

**CITY OF MADISON**  
**TAX INCREMENTAL DISTRICT NO. 41**  
Madison, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of December 31, 2016 and From the  
Date of Creation Through December 31, 2016

**CITY OF MADISON**  
**TAX INCREMENTAL DISTRICT NO. 41**

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As of December 31, 2016 and From the Date of Creation Through December 31, 2016

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## INDEPENDENT AUDITORS' REPORT

To the Common Council  
City of Madison  
Madison, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues, and Net Cost to be Recovered Through Tax Increments and Historical Summary of Sources, Uses, and Status of Funds of the City of Madison's Tax Incremental District No. 41 (the "District") as of December 31, 2016 and from the date of creation through December 31, 2016, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Common Council  
City of Madison

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Madison's Tax Incremental District No. 41 and the net project costs to be recovered through tax increments as of December 31, 2016 and the sources, uses, and status of funds from the date of creation through December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the transactions of City of Madison's Tax Incremental District No. 41 and do not purport to, and do not, present fairly the financial position of the City of Madison, Wisconsin, as of December 31, 2016, and the changes in financial position, or, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Madison's Tax Incremental District No. 41's financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects, in relation to the financial statements as a whole.

To the Common Council  
City of Madison

**Report on Other Legal and Regulatory Requirements**

We have also issued our report dated August 1, 2017 on our tests of its compliance with Wisconsin State Statutes Section 66.1105. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
August 1, 2017

**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

BALANCE SHEET  
As of December 31, 2016

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	<u>Capital Projects Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ 767,104
Taxes receivable	840,027
Prepaid items	<u>59</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,607,190</u></b>
<b>DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE AND FUND BALANCE</b>	
Liabilities	
Accrued liabilities	<u>\$ 528</u>
Deferred Inflows of Resources	
Unearned revenue	<u>840,027</u>
Fund Balance	
Restricted	<u>766,635</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b><u>\$ 1,607,190</u></b>

See accompanying notes to financial statements.

**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

HISTORICAL SUMMARY OF PROJECT COSTS, PROJECT REVENUES  
AND NET COST TO BE RECOVERED THROUGH TAX INCREMENTS  
From the Date of Creation Through December 31, 2016

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**PROJECT COSTS**

Capital expenditures	\$ 4,116
Administration	100,874
Professional services	21,585
Developer payments	4,478,000
Debt issuance costs	32,287
Interest on advances	369
Interest on long-term debt	<u>326,630</u>
Total Project Costs	<u>4,963,861</u>

**PROJECT REVENUES**

Tax increments	2,650,076
Miscellaneous	24,640
Investment income	28,213
Exempt computer aid	<u>13,030</u>
Total Project Revenues	<u>2,715,959</u>

**NET COST TO BE RECOVERED THROUGH  
TAX INCREMENTS – DECEMBER 31, 2016**

\$ 2,247,902

**RECONCILIATION OF RECOVERABLE COSTS**

G.O. debt	\$ 3,014,537
Less: Fund balance	<u>(766,635)</u>

**NET COST TO BE RECOVERED THROUGH  
TAX INCREMENTS – DECEMBER 31, 2016**

\$ 2,247,902

**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

HISTORICAL SUMMARY OF SOURCES, USES, AND STATUS OF FUNDS  
From the Date of Creation Through December 31, 2016

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**SOURCES OF FUNDS**

Tax increments	\$ 2,650,076
Miscellaneous	24,640
Investment income	28,213
Exempt computer aid	13,030
Long-term debt issued	<u>4,800,640</u>
Total Sources of Funds	<u>7,516,599</u>

**USES OF FUNDS**

Capital expenditures	4,116
Administration	100,874
Professional services	21,585
Developer payments	4,478,000
Debt issuance costs	32,287
Interest on advances	369
Principal on long-term debt	1,786,103
Interest on long-term debt	<u>326,630</u>
Total Uses of Funds	<u>6,749,964</u>

<b>FUND BALANCE – DECEMBER 31, 2016</b>	<b>\$ <u>766,635</u></b>
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**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

NOTES TO FINANCIAL STATEMENTS  
As of December 31, 2016 and From the Date of Creation Through December 31, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Madison's Tax Incremental District No. 41 (the "District") conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Section 66.1105.

The City of Madison has implemented accounting principles generally accepted in the United States of America to the extent they apply in determining the scope of the activity of Tax Incremental District No. 41. The accompanying financial statements reflect all the significant operations of the City of Madison's Tax Incremental District No. 41. The accompanying financial statements do not include the full presentation of the City of Madison.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. This standard was implemented January 1, 2016.

**A. DESCRIPTION OF FUND STRUCTURE AND LONG-TERM DEBT**

This report contains the financial information of the City of Madison's Tax Incremental District No. 41. The summary statements were prepared from data recorded in the following City of Madison funds and the City of Madison's long-term debt:

- General Fund
- Capital Projects Fund

Detailed descriptions of the purpose of these funds and long-term debt can be found in the City of Madison's basic financial statements.

The data was consolidated for purposes of this report. Therefore, the amounts shown in the accompanying statements will not directly correlate with amounts shown in the basic financial statements.

The District was created under the provisions of Wisconsin Statute Section 66.1105. The purpose of that section is to allow a municipality to recover development and improvement costs in a designated area from the property taxes generated on the increased value of the property after the creation date of the District. The tax on the increased value is called a tax increment.

The statutes allow the municipality to collect tax increments until the net project cost has been fully recovered, or until 27 years after the creation date, whichever occurs first. Project costs uncollected at the dissolution date are absorbed by the City of Madison. Project costs may be incurred up to five years before the unextended termination date of the District.

<b>Original Project Plan</b>	<u>Creation Date</u>	<u>Last Date to Incur Project Costs</u>	<u>Last Year to Collect Increment</u>
Tax Incremental District No. 41	January 1, 2011	September 5, 2033	2039
<b>Plan Amendment</b>	<u>Adoption Date</u>	<u>Last Date to Incur Project Costs</u>	<u>Last Year to Collect Increment</u>
Tax Incremental District No. 41	September 20, 2016	September 5, 2033	2039

**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

NOTES TO FINANCIAL STATEMENTS  
As of December 31, 2016 and From the Date of Creation Through December 31, 2016

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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***B. BASIS OF ACCOUNTING***

The modified accrual basis of accounting was followed in the preparation of these statements. Under the modified accrual basis of accounting, 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. Project costs, other than interest on long-term debt, are recorded when the related fund liability is incurred.

District increments are recorded as revenues in the year due. Intergovernmental aids and grants are recognized as revenues in the period the related expenditures are incurred, if applicable, or when the District is entitled to the aids.

Other general revenues are recognized when received in cash or when measurable and available under the criteria described above.

***C. USE OF ESTIMATES***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

***D. MEASUREMENT FOCUS***

The measurement focus of all governmental funds is the funds flow concept. Under the funds flow concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as unavailable or unearned revenue or as nonspendable fund equity. Liabilities for claims, judgments, compensated absences and pension contributions which will not be currently liquidated using expendable available financial resources are shown in the long-term debt footnote disclosure. The related expenditures are recognized when the liabilities are liquidated.

***E. PROJECT PLAN BUDGET***

The estimated revenues and expenditures of the District are adopted in the project plan. Those estimates are for the entire life of the District, and may not be comparable to interim results presented in this report.

***F. LONG-TERM DEBT***

Short-term liabilities are recorded as fund liabilities. All other long-term liabilities are shown in the long-term debt footnote disclosure.

Proceeds of long-term debt issues not recorded as fund liabilities are reflected as "Sources of Funds" in the operating statement of the recipient fund. Retirement of these issues is reported as an expenditure in the year in which the debt matures or is repaid, whichever is earlier.

**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

NOTES TO FINANCIAL STATEMENTS  
As of December 31, 2016 and From the Date of Creation Through December 31, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**G. CLAIMS AND JUDGMENTS**

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments is only reported in governmental funds if it has matured. Claims and judgments are disclosed in the long-term debt footnote when the related liabilities are incurred.

**NOTE 2 – CASH AND TEMPORARY INVESTMENTS**

The District invests its funds in accordance with the provisions of the Wisconsin Statutes 66.0603(1m) and 67.11(2).

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

The District, as a fund of the City of Madison, maintains separate and common cash and investment accounts at the same financial institutions utilized by the City of Madison. Federal depository insurance and the State of Wisconsin Guarantee fund insurance apply to the City of Madison as an individual municipality and, accordingly, the amount of insured funds is not determinable for the District.

**NOTE 3 – LONG-TERM DEBT**

**A. GENERAL OBLIGATION DEBT**

All general obligation notes payable are backed by the full faith and credit of the City of Madison. Notes and bonds borrowed to finance District expenditures will be retired by tax increments accumulated by the District capital projects fund. If those revenues are not sufficient, payments will be made by future tax levies.

Title of Issue	Date of Issue	Due Date	Interest Rates	Original Indebtedness	Repaid	Balance 12-31-16
G.O. Promissory Notes	10-01-12	10-01-22	0.4-2.125%	\$ 3,414,960	\$ 1,367,100	\$ 2,047,860
G.O. Promissory Bonds	10-01-13	10-01-23	1.5-4.0%	180,000	54,033	125,967
G.O. Promissory Bonds	10-01-13	10-01-23	2.0-3.4%	1,205,680	364,970	840,710
Totals				<u>\$ 4,800,640</u>	<u>\$ 1,786,103</u>	<u>\$ 3,014,537</u>

**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

NOTES TO FINANCIAL STATEMENTS  
As of December 31, 2016 and From the Date of Creation Through December 31, 2016

**NOTE 3 – LONG-TERM DEBT (cont.)**

**A. GENERAL OBLIGATION DEBT (cont.)**

Aggregate maturities of all long-term debt relating to the District are as follows:

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 480,480	\$ 70,791	\$ 551,271
2018	480,481	61,002	541,483
2019	480,480	49,825	530,305
2020	480,481	38,649	519,130
2021	477,665	27,472	505,137
2022	477,665	16,366	494,031
2023	<u>137,285</u>	<u>4,596</u>	<u>141,881</u>
Totals	<u>\$ 3,014,537</u>	<u>\$ 268,701</u>	<u>\$ 3,283,238</u>

**NOTE 4 – ADVANCES FROM CITY GENERAL FUND**

The general fund advances funds to the District when the District is in a negative cash position. The general fund charges the District interest on the advance based on the outstanding advance balance at the end of the year at a rate based on the cost of funds to the City of Madison. No repayment schedule has been established. There was no advance outstanding as of December 31, 2016.

**NOTE 5 – GUARANTEED REVENUE**

The City of Madison has entered into a development agreement with GI Clinic, LLC. The agreement guarantees that GI Clinic, LLC shall pay the difference between the guaranteed tax increment and the tax increment actually levied. The guarantee obligation shall terminate when the City of Madison has collected from the tax increment generated from the District or has been paid under this agreement the full amount of project costs of not less than \$1,372,000. The City of Madison has entered into similar agreements with University Crossing Office, LLC in the amount of \$1,087,000 and University Row Apartments, LLC in the amount of \$2,019,000.

**NOTE 6 – TAX ABATEMENTS**

Tax abatements are a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

NOTES TO FINANCIAL STATEMENTS  
As of December 31, 2016 and From the Date of Creation Through December 31, 2016

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**NOTE 6 – TAX ABATEMENTS (cont.)**

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The City of Madison, through its Tax Incremental Districts (TIDs), has entered into tax abatement agreements with developers in the form of tax incremental financing incentives to stimulate economic development. The abatements are authorized through the TIF project plans. The City of Madison disburses loans to developers. The developer guarantees a certain amount of increment each year. The developers pay property taxes as they become due, and if they generate the guaranteed increment, an equal amount of loan balance is forgiven. Loans forgiven by the District during 2016 were as follows:

<u>Developer Name</u>	<u>Loan Forgiven</u>
GI Clinic, LLC	\$107,273
University Crossing Office, LLC	215,506
University Row Apartments, LLC	313,153

**S U P P L E M E N T A L I N F O R M A T I O N**

**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

DETAILED SCHEDULE OF SOURCES, USES, AND STATUS OF FUNDS  
From the Date of Creation Through December 31, 2016

	2011	2012	2013	2014	2015	2016	Totals	Project Plan Estimate
<b>SOURCES OF FUNDS</b>								
Tax increments	\$ -	\$ -	\$ 111,076	\$ 600,550	\$ 1,097,492	\$ 840,958	\$ 2,650,076	\$ 10,190,000
Miscellaneous	9,110	15,530	-	-	-	-	24,640	-
Investment income	414	5,516	11,602	1,484	3,150	6,047	28,213	-
Exempt computer aid	-	-	850	815	4,832	6,533	13,030	-
Long-term debt issued	-	<u>3,414,960</u>	<u>1,385,680</u>	-	-	-	<u>4,800,640</u>	<u>7,973,000</u>
Total Sources of Funds	<u>9,524</u>	<u>3,436,006</u>	<u>1,509,208</u>	<u>602,849</u>	<u>1,105,474</u>	<u>853,538</u>	<u>7,516,599</u>	<u>18,163,000</u>
<b>USES OF FUNDS</b>								
Capital expenditures	-	1,030	-	3,086	-	-	4,116	1,473,000
Administration	42,877	28,470	10,912	2,845	5,926	9,844	100,874	500,000
Professional services	12,110	731	3,519	2,025	1,600	1,600	21,585	-
Developer payments	-	-	4,478,000	-	-	-	4,478,000	6,000,000
Debt issuance costs	-	21,911	10,376	-	-	-	32,287	-
Interest on advances	74	268	27	-	-	-	369	-
Principal on long-term debt	-	-	341,775	481,916	481,916	480,496	1,786,103	7,973,000
Interest on long-term debt	-	-	59,839	96,170	90,040	80,581	326,630	2,217,000
Total Uses of Funds	<u>55,061</u>	<u>52,410</u>	<u>4,904,448</u>	<u>586,042</u>	<u>579,482</u>	<u>572,521</u>	<u>6,749,964</u>	<u>18,163,000</u>
FUND BALANCE – DECEMBER 31, 2016							<u>\$ 766,635</u>	

**CITY OF MADISON  
TAX INCREMENTAL DISTRICT NO. 41**

DETAILED SCHEDULE OF CAPITAL, ADMINISTRATION AND PROFESSIONAL SERVICES  
EXPENDITURES AND DEVELOPER PAYMENTS  
From the Date of Creation Through December 31, 2016

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	<u>Actual</u>	<u>Project Plan Estimate</u>
Capital, Administration and Professional Services Expenditures and Developer Payments		
Street reconstruction	\$ 4,116	\$ 801,000
Bike path	-	240,000
Storm sewer	-	432,000
Revitalization loans	4,478,000	6,000,000
Administration and professional services	<u>122,459</u>	<u>500,000</u>
 TOTAL	 <u>\$ 4,604,575</u>	 <u>\$ 7,973,000</u>



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To the Common Council  
City of Madison  
Madison, Wisconsin

We have audited the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues and Net Cost to be Recovered Through Tax Increments and the related Historical Summary of Sources, Uses and Status of Funds of the City of Madison, Wisconsin Tax Incremental District No. 41 (the "District") as of December 31, 2016 and from the date the District was created through December 31, 2016 and have issued our report thereon dated August 1, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with Wisconsin State Statutes Section 66.1105, insofar as it relates to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced statute, insofar as it relates to accounting matters.

This report is intended solely for the information and use of the common council, management, and the overlapping taxing districts and is not intended to be, and should not be, used by anyone other than the specified parties.

*Baker Tilly Voichau Krause, LLP*

Madison, Wisconsin  
August 1, 2017