first occupancy (December 2050) or at the option of the project at the close of the first project year of which the CDA ceases to pay operating subsidies. Operating subsidies totaling $132,393 were earned during the period ended December 31, 2017. Included in accounts receivable are operating subsidies of $3,537 as of December 31, 2017.

h. Commitments and Contingencies

Land Use Restriction Agreement (LURA)
The company has entered into a LURA with the Wisconsin Housing and Economic Development Authority (WHEDA) as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, the company 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 IRC Section 42. If the company fails to comply with this agreement or with the IRC, it may be ineligible for low-income housing tax credits, and the members may be required to recapture a portion of the tax credits previously claimed on their income tax returns. In addition, noncompliance may require an adjustment to the contributed capital of the investor member's. The company is obligated to certify tenant eligibility.

Tax Credit Exchange Program (TCEP)
The company has entered into a TCEP Subaward Agreement (Subaward Agreement) with WHEDA. Under the Subaward Agreement, the company was awarded and received grant funds totaling $1,345,125, pursuant to Section 1602 of the American Recovery and Reinvestment Act of 2009. If the company fails to continuously comply with the guidelines of the Subaward Agreement, it may be required to refund up to the full amount of the grant funds received and reimburse WHEDA for the costs and fees incurred in connection with the recapture event. As a condition to making the Subaward Agreement, WHEDA required the owner to enter into a corporate guarantee. The Subaward Agreement terminates at the expiration of the low-income housing tax credit compliance period.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC

a. Nature of Business and Significant Accounting Policies

Nature of Business

Beloit Apartments Redevelopment – Phase 2, LLC (the company) was organized on March 5, 2010, as a limited liability company (LLC) formed under the Wisconsin Limited Liability Company Act (the Act). The company was formed to acquire, rehabilitate, develop, and operate a 66-unit project comprised of 41 elderly and 25 family residential units, located on scattered sites in Beloit, Wisconsin, called Beloit Apartments Redevelopment – Phase 2, LLC (the project). The project qualifies for low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code (IRC). The original property, including the buildings and land, was acquired under a capital lease dated October 14, 2011. The company completed the rehabilitation of the existing structures on various dates from January through May of 2012. The new construction portion of the projects was placed in service on various dates in August and December 2012.

The company consists of one managing member and one investor member, with rights, preferences and privileges as described in the Amended and Restated Operating Agreement (operating agreement). Each member’s liability for the debts and obligations of the company shall be limited to the maximum extent permitted by the Act and other applicable laws.

The company shall be operated in a manner consistent with its treatment as a partnership for federal and state income tax purposes. Therefore, the accompanying financial statements do not include the personal or corporate assets and liabilities of the members, their obligation for income taxes on their distributive shares of the net income of the company or their rights to refunds on its net loss, nor any provision for income tax expense.

The operating agreement states that the company shall be perpetual unless sooner terminated in accordance with the operating agreement.

Significant Accounting Policies

A summary of significant accounting policies follows:

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.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC (cont.)

a. Nature of Business and Significant Accounting Policies (cont.)

Significant Accounting Policies (cont.)

Cash and Cash Equivalents
For purposes of reporting cash flows, the company 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 company due to restrictions placed on it.

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

Accounts Receivable and Revenue Recognition
The company utilizes the direct write-off method of accounting for bad debts. The use of this method has no material effect on the financial statements. A receivable is considered past due if payments have not been received by the company for 10 days. Accounts are generally written off as uncollectible if no payments are received after 30 days. No fee is charged to customers for late payment.

Rental revenue is recognized when earned. The company leases apartments to eligible applicants under operating leases which are substantially all on a yearly basis.

Rental Property
Rental property is stated at cost. Depreciation of rental property is computed on the straight-line method based upon the following estimated useful lives of the assets:

	Years
Land and buildings under capital lease	98
Buildings and improvements	27.5
Land improvements	15
Furnishings and equipment	5

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

It is the company’s policy to include amortization expense on assets acquired under capital leases with depreciation expense on owned assets.

Impairment of Long-Lived Assets
The company reviews long-lived assets, including rental property and intangible assets, 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.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC (cont.)

a. Nature of Business and Significant Accounting Policies (cont.)

Significant Accounting Policies (cont.)

Debt Issuance
Financing costs incurred by the company totaled $12,000. The company is amortizing these costs into interest expense on the straight-line method over 39 years and 9 months, the life of the loans. The use of the straight-line method rather than the effective interest method has no material effect on the financial statements. Amortized costs included in interest expense amounted to $302 for the period ended December 31, 2017.

Tax Credit Fees
In connection with obtaining an allocation of low-income housing tax credits from the Wisconsin Housing and Economic Authority (WHEDA), the company incurred fees totaling $128,263. The company is amortizing these fees over the related tax credit compliance period of 15 years using the straight-line method.

Current Vulnerability Due to Certain Concentrations
The project's operations are concentrated in the low-income, public housing residential real estate market. In addition, the project operates in a heavily regulated environment. The operations of the project are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies including, but not limited to, the Community Development Authority of the City of Beloit (CDA) under the Regulatory & Operating Agreement (R&O Agreement). Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the CDA. Such changes may occur with little or inadequate funding to pay for the related cost, including additional administrative burden to comply with a change.

Subsequent Events
These financial statements have not been updated for subsequent events occurring after February 28, 2018, which is the date these financial statements were available to be issued. The company has no responsibility to update these financial statements for events and circumstances occurring after this date.

b. Restricted Cash

Restricted cash is comprised of the following:

Replacement reserve	$ 113,478
Operating reserve	190,889
ACC reserve	281,309
Tenants' security deposits	24,243
Total	$ 609,919

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC (cont.)

b. Restricted Cash (cont.)

Replacement Reserve
The operating agreement and R&O Agreement require the company to make monthly deposits to the replacement reserve initially equal to $300 per unit per year, and increasing annually by 3%. Disbursements are restricted to capital improvements and repairs of the project. Disbursements in excess of $5,000 in the aggregate in any given month will require written approval of the managing member and the asset manager. Any funds remaining at the end of the compliance period shall be distributed to the members as provided for in the operating agreement.

Balance, beginning	$ 90,415
Deposits	22,954
Interest earned	109
Balance, Ending	$ 113,478

Operating Reserve
The R&O Agreement and the operating agreement require the company to fund and maintain an operating reserve in the amount of $190,000 upon receipt of the investor member's third installment of project equity. Any excess amount remaining at the end of the compliance period shall be distributed to the members as provided for in the operating agreement, subject to consent by any lender or the United States Department of Housing and Urban Development (HUD). If the balance in the operating reserve falls below $190,000, the company is obligated to replenish the operating reserve from cash flow or the proceeds of sales or refinancing. Disbursements require the approval of the managing member and the asset manager.

Balance, beginning	$ 190,698
Interest earned	191
Balance, Ending	$ 190,889

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC (cont.)

b. Restricted Cash (cont.)

Annual Contributions Contract (ACC) Reserve
The operating agreement and R & O Agreement require the company to fund an ACC reserve equal to $280,000 upon the receipt of the investor member's third installment of project equity. Disbursements are to be used to pay operating and debt service deficits that directly result from the reduction or loss of a reduction in the projected HUD mixed finance subsidies. Funds may only be withdrawn with the approval of the managing member and asset manager. Any funds remaining at the end of the compliance period shall, subject to any required lender or HUD consent, be distributed to the members as provided for in the operating agreement.

Balance, beginning	$ 281,028
Interest earned	281
Balance, Ending	$ 281,309

c. Rental Property, Net

Rental property, net is comprised of the following:

Land	$ 175,397
Land and buildings under capital lease	1,410,000
Buildings and improvements	9,216,173
Land improvements	397,055
Furnishings and equipment	310,729
	11,509,354
Less: Accumulated depreciation	2,288,143
Total	$ 9,221,211

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC (cont.)

d. Mortgage and Other Notes Payable

Mortgage and other notes payable consists of the following:

CDA; managing member; nonrecourse mortgage note payable under the capital lease described in Note I.e.; due in one installment on October 13, 2051, together with interest at 4.19% compounded annually; collateralized by a mortgage on the project's rental property; interest expense totaled $73,187 for the year ended December 31, 2017; accrued interest was $409,898 as of December 31, 2017.	$ 1,410,000
CDA; nonrecourse mortgage note in the original amount of $230,074; due in one installment on October 13, 2051, together with interest at 0.50%; collateralized by a mortgage on the project's rental property; interest expense totaled $1,151 for the year ended December 31, 2017; accrued interest was $5,369 as of December 31, 2017.	230,074
CDA; nonrecourse mortgage note in the original amount of $256,500; due in one installment on October 13, 2051, together with interest at 0.50%; collateralized by a mortgage on the project's rental property; interest expense totaled $1,282 for the year ended December 31, 2017; accrued interest was $6,306 as of December 31, 2017.	256,500
CDA; nonrecourse mortgage note in the original amount of $540,000; noninterest bearing; due in one installment on October 13, 2051, collateralized by a mortgage on the project's rental property.	540,000
CDA; nonrecourse mortgage note in the original amount of $600,000; principal due in one installment on October 13, 2051, together with interest at 0.50%; collateralized by a mortgage on the project's rental property; interest expense totaled $2,372 for the year ended December 31, 2017; accrued interest was $10,818 as of December 31, 2017.	474,260
Total Mortgage Notes Payable	2,910,834
Less: Unamortized financing cost	10,189
Total	$ 2,900,645

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC (cont.)

d. Mortgage and Other Notes Payable (cont.)

Repayment of principal on the mortgage and other notes payable as of December 31, 2017, is follows:

Year Ending December 31,	
2018	$ -
2019	-
2020	-
2021	-
2022	-
Thereafter	2,910,834
Total	$ 2,910,834

e. Capital Lease

The company has entered into a capital lease agreement with the CDA dated October 14, 2011, to operate and manage the project during the term of the capital lease in accordance with all applicable public housing requirements. Rental property recorded under this non-cancellable capital lease consists of:

Land	$ 770,000
Buildings	640,000
Total	$ 1,410,000

In accordance with accounting principles generally accepted in the United States of America, the land and building are capitalized as a single unit and amortized over the lease term of 98 years. Accumulated depreciation on the land and building under the capital lease was $89,924 as of December 31, 2017.

Base rent under the lease was payable in a single installment of $1,410,000 on October 14, 2011. The balance of unpaid base rent accrues interest at 4.19%, compounded annually (see Note I.d. in this section). Payments made by the company shall be applied first to accrued interest and then against the unpaid base rent amount. The base rent and all accrued interest thereon is due October 13, 2051. The capital lease obligation is secured by a mortgage note as described in Note I.d. The lease expires October 13, 2109.

In addition to the base rent and related interest payments, the company is obligated to make an annual payment in lieu of taxes (PILOT) to the City of Beloit, Wisconsin (the City) (see Note I.f. in this section).

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC (cont.)

f. Related Party Transactions

Accounts Payable
Included in accounts payable are amounts owed to the CDA for reimbursement of operating expenses totaling $14,987 as of December 31, 2017.

Property Management Agreement
The company has entered into a property management agreement with the CDA under which the company is now obligated to pay a property management fee equal to 5% of gross residential rents and ACC operating subsidy received on a monthly basis. The agreement is automatically renewed from year to year unless otherwise terminated. Property management fees totaled $13,387 for the period ended December 31, 2017.

Asset Management Fee
The company is obligated to pay an affiliate of the investor member, NEF Community Investments, Inc., an annual asset management fee of $6,600, increasing annually by 3%. The fee is payable solely from cash flow as defined in the operating agreement and shall be cumulative and accrued if not paid. Asset management fees incurred were $7,651 for the period ended December 31, 2017. Asset management fees accrued and included in accrued expenses were $7,651 as of December 31, 2017.

Operating Deficit Guaranty
The managing member is obligated, after all funds in the operating reserve account have been depleted, to fund operating deficits during the operating deficit guaranty period. The operating deficit guaranty period is defined as the period beginning with the date of achievement of stabilized occupancy and ending on after achievement of 36 consecutive months with an expense coverage ratio of 1.00 or better commencing on or after the second anniversary of the later of the achievement of stabilized occupancy or repayment in full of the construction loan. The obligation to fund operating deficits shall be limited to $190,000. Such loans are non-interest bearing and repayable solely from available cash flow as defined in the operating agreement. There was no operating deficit guaranty loans as of December 31, 2017.

R&O Agreement
The company has entered into an R&O Agreement with the CDA. Provisions of the agreement require the company to maintain all units as public housing units. The CDA is to pay operating subsidies to the company equal to the project expenses less project income. The agreement will expire upon the earliest to occur of the expiration of 40 years from the date of first occupancy or at the option of the project at the close of the first project year of which the CDA ceases to pay operating subsidies. Operating subsidies totaling $136,959 were earned during the period ended December 31, 2017. Included in accounts receivables are operating subsidies receivable of $9,689 as of December 31, 2017.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC (cont.)

f. Related Party Transactions (cont.)

PILOT
The company and the CDA entered into a PILOT agreement with the City, in which the company will make an annual PILOT payment to the City beginning in 2011 and ending in the final calendar year of the project's compliance period (2026). The PILOT shall be equal to 10% of the difference between the annual tenant's portion of the collected rents for all of the residential rental units in the buildings and the annual utility bills incurred by the company with respect to the project. The PILOT is required for as long as the land and building under capital lease constitutes property of the CDA that is exempt from taxation under the Wisconsin Statutes.

g. Company Profits and Losses and Distributions

All profits and losses are allocated .01% to the managing member and 99.99% to the investor member.

Distributable cash flow, as defined by the operating agreement, is allocated .01% to the managing member and 99.99% to the investor member.

Gain, if any, from a sale or exchange or other disposition of the property owned by the company is allocable as follows:

1. To all members having negative balances in their capital accounts prior to the distribution of any sale or refinancing proceeds, an amount of such gain to increase their negative balance to zero.

2. To all members until their capital account balances are equal to net projected tax liabilities as defined in the company agreement.

3. The remainder of such gain, if any, 99.99% to the investor member and .01% to the managing member.

h. Commitments and Contingencies

Land Use Restriction Agreement (LURA)
The company has entered into a LURA with the Wisconsin Housing and Economic Development Authority as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, the company 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 IRC Section 42. If the company fails to comply with this agreement or with the IRC, it may be ineligible for low-income housing tax credits, and the members may be required to recapture a portion of the tax credits previously claimed on their income tax returns. In addition, noncompliance may require an adjustment to the contributed capital of the investor member. The company is obligated to certify tenant eligibility.

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

I. COMPONENT UNITS (cont.)

Community Development Authority Component Unit - Beloit Apartments Redevelopment-Phase 2, LLC (cont.)

h. Commitments and Contingencies (cont.)

Affordable Housing Program (AHP)
On October 14, 2011, the CDA, on behalf of Beloit Apartments Redevelopment – Phase 2, LLC, entered into an AHP Agreement with The First National Bank and Trust Company (the bank) in the original amount of $256,500. In connection with the AHP agreement, the CDA and the company entered into a Retention/Recapture Agreement with the bank. As a condition of receiving these funds, the CDA and the company have agreed to make 40 units, 25 units, and 1 unit of the project affordable for and occupied by households whose income does not exceed 50%, 60%, and 80%, respectively, of the county median income (CMI) of Rock County, Wisconsin. The compliance period will terminate 15 years from the date of project completion.

Beloit Public Library Foundation, Inc.

a. Organization

The Beloit Public Library Foundation, Inc., (Foundation) is organized to raise and provide support monies for the Beloit, Wisconsin Public Library (Library).

b. Summary of Significant Accounting Policies

1. The Foundation's financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America as promulgated by the American Institute of Certified Public Accountants.

2. The Foundation accounts for contributions in accordance with generally accepted accounting principles (GAAP). All contributions are considered to be available for the general programs of the Foundation unless specifically restricted by the donor. The Foundation reports gifts of cash as restricted support if they are received with donor stipulations that limit the use of the donated cash. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net position is reclassified to unrestricted net position and reported in the Statement of Activities as net position released from restrictions. Donor-restricted contributions are booked in the temporarily restricted class for restrictions expiring during the fiscal year, and then reclassified to the unrestricted class.

3. The preparation of financial statements in conformity with GAAP 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.

4. The Foundation has evaluated subsequent events through May 17, 2018, the date which the financial statements were available to be issued.

NOTE V – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for General category employees and Executives and Elected Officials. Starting January 1, 2016, the Executives and Elected Officials category merged into the General Employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized $1,980,914 in contributions from the City and CDA.

Contribution rates as of December 31, 2017 are:

Employee Category	Employee	Employer
General (Executives & Elected Officials)	6.8%	6.8%
Protective with Social Security	6.8%	10.6%
Protective without Social Security	6.8%	14.9%

Pension Assets, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the City and CDA reported a liability of $1,753,645 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City and CDA's proportion of the net pension liability was based on the City and CDA's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the City and CDA's proportion was .21275916%, which was a decrease of .00097415% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the City and CDA recognized pension expense of $4,535,123.

NOTE V – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

At December 31, 2017, the City and CDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 668,066	$ 5,513,401
Change in assumptions	1,833,041	-
Net differences between projected and actual earnings on pension plan investments	8,726,885	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	63,164
Employer contributions subsequent to the measurement date	2,292,138	-
Totals	$ 13,520,130	$ 5,576,565

$2,292,138 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31:	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	$ 4,085,198	$ 1,780,473
2019	4,085,198	1,780,473
2020	3,346,416	1,777,661
2021	(291,434)	238,165
2022	2,614	(207)

NOTE V – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.78%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City and CDA's proportionate share of the net pension liability(asset) to changes in the discount rate. The following presents the City and CDA's proportionate share of the net pension liability(asset) calculated using the discount rate of 7.20 percent, as well as what the City and CDA's proportionate share of the net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
City and CDA's proportionate share of the net pension liability/(asset)	$23,070,304	$1,753,645	$(14,661,150)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at http://legis.wisconsin.gov/lab/ and reference report number 15-11.

At December 31, 2017, the City and CDA reported a payable to the pension plan, which represents contractually required contributions outstanding as of the end of the year.

B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year. However, other risks, such as health care of its employees, liability claims, and worker's compensation are accounted for and financed by the City in the internal service funds.

CITY OF BELOIT

COMBINING STATEMENT OF NET POSITION - COMMUNITY DEVELOPMENT AUTHORITY

As of December 31, 2017

	Primary Government						Component Units				
	Major	Major	Major	Major	Major						
	Section 8 Rental Voucher Program	Low Rent Public Housing	Project Based Vouchers	Administration	Leases Receivable	Total Primary Government	Beloit Apartments Redevelopment Phase 1, LLC	Beloit Apartments Redevelopment Phase 2, LLC	Totals Before Eliminations	Eliminations	Totals
ASSETS											
Current Assets											
Cash and investments	$ 353,253	$ 180,917	$ 48,410	$ 144,639	$ -	$ 727,219	$ 152,309	$ 133,248	$ 1,012,776	$ -	$ 1,012,776
Receivables											
Accounts	18,007	7,068	7,631	-	-	32,706	22,988	15,455	71,149	(13,226)	57,923
Lease receivable from Beloit Apartments Redevelopment - Phase 1 - LLC	-	2,800,000	-	-	-	2,800,000	-	-	2,800,000	(2,800,000)	-
Lease receivable from Beloit Apartments Redevelopment - Phase 2 - LLC	-	2,580,074	-	-	-	2,580,074	-	-	2,580,074	(2,580,074)	-
Lease receivable from primary government	-	-	-	-	3,335,000	3,335,000	-	-	3,335,000	-	3,335,000
Due from Beloit Apartments Redevelopment - Phase 1 - LLC	-	16,072	-	-	-	16,072	-	-	16,072	(16,072)	-
Due from Beloit Apartments Redevelopment - Phase 2 - LLC	-	15,403	-	-	-	15,403	-	-	15,403	(15,403)	-
Due from other governmental units	-	3,429	-	-	-	3,429	-	-	3,429	-	3,429
Tax credit fees	-	-	-	-	-	-	60,819	76,958	137,777	-	137,777
Prepaid items	-	-	-	-	-	-	-	648	648	-	648
Total Current Assets	371,260	5,602,963	56,041	144,639	3,335,000	9,509,903	236,116	226,309	9,972,328	(5,424,775)	4,547,553
Noncurrent Assets											
Restricted Assets											
Cash and investments	-	-	-	-	2,096,972	2,096,972	258,688	609,919	2,965,579	-	2,965,579
Capital Assets											
Land	-	344,067	70,472	-	-	414,539	420,849	945,397	1,780,785	(1,179,500)	601,285
Land improvements	-	-	-	-	-	-	215,575	397,055	612,630	-	612,630
Buildings	-	141,187	700,777	-	-	841,964	1,540,500	640,000	3,022,464	(975,520)	2,046,944
Building improvements	-	-	-	-	-	-	8,397,386	9,216,173	17,613,559	-	17,613,559
Machinery, equipment, furnishings and vehicles	16,092	175,318	34,906	-	-	226,316	263,509	310,729	800,554	-	800,554
Less: Accumulated depreciation	(15,961)	(275,694)	(438,637)	-	-	(730,292)	(1,896,763)	(2,288,143)	(4,915,198)	-	(4,915,198)
Total Capital Assets, Net	131	384,878	367,518	-	-	752,527	8,941,056	9,221,211	18,914,794	(2,155,020)	16,759,774
Other Assets											
Lease receivable from primary government	-	-	-	-	5,513,028	5,513,028	-	-	5,513,028	-	5,513,028
Total Noncurrent Assets	131	384,878	367,518	-	7,610,000	8,362,527	9,199,744	9,831,130	27,393,401	(2,155,020)	25,238,381
Total Assets	371,391	5,987,841	423,559	144,639	10,945,000	17,872,430	9,435,860	10,057,439	37,365,729	(7,579,795)	29,785,934
DEFERRED OUTFLOWS OF RESOURCES											
Pension related amounts	129,495	89,377	14,790	-	-	233,662	-	-	233,662	-	233,662
Total Assets and Deferred Outflows of Resources	500,886	6,077,218	438,349	144,639	10,945,000	18,106,092	9,435,860	10,057,439	37,599,391	(7,579,795)	30,019,596

	Primary Government						Component Units				
	Major	Major	Major	Major	Major						
	Section 8 Rental Voucher Program	Low Rent Public Housing	Project Based Vouchers	Administration	Leases Receivable	Total Primary Government	Beloit Apartments Redevelopment Phase 1, LLC	Beloit Apartments Redevelopment Phase 2, LLC	Totals Before Eliminations	Eliminations	Totals
LIABILITIES											
Current Liabilities											
Accounts payable	$ 4,508	$ 14,861	$ 537	$ -	$ -	$ 19,906	$ 18,174	$ 18,742	$ 56,822	$ (31,475)	$ 25,347
Accrued liabilities	9,234	15,567	1,193	-	-	25,994	834,569	452,400	1,312,963	-	1,312,963
Due to Beloit Apartments Redevelopment - Phase 1 - LLC	-	3,537	-	-	-	3,537	-	-	3,537	(3,537)	-
Due to Beloit Apartments Redevelopment - Phase 2 - LLC	-	9,689	-	-	-	9,689	-	-	9,689	(9,689)	-
Due to primary government	-	153,703	-	-	-	153,703	-	-	153,703	-	153,703
Deposits	42,375	49,868	7,225	-	-	99,468	33,400	28,300	161,168	-	161,168
Lease revenue bonds payable	-	-	-	-	3,335,000	3,335,000	-	-	3,335,000	-	3,335,000
Total Current Liabilities	56,117	247,225	8,955	-	3,335,000	3,647,297	886,143	499,442	5,032,882	(44,701)	4,988,181
Noncurrent Liabilities											
Compensated absences	17,956	51,784	-	-	-	69,740	-	-	69,740	-	69,740
Mortgage notes payable	-	-	-	-	-	-	2,800,000	2,580,074	5,380,074	(5,380,074)	-
Other notes payable	-	-	-	-	-	-	418,199	320,571	738,770	-	738,770
Net pension liability	16,521	11,574	2,021	-	-	30,116	-	-	30,116		30,116
Lease revenue bonds payable	-	-	-	-	7,610,000	7,610,000	-	-	7,610,000	-	7,610,000
Total Noncurrent Liabilities	34,477	63,358	2,021	-	7,610,000	7,709,856	3,218,199	2,900,645	13,828,700	(5,380,074)	8,448,626
Total Liabilities	90,594	310,583	10,976	-	10,945,000	11,357,153	4,104,342	3,400,087	18,861,582	(5,424,775)	13,436,807
DEFERRED INFLOWS OF RESOURCES											
Unearned revenue	-	-	-	-	-	-	1,099,920	-	1,099,920	-	1,099,920
Pension related amounts	56,195	38,434	6,282	-	-	100,911	-	-	100,911	-	100,911
Total Deferred Inflows of Resources	56,195	38,434	6,282	-	-	100,911	1,099,920	-	1,200,831	-	1,200,831
NET POSITION											
Net investment in capital assets	131	384,878	367,518	-	-	752,527	8,941,056	9,221,211	18,914,794	(2,155,020)	16,759,774
Restricted for grant programs	80,136	5,343,323	-	-	-	5,423,459	-	-	5,423,459	-	5,423,459
Unrestricted (deficit)	273,830	-	53,573	144,639	-	472,042	(4,709,458)	(2,563,859)	(6,801,275)	-	(6,801,275)
TOTAL NET POSITION	$ 354,097	$ 5,728,201	$ 421,091	$ 144,639	$ -	$ 6,648,028	$ 4,231,598	$ 6,657,352	$ 17,536,978	$ (2,155,020)	$ 15,381,958

CITY OF BELOIT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - COMMUNITY DEVELOPMENT AUTHORITY
For the Year Ended December 31, 2017

	Primary Government						Component Units				
	Major	Major	Major	Major	Major						
	Section 8 Rental Voucher Program	Low Rent Public Housing	Project Based Vouchers	Administration	Lease Receivable	Total Primary Government	Beloit Apartments Redevelopment Phase 1, LLC	Beloit Apartments Redevelopment Phase 2, LLC	Totals Before Eliminations	Eliminations	Totals
EXPENSES											
Community development	$ 3,401,160	$ 643,360	$ 69,843	$ 257	$ -	$ 4,114,620	$ 469,641	$ 666,069	$ 5,250,330	$ (223,791)	$ 5,026,539
PROGRAM REVENUES											
Charges for services	-	19,452	58,546	-	-	77,998	119,682	139,039	336,719	-	336,719
Operating grants and contributions	3,393,626	629,413	-	-	-	4,023,039	132,393	136,959	4,292,391	(269,352)	4,023,039
Other revenue	-	-	4,561	-	-	4,561	68,902	9,395	82,858	-	82,858
Total Program Revenues	3,393,626	648,865	63,107	-	-	4,105,598	320,977	285,393	4,711,968	(269,352)	4,442,616
Net Revenues (Expenses)	(7,534)	5,505	(6,736)	(257)	-	(9,022)	(148,664)	(380,676)	(538,362)	(45,561)	(583,923)
GENERAL REVENUES (EXPENSES)											
Investment income	690	1,590	-	-	537,257	539,537	238	593	540,368	-	540,368
Interest and amortization expense	-	(2,060)	-	-	(537,257)	(539,317)	(139,684)	(86,844)	(765,845)	-	(765,845)
Payment to Beloit Apartments Redevelopment - Phase 1 - LLC	-	(28,185)	-	-	-	(28,185)	-	-	(28,185)	28,185	-
Payment to Beloit Apartments Redevelopment - Phase 2 - LLC	-	(17,376)	-	-	-	(17,376)	-	-	(17,376)	17,376	-
Miscellaneous	43,806	12,379	-	-	-	56,185	(3,250)	(7,651)	45,284	-	45,284
Total General Revenue (Expenses)	44,496	(33,652)	-	-	-	10,844	(142,696)	(93,902)	(225,754)	45,561	(180,193)
Revenues (Expenses) Before Contributions and Transfers	36,962	(28,147)	(6,736)	(257)	-	1,822	(291,360)	(474,578)	(764,116)	-	(764,116)
Capital contributions	-	-	-	-	-	-	53,908	1,098	55,006	-	55,006
Transfers in (out)	-	41,975	(30,000)	(11,975)	-	-	-	-	-	-	-
CHANGE IN NET POSITION	36,962	13,828	(36,736)	(12,232)	-	1,822	(237,452)	(473,480)	(709,110)	-	(709,110)
NET POSITION – Beginning of Year	317,135	5,714,373	457,827	156,871	-	6,646,206	4,469,050	7,130,832	18,246,088	(2,155,020)	16,091,068
NET POSITION – END OF YEAR	$ 354,097	$ 5,728,201	$ 421,091	$ 144,639	$ -	$ 6,648,028	$ 4,231,598	$ 6,657,352	$ 17,536,978	$ (2,155,020)	$ 15,381,958

CITY OF BELOIT

COMBINING STATEMENT OF CASH FLOWS - COMMUNITY DEVELOPMENT AUTHORITY
For the Year Ended December 31, 2017

	Primary Government					
	Major	Major	Major	Major	Major	
	Section 8 Rental Voucher Program	Low Rent Public Housing	Project Based Vouchers	Administration	Leases Receivable	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Received from customers	$ 56,331	$ 36,193	$ 63,353	$ -	$ -	$ 155,877
Paid to suppliers for goods and services	(3,184,423)	(540,317)	(36,010)	(257)	-	(3,761,007)
Payments to employees for services	(202,335)	(127,368)	(14,203)	-	-	(343,906)
Net Cash Flows From Operating Activities	(3,330,427)	(631,492)	13,140	(257)	-	(3,949,036)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Governmental grants received	3,120,323	647,914	-	-	-	3,768,237
Paid to LLC's	-	(45,561)	-	-	-	(45,561)
Received from LLC's	-	35,082	-	-	-	35,082
Transfers in (out)	-	41,975	(30,000)	(11,975)	-	-
Collections on leases receivable	-	-	-	-	2,625,160	2,625,160
Net Cash Flows From Noncapital Financing Activities	3,120,323	679,410	(30,000)	(11,975)	2,625,160	6,382,918
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES						
Acquisition and construction of capital assets	-	-	-	-	-	-
Debt retired	-	-	-	-	(2,625,000)	(2,625,000)
Interest paid	-	(2,060)	-	-	(537,257)	(539,317)
Net Cash Flows From Capital and Related Financing Activities	-	(2,060)	-	-	(3,162,257)	(3,164,317)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income	690	1,590	-	-	537,257	539,537
Net Cash Flows From Investing Activities	690	1,590	-	-	537,257	539,537
Net Change in Cash and Cash Equivalents	(209,414)	47,448	(16,860)	(12,232)	160	(190,898)
CASH AND CASH EQUIVALENTS - Beginning of Year	562,667	133,469	65,270	156,871	2,096,812	3,015,089
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 353,253	$ 180,917	$ 48,410	$ 144,639	$ 2,096,972	$ 2,824,191
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income (loss)	$ (3,401,160)	$ (623,908)	$ (6,736)	$ (257)	$ -	$ (4,032,061)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities						
Nonoperating income	43,806	12,379	-	-	-	56,185
Depreciation	686	6,392	19,441	-	-	26,519
Change in assets, deferred outflows, liabilities, and deferred inflows						
Accounts receivable	18,467	(1,392)	446	-	-	17,521
Prepaid items	539	539	-	-	-	1,078
Pension related deferrals and liabilities	23,527	15,471	2,224	-	-	41,222
Accounts payable and accrued liabilities	(10,350)	(7,251)	(2,035)	-	-	(19,636)
Due to primary government	-	(39,476)	-	-	-	(39,476)
Deposits	(5,942)	5,754	(200)	-	-	(388)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (3,330,427)	$ (631,492)	$ 13,140	$ (257)	$ -	$ (3,949,036)

NONCASH CAPITAL AND FINANCING ACTIVITIES

None

CITY OF BELOIT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended December 31, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the "schedule") includes the federal and state grant activity of the City of Beloit under programs of the federal and state government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines*. Because the schedule presents only a selected portion of the operations of the City of Beloit, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Beloit.

The reporting entity for the City is based upon criteria established by the Governmental Accounting Standards Board. The City of Beloit is the primary government according to GASB criteria, while the Beloit Community Development Authority (CDA) is a component unit. Federal and state awards received directly by the CDA are included in this report.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis; i.e., when the revenue has been earned and the liability is incurred.

NOTE 3 – PASS-THROUGH AGENCIES

The following identifies the pass-through agency acronyms used on the schedule of expenditures of federal awards:

WI DOA	Wisconsin Department of Administration
C/ Janesville	City of Janesville, Wisconsin
WI DHS	Wisconsin Department of Health Services
WI HS	Wisconsin Historical Society
WI DOT	Wisconsin Department of Transportation
IL DOT	Illinois Department of Transportation

NOTE 4 – INDIRECT COST RATE

The City of Beloit has not elected to use the 10% de minimis indirect cost rate.

SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (cont.)

FINDING 2017-002: INTERNAL CONTROL ENVIRONMENT (cont.)

CONTROLS OVER INFORMATION TECHNOLOGY (cont.)

Management's Response: The Information Technology Department has completely overhauled the network firewall and hardened virtual private network tunnels for external system access. All internal and external access requires a current user name and password compliant with departmental policy. The IT Supervisor utilizes software which monitors and reviews all network access and all security violations are promptly reported to the IT Director for immediate action.

3. Unnecessary generic accounts within the active directory and Munis should be identified and eliminated.

Management's Response: The Information Technology Department has reviewed all generic level restricted accounts and is in the process of eliminating or revising each account on a case by case basis. Multiple generic system accounts which were created for system level processes will be eliminated or consolidated as needed. Systems requiring generic accounts to maintain reasonable functionality will be thoroughly documented and passwords will be changed per departmental policy.

CONTROLS OVER MONTHLY AND YEAR-END ACCOUNTING

1. There should be evidence that the adjusting journal entries and supporting documentation of the CDA have been reviewed and approved by an appropriate person who is not the original preparer.

Management's Response: Beloit Housing Authority Accountant will initial any adjusting journal entries completed by the Fee Accountant. Whenever the Accountant makes any adjusting journal entries, he will have them reviewed and initialed by the Fee Accountant.

***Cause*:** The City does not have the resources required to adequately segregate all accounting functions at all times. The City's internal control system does not require the above controls to be in place.

***Effect*:** Due to the lack of certain controls, there is a risk that material misstatements (intentional and unintentional) may go undetected in the City's financial records.

***Recommendation*:** We recommend that the City consider the benefits of implementing additional policies and procedures to address key controls related to its significant transaction cycles, as noted above.

SECTION III – FEDERAL AWARDS AND STATE AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 2017-003

PROGRAM CFDA NUMBER:	14.871 Section 8 Housing Choice Vouchers
FEDERAL GRANTOR:	U.S. Department of Housing and Urban Development

Repeat of prior year finding 2016-003

***Criteria*:** According to 2 CFR part 200, subpart E, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. Budgeted allocations when timesheets are not completed may be used for interim accounting. However, the City's system of internal control should include a process to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustments must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

***Condition/Context*:** During our testing of the Section 8 Housing Choice Vouchers Program, it was noted that time charged to the program was allocated based on an estimate and never reviewed to verify that no adjustment was needed. The sample was not a statistical sample.

***Cause*:** The City did not have a process to review actual wages in comparison to estimated wages charged to the program.

***Effect*:** The amounts charged to the Federal grant may not reflect actual distribution of costs.

Questioned Costs: Questioned costs cannot be determined.

***Recommendation*:** We recommend the City implement a procedure to document allocated time in accordance with the Uniform Guidance.

Management's Response: Beginning January 1, 2018, Beloit Housing Authority staff that work under multiple grants have been completing timesheets in accordance with the time actually spent working in each grant area. The payroll clerk is keying in actual hours worked allocated to each grant in the payroll system every pay period. This will eliminate the need to true up the actual hours worked vs. the allocation at year end.

BAKER TILLY

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June 22, 2018

Ms. Julie Christensen, Director of the Beloit Community Development Authority
Community Development Authority of the City of Beloit
100 State Street
Beloit, WI 53511

Dear Ms. Christensen:

In planning and performing our audit of the financial statements of the Community Development Authority of the City of Beloit (“Authority”), a component unit of the City of Beloit, Wisconsin as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose for expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following comments are related to procedural matters which should be considered by Authority staff. As always, you should consider the costs of making improvements to the expected benefits. A separate report dated June 22, 2018 contains our report on the Authority's internal controls. This letter does not affect our report dated June 22, 2018 on the financial statements of the Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Authority management and others within administration, and is not intended to be, and should not be, used by anyone other than the specified parties.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Carla A Gogin

Carla A. Gogin, CPA, Partner

COMMUNITY DEVELOPMENT AUTHORITY OF THE CITY OF BELOIT

MANAGEMENT ISSUES

As of and for the Year Ended December 31, 2017

COMMUNITY DEVELOPMENT AUTHORITY OF THE CITY OF BELOIT

MANAGEMENT ISSUES
INDEX

CURRENT YEAR MANAGEMENT ISSUES

Custodial Credit

As of December 31, 2017, the Authority had $2,083,693 of deposits subject to custodial credit risk at year end. Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned. We recommend that the Authority consider, especially in the current economy, whether or not it is appropriate to reduce or eliminate this risk. There are a number of options available to you for addressing this risk including but not limited to FDIC coverage, collateral held by a third party, or CDARS.

PRIOR YEAR MANAGEMENT ISSUES

Recording of Capital Grant Activity

Currently, the Authority records the current year hard and soft costs to asset accounts to show the cumulative effect for each open capital grant. This currently results in the general ledger not matching the financial statement presentation. Some of the costs should be charged to expense accounts during the year to properly reflect the current year activity of the Authority rather than being reported as capital assets offset by capital grants. The Authority should review how these costs are currently being recorded and determine if an alternative method for recording these costs would better reflect the actual current year activity for external financial reporting. The required adjustments to generally accepted accounting principles should be prepared by the Authority or city staff and provided to the auditors for external financial reporting.

Status 12/31/17

This recommendation still applies.

REPORTS AND PRESENTATIONS TO COMMUNITY DEVELOPMENT AUTHORITY

Agenda Number:	4e		
Topic:	Public Housing Tenant's Accounts Receivable Second Quarter 2018 Debts		
Date:	July 25, 2018		
Presenter:	Clinton Cole	Division:	Beloit Housing Authority

Overview/Background Information

HUD has recommended that the Beloit Housing Authority write off Public Housing tenant accounts receivable (TAR) quarterly so that the agency does not carry a large TAR at the end of the fiscal year that may damage the agency's overall HUD management rating.

Key Issues

1. One (1) Public Housing Tenant vacated their unit, leaving a balance due which staff has not been able to collect.
2. The total amount that we have been unable to collect for the Second Quarter 2018 is $5,991.26.
3. This amount will be removed from the BHA's books and reported to Happy Software, HUD's Enterprise Income Verification (EIV) system, and the Wisconsin Tax Refund Intercept Program for collection.

Conformance with Strategic Plan

Approval of this agreement would conform with the stated purpose of the following strategic goal:

- ☒ Goal #1 – Create and Sustain Safe and Healthy Neighborhoods
- ☒ Goal #2 – Create and Sustain a High Performing Organization
- ☐ Goal #3 – Create and Sustain Economic and Residential Growth
- ☐ Goal #4 – Create and Sustain a High Quality of Life
- ☐ Goal #5 – Create and Sustain High Quality Infrastructure and Connectivity
- ☐ Goal #6 – Create and Sustain a Positive Image, Enhance Communications and Engage the Community

Sustainability

(If applicable, briefly comment on the sustainable long term impact of this policy or program related to how it will impact both the built and natural environment. Consider whether the policy of program will reduce dependence upon fossil fuels, reduce dependence on chemicals and other manufacturing substances that accumulate in nature, reduce dependence on activities that harm life sustaining eco-systems, and/or meet the hierarchy of present and future human needs fairly and efficiently. **Write N/A if not applicable**)

N/A

Action Required/Recommendation

Staff recommends approval of the attached resolution.

Fiscal Note/Budget Impact

Reduction of debt owed/accounts receivable.

Attachments

Resolution 2018-11 and Public Housing Write-offs for Second Quarter 2018

CITY OF Beloit WISCONSIN

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100 State Street
Beloit, Wisconsin 53511

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COMMUNITY DEVELOPMENT AUTHORITY

RESOLUTION 2018-11

APPROVING THE WRITE-OFF OF BELOIT HOUSING AUTHORITY PUBLIC HOUSING TENANT'S ACCOUNTS RECEIVABLE SECOND QUARTER 2018 DEBTS

WHEREAS, the Department of Housing and Urban Development (HUD) recommends that the Beloit Housing Authority (BHA) write-off Public Housing tenant accounts receivable (TAR) quarterly so that the agency does not carry a large TAR at the end of the year;

WHEREAS, one tenant has vacated their Public Housing unit and amounts are still owed for rent, utilities, maintenance charges, late fees, move-out charges, and/or damages;

WHEREAS, staff efforts to collect the amounts due have not been successful;

NOW, THEREFORE BE IT RESOLVED, that $5,991.26 be written off the Beloit Housing Authority records and reported to Happy Software and the Wisconsin Tax Refund Intercept Program for collection

Adopted this 25th day of July 2018

Community Development Authority

____
David Baker, Chairman

Attest:

____
Julie Christensen, Executive Director

Public Housing Write Offs for 2018 (2nd Qtr)

LLC Phase 2						
M/O Date	**Total**	**Rent**	**Legal Fees**	**Utility**	**Maint**	**Fees**
4/20/2018	$5,991.26	$443.93	$ 1,298.07	$ 330.20	$3,794.06	$125.00
Total for 2nd Quarter '18	**$5,991.26**	**$443.93**	**$ 1,298.07**	**$ 330.20**	**$3,794.06**	**$125.00**

REPORTS AND PRESENTATIONS TO COMMUNITY DEVELOPMENT AUTHORITY

Agenda Number:	4f
Topic:	Collateralization Policy
Date:	July 25, 2018
Presenter:	Julie Christensen

Presenter:	Julie Christensen	Division:	Beloit Housing Authority

Overview/Background Information

The Auditors identified the issue of Custodial Credit Risk for the CDA. This issue was also raised by the Department of Housing and Urban Development (HUD) during the April monitoring visit.

Key Issues

1. One of the issues raised by the Baker Tilley auditors was custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the CDA's funds may not be returned to the CDA. At this point in time, the CDA has uninsured and uncollateralized funds of $2,083,693. This would be the amount of funds in the bank that are not insured by FDIC.
2. PIH Notice 96-33 requires Housing Authorities to continuously and fully secure all deposits regardless of type that are in excess of the FDIC insured amount. They identify specific U.S. Government securities which can be used to secure the funds.
3. A Collateralization Policy has been prepared which will address the issue raised by the auditors and HUD. It will also put the Housing Authority in compliance with PIH Notice 96-33.
4. The Housing Authority Director has contacted the bank about this issue, and they have provided a Pledge Agreement and Pledge Depository Agreement which will help address this issue. The only change we will be making to the Pledge Agreement is to cross out #3, 4 & 5 on the bottom of the agreement, due to the fact that they are not U.S. Government securities.

Conformance with Strategic Plan

Approval of this agreement would conform with the stated purpose of the following strategic goal:

- ☐ Goal #1 – Create and Sustain Safe and Healthy Neighborhoods
- ☒ Goal #2 – Create and Sustain a High Performing Organization
- ☐ Goal #3 – Create and Sustain Economic and Residential Growth
- ☐ Goal #4 – Create and Sustain a High Quality of Life
- ☐ Goal #5 – Create and Sustain High Quality Infrastructure and Connectivity
- ☐ Goal #6 – Create and Sustain a Positive Image, Enhance Communications and Engage the Community

Sustainability

(If applicable, briefly comment on the sustainable long term impact of this policy or program related to how it will impact both the built and natural environment. Consider whether the policy of program will reduce dependence upon fossil fuels, reduce dependence on chemicals and other manufacturing substances that accumulate in nature, reduce dependence on activities that harm life sustaining eco-systems, and/or meet the hierarchy of present and future human needs fairly and efficiently. **Write N/A if not applicable**)

N/A

Action Required/Recommendation

Staff recommends approval of the attached resolution.

Fiscal Note/Budget Impact

All fiscal/budget impacts are noted in the report.

Attachments

Resolution and Collateralization Policy

CITY OF Beloit WISCONSIN

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COMMUNITY DEVELOPMENT AUTHORITY

RESOLUTION 2018-12
APPROVING THE COLLATERALIZATION POLICY

WHEREAS, the auditors have determined that the Community Development Authority (CDA) has deposits subject to custodial credit risk at year-end, and

WHEREAS, PIH Notice 96-33 requires all housing authorities to ensure that their depositories continuously and fully secure all deposits that are in excess of the FDIC insured amount.

NOW THEREFORE BE IT RESOLVED, that the Beloit Community Development Authority Board of Directors approves the Collateralization Policy as presented and authorizes the Executive Director to execute any and all documents necessary to implement the policy.

Adopted this 25th day of July, 2018.

Community Development Authority

____
David Baker, Chairman
Beloit Community Development Authority

ATTEST:

____
Julie Christensen, CDA Executive Director

CITY OF Beloit WISCONSIN	**COMMUNITY DEVELOPMENT AUTHORITY POLICIES AND PROCEDURES**
	Collateralization Policy

Newest Revision Date	**Original Issue Date**	**Prior Revision Date(s)**	**Pages**
July 25, 2018	July 25, 2018	N/A	1
Special Instructions/Attachments **Notice PIH – 96-33 (HA)**			

I. PURPOSE

The purpose of this policy is to ensure that the Beloit Housing Authority is in compliance with Notice PIH 96-33 which has specific provisions related to the Collateralization of Deposits.

II. STATEMENT OF POLICY

The Beloit Housing Authority shall require their depositories to continuously and fully (100 percent) secure all deposits whether regular, savings, or time that are in excess of the $250,000 insured amount. This will be accomplished by the pledging or setting aside collateral of identifiable U.S. Government securities as prescribed by HUD. The BHA has possession of the securities or an independent custodian will hold the securities on behalf of the BHA as a bailee (evidenced by safe keeping receipt and a written bailment for wire contract) and will be maintained for the full term of the deposit. Such securities shall be owned by the depository and the manner of collateralization shall provide the BHA with a continuing perfected security interest for the full term of the deposit in the collateral in accordance with applicable laws and Federal regulations. Such collateral shall, at all times, have a market value at least equal to the amount of the deposits so secured.

III. GENERAL PROCEDURES

The CDA Executive Director shall sign the necessary documents to ensure that all deposits are secure, including but not limited to a Pledge Agreement and Pledge Depository Agreement. Once they are signed by all parties, the BHA Accountant will keep a copy of the documents on file for review by the Department of Housing and Urban Development (HUD) and any auditors of the agency.

IV. APPROVAL

This policy is hereby approved and intended to supersede any and all prior policies addressing collateralization of deposits.

Approved and adopted this ___ day of ____________, 2018.

____

David Baker
Chairman

Public Housing Agencies; Indian Housing Authorities; Secretary's Representatives; State/Area Coordinators; Directors, Public Housing Divisions; Administrators, Offices of Native American Programs; Resident Management Corporations (RMCs)

Notice PIH 96-33(HA)
Issued: June 4, l996
Expires: June 30, l997

Required HA Cash Management and Investment Policies and Procedures

1. PURPOSE

The purpose of this Notice is to advise public housing agencies and Indian housing authorities (herein referred to as HAs) and Area Offices of the Department's HA requirements governing cash management and approved investment instruments. The Notice extends and reissues, with minor editorial changes, the policies and procedures, including the list of HUD approved investment instruments, previously set forth in Notice PIH 95-27.

2. BACKGROUND

The Annual Contributions Contract (ACC) requires the HA to deposit and invest all program funds for projects under an ACC in accordance with the terms of a General Depository Agreement. The General Depository Agreement must be in a form approved by HUD and is executed between the HA and the depository. In addition, the ACC requires the HA to invest General Fund (program) monies only in HUD approved investments.

The Federal Code of Regulations, Part 85, Subpart C, (24 CFR § 85.20) requires HAs to establish cash management procedures. Cash management is the process of managing the cash flow of a HA to optimize its use of funds. This process involves the timing of receipts and disbursements to assure the availability of funds to meet expenditures and to maximize the yield from the investment of temporarily surplus funds. Effective cash management calls for organized planning. Good relations between the HA and the financial institution can improve the effectiveness of a cash management program.

3. APPLICABILITY

This Notice applies to the Low Rent Public Housing Program, the HA Owned/Leased Housing Homeownership Program (Turnkey III Program), the Section 23 Leased Housing Program, and the Mutual Help Homeownership Program.

4. BANKING SERVICES

Banking services shall be arranged by selecting a bank through competitive solicitation to assure the HA that it receives the banking services provided at the lowest cost. It should be noted, however, that HAs must designate a single bank account for the deposit of all payments that are received from HUD through Direct Deposit-Electronic Funds Transfer (DD-EFT). (A Standard Form 1199A, Direct Deposit Sign-Up Form, must be submitted to designate this account.) A copy of the General Depository Agreement (see below) with the financial institution shall be attached with the SF-1199A. Once the funds are received, they may be transferred to separate accounts according to the applicable program.

a. General Depository Agreement

The General Depository Agreement (Form HUD-51999) shall be executed by the HA and the depository. The depository must be a financial institution whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF). An original HUD-51999 should be maintained by the HA and the financial institution. A copy of the HUD-51999 should be sent to the HUD Area Office and the Field Accounting Office (along with the SF-1199A).

b. Procurement Procedure and Period of Service

Banking services should be periodically solicited through competitive negotiation. The solicitation in the form of a Request for Proposal (RFP) would permit the HA to evaluate the quality of the services received as well as the price. This periodic process should prevent the bank supplying the services from becoming complacent in its dealings with the HA.

5. COLLATERALIZATION OF DEPOSITS

HAs shall require their depositories to continuously and fully (100%) secure all deposits regardless of type (i.e. regular, savings, etc.) that are in excess of the

$100,000 insured amount. This may be accomplished by the pledging or setting aside collateral of identifiable U.S. Government securities as prescribed by HUD. The HA has possession of the securities (or the HA will take possession of the securities) or an independent custodian (or an independent third party) holds the securities on behalf of the HA as a bailee (evidenced by safe keeping receipt and a written bailment for wire contract) and will be maintained for the full term of the deposit. Such securities shall be owned by the depository and the manner of collateralization shall provide the HA with a continuing perfected security interest for the full term of the deposit in the collateral in accordance with applicable laws and Federal regulations. Such collateral shall, at all times, have a market value at least equal to the amount of the deposits so secured.

6. INVESTMENT OF FUNDS

a. Funds Available for Investment

1) Funds on deposit in the General Fund are comprised of four components: (1) funds for current transaction purposes, (2) development and/or modernization funds (see #2 below), (3) funds exceeding those necessary for the daily operation of the HA which are considered available for investment and (4) any operating reserve funds. As a general rule, the average amount on deposit in the General Fund cash accounts (the targeted maximum cash balance) should be the amount needed on hand for transaction purposes or as a safeguard against cash shortages. In the interest of good cash management, non-interest bearing deposits should be reduced to the amount necessary to maintain a good banking relationship.

2) Under the Modernization and Development Programs, the term "cash management" also means minimizing the time elapsing between the drawdown and disbursement of funds by the HA. HUD has established the maximum time to be generally three working days. Therefore, reference to "excess funds" also means the amount of modernization or development funds drawn down, but not needed for immediate disbursement (see 24 CFR § 85.21 (b)). Interest income earned on modernization funds is included as operating income in the calculation of operating subsidy eligibility under the Performance Funding System (PFS). Interest income earned on development funds is credited to the development program and reduces the development cost of the project.

b. Approved Investment Securities

In most cases, purchases of securities shall have maturities which coincide with expected disbursements by the HA. For the purpose of investing operating reserves, issues shall be limited to maturities three years or less. Although some of the following securities have maturities longer than three years, they can be traded in the secondary market. A list of investments approved by HUD for the investment of HA funds is attached. HAs are required to choose from these financial instruments. Within the HUD approved instruments, HAs are permitted to modify their investment policy without prior HUD approvals. The choice of investments from the approved list should be made using the criteria developed in the remainder of this paragraph.

c. Determination of Investment Type

The determination of the best or appropriate types and mixtures of investments is dependent on several factors. The primary objective is safety. Once that objective is attained, the optimum return on the investment should be consistent with the goals of the cash management program of the HA. The factors that should be taken into account include the following:

(1) Safety - Safety is achieved through adherence to the list of permitted investments which are backed by the full faith and credit of, or a guarantee of principal and interest by, the U.S. Government, a Government agency or issued by a Government-sponsored agency, coupled with an appropriate maturity date.

(2) Yield - The HA should strive to achieve the highest yield consistent with the other factors of the investment policy. Tax-exempt securities are not appropriate for investment by a HA because it would not benefit from the tax advantage.

(3) Liquidity - All investments must be capable of being liquidated on one day's notice. Therefore, no investments may be made which impose a longer notice period for redemption or which are not readily marketable.

(4) Maturity - Investments should be scheduled to mature when the funds are needed. Sale of securities prior to maturity should be avoided due to the inherent risk. (If the market interest rate increases above the yield on the investment, the market value of the securities will decline.) Investments shall be limited to securities maturing in periods of up to one year, or such lesser period that coincides with expected disbursements by the HA, but not beyond the current financing cycle. HAs may invest in securities up to three years for the investment of operating reserves.

(5) Amount - The best or most appropriate type of investment depends, to some degree, on the amount available for investment because certain investments require a large initial amount.

(6) Administrative Cost - In choosing an investment, a HA must consider the administrative work involved, particularly with regard to investments of short duration. Substantial amounts can be invested for periods as short as one or two days. However, the administrative costs with small amounts may be greater than the return on the investment, thus would not be justified or cost effective. Administrative costs will be higher with a more frequent turnover of investments and must be taken into account together with the yield and term in determining the optimum investment strategy.

d. INVESTMENT OF FUNDS HELD BY HA FISCAL AGENTS

Funds held by the Fiscal Agent in any trust funds shall be invested in strict accordance with the Resolution establishing such funds. Where the Resolution contains no provision concerning the investment of funds, the funds shall be invested in securities approved for General Fund Investment provided such investment will mature or may be redeemed at the option of the purchaser at not less than the purchase price on or prior to the date such funds are required to be disbursed by the Fiscal Agent. A description of funds established by HA resolutions authorizing the issues of bonds is attached.

e. Investment Register

An investment register or other record shall be maintained by the HA or its agent. The register/record shall be maintained in such a manner that a determination can be made as to the amount of investment securities purchased from each fund and at a minimum provide for recording a complete description of investment instrument, date of purchase, purchase

price, interest rate, and applicable date of sale or maturity. The investment register/record may also be used to identify the source of funds invested (i.e., modernization or development funds, tenant security deposit funds, operating funds).

f. Internal Controls

HAs shall implement the following internal controls to assist in controlling investments and preventing loss or misuse.

(1) Investment transactions shall be authorized by the HA governing board and documented in the board minutes.

(2) Investment documents shall be kept in a safe fire-resistant locked file cabinet, safe deposit box, or other similarly secured location.

(3) Individuals responsible for custody of securities shall be someone other than an individual maintaining the accounting records.

(4) Investments shall be maintained in a custodian or trust account.

(5) Investments shall be in the name of the HA.

(6) Investments shall be recorded in detail in an investment ledger.

(7) A system shall be in place to insure that all interest earned is collected and credited to the appropriate HA records.

(8) Investments shall be reconciled periodically to the detailed record (investment ledger).

7. CASH MANAGEMENT

A major factor contributing to the success of an investment program is the delegation of responsibility and authority for developing and executing it. A HA should compare the cost of establishing a cash management program in-house (if qualified professional staff are available) to contracting out. If HAs contract for cash management and investment services, then the organization should have qualified personnel to achieve cost-effectiveness. Commercial banks and savings and loans association offer such services.

Good cash management, which is an objective of management, creates responsibilities for the use of funds. Such responsibilities are placed on both the HA and HUD for a successful program to benefit both. The primary goals of cash management are to assure the availability of cash for transaction needs,
preserve the value of cash resources and earn the maximum return on funds until disbursed.

a. Cash Management by the HA

The HA should compare the return from an in-house cash management program with a program managed by an agent. If the HA finds that administrative costs of an in-house program are such that the net yield on investments is less than that obtainable through an alternative, the general rule is that the HA should use that alternative.

b. Cash Management by an Agent

As an alternative to an in-house cash management program, a HA may enter into a contract with an approved governmental unit such as a State agency established for this purpose (see attachment A, #6, Municipal Depository Fund), or a financial institution (excluding investment bankers and brokerage houses) to administer its cash management program.

Such a program may include any of the functions of cash management, i.e., receipts, disbursements and investments. Such a contractual arrangement will give a small HA the expertise and administrative skills which it would not otherwise be expected to have and often can make a cash management program cost-effective.

c. Temporary Funds Available for Investment

(1) Each HA with an average cash balance of $20,000 or more shall invest such funds in HUD-Approved Investment Securities in order to meet the PFS Target Investment requirements (24 CFR Section 990.109 (e), 24 CFR §950.725 (e)).

HAs with average cash balances of less than $20,000 shall also invest such funds in HUD-Approved Investment Securities. For the purpose of calculating operating subsidy eligibility under the PFS (24 CFR Section 990.109 (e), 24 CFR §950.725 (e)) these HAs shall make a reasonable estimate of investment income for the requested budget year. Please note that investment income estimates for these HAs are not subject to the mandatory year-end adjustment.

(2) See Handbook 7475.13, Performance Funding System (PFS), regarding reporting requirements for projecting investment income for the purpose of calculating PFS operating subsidy eligibility. These requirements mandate a minimum investment income (Target Investment Income) for calculating operating subsidies and allow HAs to retain investment income in excess of the required amount. HAs should review these requirements carefully in developing their cash management programs.

8. MONITORING

The Office of Finance and Budget, PIH, will continue to oversee the overall cash management policy and programs for HAs. Actual monitoring of each HA's cash management will continue to be the responsibility of the respective Area Office. Monitoring will be accomplished through review of documentation submitted to support the investment income shown in the calculation of operating subsidy and during on-site monitoring reviews.

If there are questions regarding the contents of this Notice, please contact the Office of Finance and Budget at 202-708-1872.

_Casimir Bonkowski for Acting
Assistant Secretary for Public and Indian Housing

Attachments

HUD APPROVED INVESTMENT INSTRUMENTS

1. Direct Obligations of the Federal Government Backed by the Full Faith and Credit of the United States

   a. U.S. Treasury Bills

   These securities are short-term obligations which a HA or its agent may purchase directly. Treasury Bills with 3- month and 6-month maturities are issued weekly and those with 9-month and 12-month maturities are issued monthly. The minimum denomination is $10,000. They are issued on a discount basis and are redeemed at par upon maturity.

   U.S. Treasury Bills are available for purchase at any time after issuance from investment departments of banks and from dealers in investment securities. Purchases may be made conveniently using the HA's depository bank. Treasury Bills may be acquired by subscription on the issue date from a Federal Reserve Bank or branch in amounts not in excess of $200,000. Detailed information is contained in the weekly or monthly announcements which may be received regularly upon application to a Federal Reserve Bank or branch.

   b. U.S. Treasury Notes and Bonds

   These securities are issued periodically by the Treasury Department through Federal Reserve Banks and branches. They are medium to long-term obligations which a HA or its agent can only purchase in the secondary market to assure that they will mature at a date which coincides with scheduled disbursements by the HA. Outstanding issues may be purchased from banks or dealers in investment securities at the market price which on any given day may be more or less than the face amount.

   (1) U.S. Treasury Notes

   These notes mature in not less than one and not more than 10 years from the issue date and bear interest at fixed rates payable semi-annually.

(2) U.S. Treasury Bonds

These bonds mature after ten years from the issue date and bear interest at fixed rates payable semi- annually. Many issues of bonds are redeemable on call by the Treasury Department before maturity. The yield of such issues usually is computed to the first call date which may be as much as 5 years prior to maturity.

2. Obligations of Federal Government Agencies

a. Federal Financing Bank (FFB)

The Federal Financing Bank is authorized to purchase obligations held by Federal agencies and to issue obligations to the public.

b. Government National Mortgage Association (GNMA), Mortgage- Backed Securities (GNMA I and GNMA II)

The securities, guaranteed by GNMA are issued by an issuer (a GNMA-approved mortgage lender). The securities are backed by a pool of government-insured or guaranteed mortgages. The holders of the securities receive monthly payments of principal and interest. The minimum denomination issued is $25,000. The difference in GNMA I and GNMA II is that the GNMA II payment date is on the 20th of the month and the GNMA I payment date is on the 15th; GNMA II uses a central paying agency whereas GNMA I has individual issuers sending checks to investors; and GNMA II has interest rates that vary within a one percent range. The maximum maturity for GNMA I and GNMA II is 30 years, except that GNMA I project loans mature in 40 years.

c. GNMA Participation Certificates

These securities, guaranteed by GNMA, were sold by GNMA as the trustee with various other Federal agencies as trusters. They represent beneficial interest in future payments of principal and interest on mortgage pools. Their maturities range between one and 20 years and the minimum denomination is $5,000.

d. Maritime Administration Merchant Marine Bonds, Notes, and Obligations

These securities are issued by shipping companies and are backed by the full faith and credit of the U.S. Government. Each issue is further secured by a first preferred ship or fleet mortgage. Maturities and denominations vary.

e. Small Business Administration (SBA), Small Business Investment Corporation (SBIC) Debentures

When authorized by appropriation acts, the SBA may guarantee principal and interest payments on debentures of SBIC. The SBA may also pool these debentures and sell SBA- guaranteed debentures. These issues have maturities of 10 years and are issued in $10,000 denominations.

f. Tennessee Valley Authority (TVA) Power Bonds and Notes

These securities are secured by a first charge on net power proceeds. Payment of interest and principal on them is ranked ahead of annual payments to the U.S. Treasury. They have been issued in multiples of $1,000.

3. Securities of Government-Sponsored Agencies

a. Farm Credit Consolidated System-Wide Discount Notes

These notes are the secured joint and several obligations of the Farm Credit System which consists of the Federal Land Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives. They are issued in denominations of $5,000 and maturities are authorized from 5 to 365 days.

b. Federal Farm Credit Banks Consolidated System-wide Bonds

These bonds are the secured joint and several obligations of the Farm Credit Banks. Their issuance supersedes individual bond issues by the Federal Land Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives. They are issued in multiples of $1,000 for maturities in excess of 13 months and in multiples of $5,000 for shorter maturities.

c. Federal Home Loan Banks Consolidated Obligations

These securities are the secured joint and several obligations of the Federal Home Loan Banks comprised of:

(1) Bonds

Bonds which have maturities of one year or more. They are issued in multiples of $10,000, $25,000, $100,000 and $1,000,000.

(2) Notes

Notes which have maturities of less than one year. They are issued in multiples of $10,000, $25,000, $100,000 and $1,000,000.

(3) Discount Notes

Discount notes which have maturities ranging from 30 to 170 days. They are issued in denominations of $100,000 and $1,000,000.

d. FHLMC Mortgage Participation Certificates (PC) (Guaranteed)

These certificates represent undivided interest in specific fixed rate, first lien conventional and residential mortgages. FHLMC provides monthly interest and principal payments. The final payment is the first of the month and year in which the last monthly payment on the last maturing mortgage is scheduled to be paid.

e. FHLMC Collateralized Mortgage Obligations (CMOs)

CMOs are general obligations of FHLMC that are secured by a single pool of conventional mortgages owned by FHLMC. CMOs are issued in several classes with varying stated maturities. Semiannual principal payments are allocated to each class of the CMOs in the order of the stated maturity of each class so that no principal payments are made to holders of a class until classes with an earlier maturity are retired.

f. Federal National Mortgage Association (FNMA) Debentures

These debentures are issued in denominations ranging from $10,000 and with maturities ranging from 20 to 25 years.

g. FNMA Notes

The minimum investment in these notes is $50,000 with maturities ranging from 1 to 20 years.

h. FNMA Short-Term Discount Notes

These notes are similar to commercial paper and are tailored to the individual needs of investors. They are sold at published rates with maturities of 30 to 270 days and in denominations ranging from $5,000.

i. FNMA Capital Debentures

These debentures are subordinated to the non-capital debentures, notes, and short-term discount notes. They were last issued in 1975 in a $10,000 minimum denomination and with maturities of 5 and 25 years.

j. Student Loan Marketing Associations (SLMA) Obligations

SLMA issues obligations comprises of guaranteed student loans as follows:

(1) Floating Rate and Master Notes.

These notes bear interest at rates that vary with the 91-day Treasury Bill rate. Short-term borrowing have an original or remaining term maturity of one year or less.

(2) The Series E and F Floating Rate Notes.

These notes bear interest at rates which vary with the 91-day Treasury Bill, except that each issue has fixed minimum and maximum rates known as interest rate "collars" for any quarterly interest period.

(3) Zero Coupon Notes

These notes are shown at net proceeds adjusted for accretion of discount.

4. Demand and Savings Deposits

Demand and savings deposits at commercial banks, mutual savings banks, savings and loan associations and credit unions are permitted for HA funds provided that the entire deposit is insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF). A deposit in excess of the insurance coverage may be made at a depository institution provided that it is 100 percent collateralized by any of the securities listed under paragraphs 1, 2, and 3 of this Attachment. Care should be taken that withdrawals may be made on demand without loss of interest and without penalty.

5. Money-Market Deposit Accounts

Money-Market Deposit Accounts at depository institutions that may not be insured fully by the FDIC or NCUSIF are permitted provided that the certificates are fully backed by 100 percent collateral consisting of securities listed under paragraphs 1, 2, or 3 of this Attachment. When accounts exceed the $100,000 insurance limitation, their safety also may depend on the HA's control of the underlying collateral which must consist of clearly identified (not pooled) U.S. Government securities. Possession of the collateral securities and a continuous perfected security interest may be the only sure protection against loss in case of financial institution failure.

6. Municipal Depository Fund

A Municipal Depository Fund (Fund) or Local Government Investment Pool which is established by States, municipalities, units of local government or other political subdivisions to serve as an investment fund for HAs is permitted. The securities purchased by a Fund shall be on the HUD-approved list of investment securities. HA shall have either an undivided or divided interest in securities comprising the Fund. The Fund shall be under the control of the Investment Company Act of 1940, and its objective shall be clearly stated. The investment objective of the Fund shall be to obtain as much income as possible consistent with the preservation and conservation of capital. The Fund shall disclose clearly the basis of earnings and how they are distributed. HA shall obtain a statement of potential default and risk and a clear demonstration that withdrawals from the Funds will not be so restricted as to impair a HA's day-to-day cash management needs. The management fee shall be fixed at a reasonable amount and management shall be passive. HA shall limit the amount of funds invested in the Fund to no more than 30 percent of a HA's available investment funds. The Fund shall disclose the relationships of the investment advisor, manager, trustees, custodian and transfer agent. Each financial advisory relationship shall be evidenced by a written document executed prior to, upon, or promptly after the inception of the financial advisory relationship, or promptly after the creation or selection of the issuer. If the issuer does exist or has not been determined at the time the relationship commences, that written document shall set forth the basis of compensation for the financial advisory services to be rendered.

7. Super NOW Accounts

Super NOW accounts have been available and approved for public funds since January 1983. They offer a relatively high market rate and are fully transactional (have no limitations on the number of checks or transfers). Insurance and collateral requirements are as above for subparagraph e Demand and Savings Deposits.

8. Certificates of Deposit

a. Certificates of Deposit are permitted at depository institutions that are insured by an agency of the Federal Government. Caution must be exercised for certificates exceeding the $100,000 insurance limit or when the term is longer than 30-90 days. Although the certificates' rate of return may be attractive for larger amounts and longer terms, U.S. Treasury securities offer superior safety and liquidity for the same amounts and terms. Certificates shall be in the HA's name. In addition a General Depository Agreement must be executed by each financial institution that issues a Certificate of Deposit.

b. Certificate amounts above $100,000 are permitted provided that the excess is 100 percent collateralized by clearly identified (not pooled) U.S. Government securities. Possession of the collateral securities and a continuous perfected security interest may be the only sure protection against loss in case of bank failure.

c. Brokered deposits should be avoided because it is impossible to get $100,000 federal insurance on a number of deposits placed by brokers.

9. Repurchase Agreements

Repurchase (repos) agreements for a term not to exceed 30 days may be entered into with Federally insured depository institutions to purchase and sale of securities identified under paragraphs 1, 2, and 3. A repurchase agreement is an agreement negotiated with a bank usually for a short period (1 to 7 days) wherein securities approved for investment are purchased from that bank at a stated price with the bank agreeing to repurchase them on a specified date for a specified amount. The minimum may vary, although it is usually $100,000. There are three main types: (1) fixed term, where both parties are bound to the negotiated time period, (2) demand, where the agreement stays in effect until terminated by either party, and (3) day-to-day, where daily renewal is by mutual consent and 24- hour notice is required for termination. The HA should review existing and future repos for compliance with the following certifications. Prior approval by HUD is not necessary, however, the repos seller depository or its agency must provide a written certification to HUD, Assistant Secretary for Public and Indian Housing (Office of Finance and Budget), the Area Office, and to the HA.

a. that the depository's repo program complies with applicable Federal and State statutes and regulations and that the program does not involve sales or loans of Federal securities by securities dealers that are not regulated or that report to the Federal Reserve Board;

b. that the depository owns the underlying Federal securities (approved for repurchase under HUD guidelines) when the repo interest is sold and that the value of the securities is equal to or greater than the amount the HA pays for the repo;

c. that the HA has possession of the securities (or the HA will take possession of the securities) or an independent custodian (or an independent third party) holds the securities on behalf of the HA as a bailee (evidenced by a safe keeping receipt and a written bailment for hire contract), from the time the repo interest is sold to the HA and will be (or is expected to be) maintained for the full term of the repo;

d. that the repo agreement and any related documents identify specific Federal securities related to the specific repo purchased by the HA;

e. that the repo interest does not represent any interest in a pool or fund of Federal securities for which registration under the Investment Company Act of 1940 may be required;

f. that the HA will have a continuous perfected security interest in the underlying Federal securities under State or Federal law for the full term of the repo (disclosing the method by which perfection has or will be accomplished, i.e., by possession, filing, registration of book-entry securities and/or Federal preemption of State law by Federal regulation);

g. that the depository or a reporting dealer selling the repo has not received any adverse financial report from a credit reporting agency, State or Federal regulatory agency; and

h. that the depository will not substitute other securities as collateral, except to increase the value of the repo security to match the repos's purchase price.

10. Sweep Accounts

Sweep Accounts is a contractual agreement between a bank and a HA which provides that the bank will regularly "sweep" or transfer any available collected balances from the HA's account into repurchase agreements. The Sweep Accounts agreement shall include all the certification provided in the Repurchase Agreement and adherence to paragraph 4-3, Collateralization of Deposits.

11. Separate Trading of Registered Interest and Principal of Securities

Separate Trading of Registered Interest and Principal of Securities (STRIPS) are Treasury-based zero-coupon securities which consist of interest or principal on U. S. Treasury securities. STRIPS were issued in minimum increments of $1,000. STRIPS pay no interest until maturity and the rate of return is "locked in" at the time of purchase. The delivery of STRIPS is accomplished by wire transfer through the Federal Reserve book entry system. STRIPS shall be in the name of the HA.

12. Mutual Funds

A Mutual Fund (Fund) is an investment company that makes investments on behalf of individuals and institutions. The Fund pools the money of the investors and buys various securities that are consistent with the Fund's objective.

a. Mutual Fund Criteria

The Fund shall be organized as a no-load, open-end, diversified management company and its shares shall be registered under the Securities Act of 1933. The Fund shall be under the control of the Securities Exchange Act of 1934, Investment Advisers Act of 1940 and the Investment Company Act of 1940. The investment objective of the Fund shall be to obtain as much income as possible consistent with the preservation, conservation and stability of capital. The mutual fund objective cannot be changed without the prior approval of fund shareholders.

b. The securities purchased by the Fund shall be on the HUD-approved list of investment securities. The Fund will not engage in options or financial futures. The HA shall limit the amount of funds invested in the Fund to no more than 20 percent of the HA's available investment funds. The Fund shall disclose clearly the basis of earnings and how they are distributed. The HA shall obtain a statement of potential default and risk. The HA's invested funds shall be accessible to the HA daily. It shall be demonstrated that any limitations on withdrawals will not impair the HA's day-to-day cash management needs.

c. The management fee shall be fixed at a reasonable amount. The Fund shall disclose the relationships of the investment advisor, manager, trustee, custodian and transfer agent. The Fund shall clearly state all services (such as wire transfers and check writing privileges) and charges.

d. Investment in the Fund shall be authorized by a Board Resolution. A certified copy of the resolution shall accompany the initial application for the Fund.

e. The Fund (or custodian) and the HA shall sign the General Depository Agreement, HUD-51999 dated June 1991, modified as follows:

(1) In the title, "(Mutual Fund)" shall be added after General Depository Agreement. Whenever "depository" appears in the text it also refers to "mutual fund."

(2) The HA's name and location (including county or city) will be filled in the first clause of the General Depository Agreement. The name, location and the HA's mutual fund account number also will be filled in the first clause. The second clause remains unchanged.

(3) The third clause is substituted as follows: "Whereas, under the terms of the Contract the HA shall invest in a mutual fund (herein called the depository) only on the terms set forth hereafter. Mutual fund is defined as an investment company that makes investments on behalf of individuals and institutions. The depository shall be organized as a no-load, open-end, diversified management company and its shares shall be registered under the Securities Exchange Act of 1933. The depository shall be under the control of the Securities Exchange Act of 1934, the Investment Advisers Act of 1940 and the Investment Company Act of 1940. HA shall acquire shares in a mutual fund whose portfolio includes only securities on the HUD-approved list of investment securities."

(4) Paragraphs 1, 3, 11 and 12 are deleted.

(5) Paragraphs 4 through 6 are modified to read as follows:

(a) Paragraph 4: Any shares purchased from HA funds shall be held by the depository in safe-keeping for the HA until sold. Dividends and distributions on such shares and the proceeds from the sale thereof shall be used to purchase additional shares or remitted directly to the HA.

(b) Paragraph 5: The language "from said Accounts" is deleted.

(c) Paragraph 6: The language "in respect of the Accounts" is deleted.

(d) Paragraphs 7 through 10 are not changed.

(e) The additional language can be typed on a separate page, attached and duly executed. The following language shall be added to the bottom of the page: Page number ___ incorporated in and made a part of the General Depository Agreement between ___(HA) and ___ (Depository).

ATTACHMENT B

INVESTMENT OF FUNDS HELD BY HA FISCAL AGENTS

Description of Funds

The funds established by HA resolutions authorizing the issuance of bonds to finance the development cost of projects are as follows:

(1) Debt Service Fund

This Fund is established pursuant to the Annual Contributions Contracts and HA Resolutions providing for the issuance of new HA bonds. The Fiscal Agent is explicitly required under the form of the Fiscal Agency Agreement entered into since 1964 to purchase and sell investment securities as the HA, with the approval of the Federal Government, may direct. Where a Fiscal Agency Agreement does not contain a specific requirement for the investment of Debt Service Funds, such investment must, nevertheless, be made since it is a general power and duty of a trustee, (implied if not expressed) to keep funds properly invested in order to attain safety and produce income for the trust funds.

(2) Advance Amortization Fund

(a) Since 1952, the form of Fiscal Agency Agreement in use requires the Fiscal Agent to invest funds on deposit in the Advance Amortization Fund as the HA, with the approval of the Federal Government, may direct.

(b) With respect to the investment of funds resulting from a consolidated sale of bonds by an Agency Authority, only the Agency Authority of HUD may issue investment instructions to the Fiscal Agent. These instructions shall be consistent with HUD guidelines.

(3) Annual Contributions Reduction Account (sometimes called Supplementary Revenues Account); Bond Service Account; Series A Reserve Fund; General Bond Reserve Fund; Rental Debt Service Fund; and Excess Lands Account.

The Resolution authorizing Series A and Series B Bonds issued prior to 1951 established these funds and the Resolution usually contains limitations on the investment of funds on deposit in one or more of such accounts.