

**City of Madison
Tax Incremental District No. 37**

Financial Statements and
Supplementary Information

December 31, 2020

City of Madison Tax Incremental District No. 37

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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 Balance Sheet, 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. 37 (the District) as of December 31, 2020 and from the date of creation through December 31, 2020, 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.

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. 37 and the net project costs recovered through tax increments as of December 31, 2020 and the sources, uses, and status of funds from the date of creation through December 31, 2020, 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. 37 and do not purport to, and do not, present fairly the financial position of the City of Madison, Wisconsin, as of December 31, 2020, 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. 37'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 July 27, 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
July 27, 2021

City of Madison Tax Incremental District No. 37

Balance Sheet
December 31, 2020

	Capital Projects Fund
Assets	
Cash and Investments	\$ 576,106
Taxes receivable	2,695,624
Other receivable	59,338
Prepaid items	<u>48</u>
 Total assets	 <u>\$ 3,331,116</u>
Liabilities, Deferred Inflows of Resources and Fund Balance	
Liabilities	
Accounts payable	\$ 40
Accrued liabilities	<u>769</u>
 Total liabilities	 <u>809</u>
Deferred Inflows of Resources	
Unearned revenue	2,695,624
Unavailable revenue	<u>59,338</u>
 Total deferred inflows of resources	 <u>2,754,962</u>
Fund Balance	
Restricted	<u>575,345</u>
 Total liabilities, deferred inflows of resources and fund balance	 <u>\$ 3,331,116</u>

See notes to financial statements

City of Madison Tax Incremental District No. 37

Historical Summary of Project Costs, Project Revenues and Net Cost to be Recovered

Through Tax Increments

Date of Creation Through December 31, 2020

Project Costs

Capital expenditures	\$ 7,990,005
Administration	425,423
Professional services	120,922
Developer payments	322,000
Debt issuance costs	1,321
Interest on advances	181,584
Interest on long-term debt	<u>747,222</u>

Total project costs 9,788,477

Project Revenues

Tax increment	7,553,275
Exempt computer aid	102,784
Personal property aid	50,427
Investment income	7,936
Miscellaneous	104,979
Sale of land	<u>548,469</u>

Total project revenues 8,367,870

Net cost to be recovered through
tax increments, December 31, 2020 \$ 1,420,607

Reconciliation of Recoverable Costs

G.O. debt	\$ 1,995,952
Less fund balance	<u>(575,345)</u>

Net cost to be recovered through
tax increments, December 31, 2020 \$ 1,420,607

City of Madison Tax Incremental District No. 37

Historical Summary of Sources, Uses and Status of Funds

Date of Creation Through December 31, 2020

Sources of Funds

Tax increments	\$ 7,553,275
Exempt computer aid	102,784
Personal property aid	50,427
Investment income	7,936
Miscellaneous income	104,979
Sale of land	548,469
Long-term debt issued	<u>6,766,908</u>
Total sources of funds	<u>15,134,778</u>

Uses of Funds

Capital expenditures	7,990,005
Administration	425,423
Professional services	120,922
Developer payments	322,000
Debt issuance costs	1,321
Interest on advances	181,584
Principal on long-term debt	4,770,956
Interest on long-term debt	<u>747,222</u>

Total uses of funds 14,559,433

Fund balance, December 31, 2020 \$ 575,345

City of Madison Tax incremental District No. 37

Notes to Financial Statements
December 31, 2020

1. Summary of Significant Accounting Policies

The accounting policies of the City of Madison's Tax Incremental District No. 37 (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. 37. The accompanying financial statements reflect all the significant operations of the City of Madison's Tax Incremental District No. 37. 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. 37. 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>Last Date to Incur Project Costs</u>	<u>Last Year to Collect Increment</u>
Tax Incremental District No. 37	January 1, 2006	July 18, 2028	2034

City of Madison Tax incremental District No. 37

Notes to Financial Statements
December 31, 2020

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 unspendable 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.

City of Madison Tax incremental District No. 37

Notes to Financial Statements

December 31, 2020

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.

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 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.

<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 12-31-20</u>
G.O. Promissory Notes	10-01-07	10-01-17	4.00-5.00%	\$ 600,000	\$ 600,000	\$ -
G.O. Promissory Notes	10-19-10	10-01-20	0.65-3.50	3,577,000	3,577,000	-
G.O. Promissory Bonds	10-01-13	10-01-23	1.50-4.00	100,000	70,007	29,993
G.O. Promissory Notes	10-01-14	10-01-24	2.00-5.00	30,000	18,001	11,999
G.O. Promissory Notes	10-01-15	10-01-17	3.00	116,845	116,845	-
G.O. Promissory Notes	10-19-16	10-01-26	2.00	400,000	160,011	239,989
G.O. Promissory Notes	11-01-18	11-01-28	2.80-3.50	346,063	69,322	276,741
G.O. Promissory Notes	10-17-19	10-01-29	2.00-4.00	1,597,000	159,770	1,437,230
Total				<u>\$ 6,766,908</u>	<u>\$ 4,770,956</u>	<u>\$1,995,952</u>

City of Madison Tax incremental District No. 37

Notes to Financial Statements

December 31, 2020

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>Total</u>
2021	\$ 247,363	\$ 61,994	\$ 309,357
2022	247,363	54,796	302,159
2023	247,263	45,195	292,458
2024	237,265	37,278	274,543
2025	234,265	31,270	265,535
2026	234,237	22,942	257,179
2027	194,263	14,579	208,842
2028	194,262	8,596	202,858
2029	159,671	3,792	163,463
Total	<u>\$ 1,995,952</u>	<u>\$ 280,442</u>	<u>\$ 2,276,394</u>

Crossover Refunding

On October 15, 2020, the City of Madison (the City) issued \$46,725,000 in general obligation refunding bonds. Of this amount, \$10,315,000 was related to a current refunding and \$36,410,000 was issued with an average coupon rate of 0.51 percent, to advance refund \$36,160,000 of outstanding bonds with an average coupon rate of 2.15 percent. The net proceeds along with existing funds of the City were used to purchase U.S. government securities. Those securities were deposited in an escrow account to provide for future debt service payments on the new bonds until the crossover date. The bonds are not considered to be defeased and the liability for those bonds as well as the escrow account are recorded in the financial statements. This type of advance refunding is commonly called a crossover refunding.

The District's portion of proceeds in the amount of \$29,048 to advance refund \$28,994 of outstanding notes and bonds have been recorded in the City's debt service fund. They will be transferred to the District in 2021 and will be used to refund the 2013 and 2014 general obligation debt in 2021. The District's portion of economic gain is \$1,664.

4. Advances from City Funds

The general fund or capital project fund advances funds to the District when the District is in a negative cash position. The funds charge 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, 2020.

5. Guaranteed Revenue

The City of Madison has entered into a development agreement with Gorman & Company, Inc. The agreement guarantees that Gorman & Company, Inc 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 been paid under this agreement the full amount of the project costs of not less than \$4,959,322. This City of Madison has entered into similar agreement with UC Grandfamily LLC and SHD Inc. in the amount of \$686,000 and \$322,000 respectively. There was a shortfall of \$59,338 for Gorman & Company, which was recorded as a receivable and unavailable revenue as of December 31, 2020.

City of Madison Tax incremental District No. 37

Notes to Financial Statements
December 31, 2020

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.

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 TID 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. It is anticipated that these loans will be forgiven and therefore an allowance of \$2,927,578 has been established for the entire amount of outstanding loans. Details of loans disbursed and forgiven are as follows:

Developer Name	Loans		Loans		Balance Remaining as of 12/31/2020
	Disbursed as of 12/31/2019	Loans Forgiven as of 12/31/2019	Disbursed During 2020	Loans Forgiven During 2020	
Gorman & Company Inc.	\$ 4,959,322	\$ 1,879,880	\$ -	\$ 991,864	\$ 2,087,578
UC Grandfamily LLC	686,000	80,000	-	88,000	518,000
SHD Inc.	322,000	-	-	-	322,000
Total	<u>\$ 5,967,322</u>	<u>\$ 1,959,880</u>	<u>\$ -</u>	<u>\$ 1,079,864</u>	<u>\$ 2,927,578</u>

City of Madison Tax Incremental District No. 37

Detailed Schedule of Sources, Uses and Status of Funds
 Date of Creation Through December 31, 2020

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Sources of Funds									
Tax increments	\$ -	\$ -	\$ 152,701	\$ 268,501	\$ 263,580	\$ 286,679	\$ 167,500	\$ 185,750	\$ 214,432
Exempt computer aid	-	-	4,323	2,407	8,508	8,442	9,833	8,602	7,678
Personal property aid	-	-	-	-	-	-	-	-	-
Miscellaneous income	31,375	-	-	-	7,500	7,500	9,548	7,500	37,500
Sale of land	-	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	4,492	-	-	-	-
Long-term debt issued	-	<u>600,000</u>	-	-	<u>3,577,000</u>	-	-	<u>100,000</u>	<u>30,000</u>
Total sources of funds	<u>31,375</u>	<u>600,000</u>	<u>157,024</u>	<u>270,908</u>	<u>3,861,080</u>	<u>302,621</u>	<u>186,881</u>	<u>301,852</u>	<u>289,610</u>
Uses of Funds									
Capital expenditures	162,824	709,280	1,641,261	16,135	3,518,489	11,681	56,964	-	101
Administration	64,853	25,692	13,307	6,478	15,228	18,520	47,965	51,063	48,949
Professional services	21,963	8,401	8,642	2,627	26,760	6,396	2,142	10,817	5,152
Developer Payments	-	-	-	-	-	-	-	-	-
Debt issuance costs	-	-	-	-	-	-	-	-	-
Interest on advances	4,915	14,566	42,907	32,732	19,570	15,486	16,115	12,821	12,564
Principal on long-term debt	-	-	60,000	60,000	60,000	418,877	418,877	418,877	428,883
Interest on long-term debt	-	-	<u>25,200</u>	<u>22,200</u>	<u>19,200</u>	<u>85,322</u>	<u>84,196</u>	<u>78,566</u>	<u>75,727</u>
Total uses of funds	<u>254,555</u>	<u>757,939</u>	<u>1,791,317</u>	<u>140,172</u>	<u>3,659,247</u>	<u>556,282</u>	<u>626,259</u>	<u>572,144</u>	<u>571,376</u>

City of Madison Tax Incremental District No. 37

Detailed Schedule of Sources, Uses and Status of Funds
 Date of Creation Through December 31, 2020

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Totals</u>	<u>Project Plan Estimate</u>
Sources of Funds								
Tax increments	\$ 227,799	\$ 339,753	\$ 731,479	\$ 1,478,694	\$ 1,213,208	\$ 2,023,199	\$ 7,553,275	\$ 26,605,000
Exempt computer aid	6,543	12,077	8,397	8,520	8,727	8,727	102,784	-
Personal property aid	-	-	-	-	12,520	37,907	50,427	-
Miscellaneous income	1	2,340	1,715	-	-	-	104,979	-
Sale of land	-	548,468	-	1	-	-	548,469	-
Investment income	-	-	-	-	-	3,444	7,936	-
Long-term debt issued	<u>116,845</u>	<u>400,000</u>	<u>-</u>	<u>346,063</u>	<u>1,597,000</u>	<u>-</u>	<u>6,766,908</u>	<u>600,000</u>
Total sources of funds	<u>351,188</u>	<u>1,302,638</u>	<u>741,591</u>	<u>1,833,278</u>	<u>2,831,455</u>	<u>2,073,277</u>	<u>15,134,778</u>	<u>27,205,000</u>
Uses of Funds								
Capital expenditures	5,691	240,250	11,489	701	1,614,148	991	7,990,005	20,367,000
Administration	41,114	18,629	23,000	21,720	15,188	13,717	425,423	500,000
Professional services	7,952	7,259	2,200	6,740	1,488	2,383	120,922	-
Developer Payments	-	-	-	-	322,000	-	322,000	-
Debt issuance costs	-	-	-	1,321	-	-	1,321	-
Interest on advances	9,908	-	-	-	-	-	181,584	-
Principal on long-term debt	551,884	430,706	466,957	408,935	443,663	603,297	4,770,956	600,000
Interest on long-term debt	<u>66,527</u>	<u>59,341</u>	<u>58,390</u>	<u>46,881</u>	<u>45,861</u>	<u>79,811</u>	<u>747,222</u>	<u>5,738,000</u>
Total uses of funds	<u>683,076</u>	<u>756,185</u>	<u>562,036</u>	<u>486,298</u>	<u>2,442,348</u>	<u>700,199</u>	<u>14,559,433</u>	<u>27,205,000</u>
Fund balance, December 31, 2020							<u>\$ 575,345</u>	

City of Madison Tax Incremental District No. 37

Detailed Schedule of Capital, Administration, Professional Services and Developer Payment Expenditures
Date of Creation Through December 31, 2020

	<u>Actual</u>	<u>Project Plan Estimate</u>
Capital, Administration, Professional Services and Developer Payment Expenditures		
Public improvements	\$ 4,429,116	\$ 12,781,000
Housing development assistance loans	322,000	2,086,000
CDA land acquisition	-	500,000
Economic development assistance loans	-	5,000,000
Administration and professional services	546,345	500,000
Land	3,496,925	-
Property holding costs	<u>63,964</u>	<u>-</u>
Total	<u>\$ 8,858,350</u>	<u>\$ 20,867,000</u>

Independent Auditors' Report on Compliance

To the Common Council of
City of Madison

We have audited the accompanying Balance Sheet, 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. 37 (the District) as of December 31, 2020 and from the date the District was created through December 31, 2020 and have issued our report thereon dated July 27, 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
July 27, 2021