

**City of Madison
Tax Incremental District No. 38**

Financial Statements and
Supplementary Information

August 31, 2021

City of Madison Tax Incremental District No. 38

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Independent Auditors' Report

To the Common Council of
City of Madison

Report on the Financial Statements

We have audited the accompanying Historical Summary of Project Costs, Project Revenues, and Net Cost Recovered Through Tax Increments and Historical Summary of Sources, Uses, and Status of funds of the City of Madison's Tax Incremental District No. 38 (the District) as of August 31, 2021 and from the date of creation through August 31, 2021, 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 City of Madison'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 City of Madison's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Madison's Tax Incremental District No. 38 and the net project costs recovered through tax increments as of August 31, 2021 and the sources, uses, and status of funds from the date of creation through August 31, 2021, 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.38 and do not purport to, and do not, present fairly the financial position of the City of Madison, Wisconsin, as of August 31, 2021, 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. 38's financial statements. The supplementary 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 supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated September 8, 2021 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 US, LLP

Madison, Wisconsin
September 8, 2021

City of Madison Tax Incremental District No. 38

Historical Summary of Project Costs, Project Revenues and Net Cost Recovered Through Tax Increments
From the Date of Creation Through August 31, 2021

Project Costs

Capital expenditures	\$ 4,598,339
Administration	301,042
Professional services	28,891
Interest on advances	88,589
Interest on long-term debt	<u>729,678</u>
Total project costs	<u>5,746,539</u>

Project Revenues

Tax increment	49,425
Exempt computer aid	72,254
Contribution from TIF No. 35 and No. 41	5,605,000
Investment income	<u>19,860</u>
Total project revenues	<u>5,746,539</u>
Net cost recovered through tax increments, August 31, 2021	<u><u>\$ -</u></u>

City of Madison Tax Incremental District No. 38

Historical Summary of Sources, Uses and Status of Funds
From the Date of Creation Through August 31, 2021

Sources of Funds

Tax increment	\$ 49,425
Exempt computer aid	72,254
Contribution from TIF No. 35 and No. 41	5,605,000
Investment income	19,860
Long-term debt issued	<u>4,203,046</u>
Total sources of funds	<u>9,949,585</u>

Uses of Funds

Capital expenditures	4,598,339
Administration	301,042
Professional services	28,891
Interest on advances	88,589
Principal on long-term debt	4,203,046
Interest on long-term debt	<u>729,678</u>
Total uses of funds	<u>9,949,585</u>
Fund balance August 31, 2021	<u><u>\$ -</u></u>

City of Madison Tax Incremental District No. 38

Notes to Financial Statements
August 31, 2021

1. Summary of Significant Accounting Policies

The accounting policies of the City of Madison's Tax Incremental District No. 38 (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. 38. The accompanying financial statements reflect all the significant operations of the City of Madison's Tax Incremental District No. 38. The accompanying financial statements do not include the full presentation of the City of Madison.

Description of Fund Structure and Long-Term Debt

This report contains the financial information of the City of Madison's Tax Incremental District No. 38. 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.

	<u>Creation Date</u>	<u>Termination Date</u>
Tax Incremental District No. 38	January 1, 2008	March 16, 2021

City of Madison Tax Incremental District No. 38

Notes to Financial Statements

August 31, 2021

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.

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.

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.

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.

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.

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.

City of Madison Tax Incremental District No. 38

Notes to Financial Statements

August 31, 2021

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.

3. Long-Term Debt

General Obligation Debt

All general obligation notes payable are backed by the full faith and credit of the City of Madison. Notes 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.

<u>Title of Issue</u>	<u>Date of Issue</u>	<u>Due Date</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Repaid</u>	<u>Balance 8-31-21</u>
G.O. Promissory Notes	10-15-08	10-15-18	3.82%	\$ 1,000,000	\$ 1,000,000	\$ -
G.O. Promissory Notes	10-01-09	10-01-19	3.59%	2,000,000	2,000,000	-
G.O. Promissory Notes	10-19-10	10-01-20	0.65 - 3.50%	1,000,000	1,000,000	-
G.O. Refunding Notes	10-19-16	10-01-18	0.05 - 4.00%	203,046	203,046	-
Total				<u>\$ 4,203,046</u>	<u>\$ 4,203,046</u>	<u>\$ -</u>

The 2008 promissory notes were refunded in 2016.

City of Madison Tax Incremental District No. 38

Notes to Financial Statements

August 31, 2021

4. Advances from City Funds

The general fund or capital project fund has advanced funds to the District when the District was in a negative cash position. The fund charged 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. There was no advance outstanding as of August 31, 2021.

5. Increment Sharing

As allowable under TIF statutes, the City of Madison may share positive TIF increments. In 2014, the common council and joint review board approved sharing increments from TIF District No. 35 (donor district) to TIF District No. 38 (donee district). Transfers will be reflected as recoverable costs in the donor district and as project revenues in the donee district. Transfers were approved to begin in 2016, for a total donation to the recipient TIF District No. 38 of \$2,500,000. During 2019, the City of Madison approved an additional increment sharing of \$2,210,000 from TIF District No. 35 to TIF District No. 38 and \$895,000 from TIF District No. 41 to TIF District No. 38. In 2019, TIF District No. 35 donated \$1,800,000. In 2020, TIF District No. 35 donated \$1,410,000 and TIF District No. 41 donated \$895,000.

City of Madison Tax Incremental District No. 38

Detailed Schedule of Sources, Uses and Status of Funds
From the Date of Creation Through August 31, 2021

	2008	2009	2010	2011	2012	2013	2014	2015
Sources of Funds								
Tax increment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Exempt computer aid	-	-	4,777	4,607	2,476	2,831	3,253	2,457
Contribution from TIF No. 35 and No. 41	-	-	-	-	-	-	-	-
Investment income	-	7,665	12,186	-	-	-	-	-
Long-term debt issued	1,000,000	2,000,000	1,000,000	-	-	-	-	-
Total sources of funds	1,000,000	2,007,665	1,016,963	4,607	2,476	2,831	3,253	2,457
Uses of Funds								
Capital expenditures	1,000,000	97,371	3,462,172	36,717	1,082	937	60	-
Administration	117,035	69,639	16,702	13,415	7,557	10,042	10,769	5,964
Professional services	3,895	3,406	2,021	1,785	1,985	2,019	2,025	1,600
Interest on advances	2,205	1,816	3,395	13,731	16,546	13,854	18,323	18,719
Principal on long-term debt	-	100,000	300,974	401,304	400,085	400,085	400,085	400,086
Interest on long-term debt	-	37,772	92,909	106,256	100,098	91,700	82,202	71,505
Total uses of funds	1,123,135	310,004	3,878,173	573,208	527,353	518,637	513,464	497,874
Fund balance, August 31, 2021								

City of Madison Tax Incremental District No. 38

Detailed Schedule of Sources, Uses and Status of Funds
From the Date of Creation Through August 31, 2021

	2016	2017	2018	2019	2020	2021	Total	Project Plan Estimate
Sources of Funds								
Tax increment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,425	\$ 49,425	\$ 11,567,165
Exempt computer aid	2,146	9,685	9,827	10,065	10,065	10,065	72,254	-
Contribution from TIF No. 35 and No. 41	500,000	500,000	500,000	1,800,000	2,305,000	-	5,605,000	2,500,000
Investment income	-	-	-	-	9	-	19,860	-
Long-term debt issued	203,046	-	-	-	-	-	4,203,046	11,033,000
Total sources of funds	705,192	509,685	509,827	1,810,065	2,315,074	59,490	9,949,585	25,100,165
Uses of Funds								
Capital expenditures	-	-	-	-	-	-	4,598,339	10,733,000
Administration	6,690	7,340	9,113	13,664	13,078	34	301,042	300,000
Professional services	1,600	1,800	1,625	1,130	2,000	2,000	28,891	-
Interest on advances	-	-	-	-	-	-	88,589	3,034,165
Principal on long-term debt	600,085	402,205	399,367	299,263	99,507	-	4,203,046	11,033,000
Interest on long-term debt	62,604	38,823	26,881	15,446	3,482	-	729,678	-
Total uses of funds	670,979	450,168	436,986	329,503	118,067	2,034	9,949,585	25,100,165
Fund balance, August 31, 2021							\$ -	

City of Madison Tax Incremental District No. 38

Detailed Schedule of Capital, Administration and Professional Services Expenditures
From the Date of Creation Through August 31, 2021

	<u>Actual</u>	<u>Project Plan Estimate</u>
Capital, Administration and Professional Services Expenditures		
Sanitary sewer	\$ -	\$ 125,000
Storm sewer	-	170,000
Street repair, rehabilitation	601,961	4,042,000
Streetscape	61	200,000
Affordable housing	-	1,103,000
Economic development assistance loans	-	558,000
CDA land acquisition	3,996,317	4,500,000
Miscellaneous	-	35,000
Administration and professional services	329,933	300,000
	<u>\$ 4,928,272</u>	<u>\$ 11,033,000</u>

Independent Auditors' Report on Compliance

To the Common Council of
City of Madison

We have audited the accompanying Historical Summary of Project Costs, Project Revenues and Net Cost 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. 38 (the District) as of August 31, 2021 and from the date the District was created through August 31, 2021 and have issued our report thereon dated September 8, 2021. 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 US, LLP

Madison, Wisconsin
September 8, 2021