

**City of Watertown
Tax Incremental District No. 4**

Financial Statements and
Supplementary Information

August 31, 2025

City of Watertown Tax Incremental District No. 4

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Independent Auditors' Report

To the City Council of
City of Watertown

Report on the Audit of the Financial Statements

Opinion

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 Watertown's Tax Incremental District No. 4 (District) as of August 31, 2025 and from the date of creation through August 31, 2025, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of District and the net project costs recovered through tax increments as of August 31, 2025 and the sources, uses and status of funds from the date of creation through August 31, 2025, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the transactions of the District and do not purport to, and do not, present fairly the financial position of the City of Watertown, Wisconsin, as of August 31, 2025, 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.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the 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 opinions on the financial statements that collectively comprise the District'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 December 4, 2025 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
December 4, 2025

City of Watertown Tax Incremental District No. 4

Balance Sheet
August 31, 2025

	Capital Projects Fund
	<hr/>
Assets	
Cash and investments	\$ 4,402,608
	<hr/>
Total assets	<u><u>\$ 4,402,608</u></u>
Liabilities	
Accounts payable	\$ 37,946
Refund payable to the city	1,854,322
Refund payable to overlying districts	<u>2,510,340</u>
Total liabilities	<u><u>\$ 4,402,608</u></u>

See notes to financial statements

City of Watertown Tax Incremental District No. 4

Historical Summary of Project Costs, Project Revenues and
Net Cost Recovered Through Tax Increments
From the Date of Creation Through August 31, 2025

Project Costs

Capital expenditures	\$ 5,185,507
Administration (in-house)	78,281
Professional services - planning, engineering, other	649,422
Developer grants	1,081,000
Interest and fiscal charges on long-term debt	950,722
Interest on lease	2,504,132
Debt issuance costs	229,738
	<hr/>
Total project costs	10,678,802

Project Revenues

Tax increments	9,134,144
Exempt computer aid	5,898
Personal property aid	119,111
Intergovernmental grants	781,000
Subsidy from TIF #3	3,960,639
Investment income	839,273
Sale of property	22
Premium on debt issued	203,377
	<hr/>
Total project revenues	15,043,464

Net cost recovered through tax increments, August 31, 2025	<hr/> <hr/>
	\$ (4,364,662)

Refund payable to the city and overlying districts	<hr/>
	\$ 4,364,662

Balance	<hr/> <hr/>
	\$ -

City of Watertown Tax Incremental District No. 4

Historical Summary of Sources, Uses and Status of Funds
From the Date of Creation Through August 31, 2025

Sources of Funds

Tax increments	\$ 9,134,144
Exempt computer aid	5,898
Personal property aid	119,111
Intergovernmental grants	781,000
Subsidy from TIF #3	3,960,639
Investment income	839,273
Sale of property	22
Premium on debt issued	203,377
Lease proceeds	6,002,989
Long-term debt issued	5,285,000
	<hr/>
Total sources of funds	26,331,453

Uses of Funds

Capital expenditures	5,185,507
Administration (in-house)	78,281
Professional services - planning, engineering, other	649,422
Developer grants	1,081,000
Interest and fiscal charges on long-term debt	950,722
Interest on lease	2,504,132
Debt issuance costs	229,738
Principal payments on lease	6,002,989
Principal on long-term debt	5,285,000
	<hr/>
Total uses of funds	21,966,791

Fund Balance, August 31, 2025

	\$ 4,364,662
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Refund payable to the city and overlying districts	\$ (4,364,662)
	<hr/>
Balance	\$ -

See notes to financial statements

City of Watertown Tax Incremental District No. 4

Notes to Financial Statements
August 31, 2025

1. Summary of Significant Accounting Policies

The accounting policies of the City of Watertown's Tax Incremental District No. 4 (the District) conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Section 66.1105.

The City of Watertown (the City) 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 the District. The accompanying financial statements reflect all the significant operations of the City. The accompanying financial statements do not include the full presentation of the City.

Description of Fund Structure and Long-Term Debt

This report contains the financial information of the District. The summary statements were prepared from data recorded in the following fund and the City's long-term debt:

Tax Incremental District No. 4 - Capital Projects Fund

Detailed descriptions of the purpose of this fund and long-term debt can be found in the City'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 District to collect tax increments until the net project cost has been fully recovered, or until 20 years after the creation date, whichever occurs first. Project costs uncollected at the dissolution date are absorbed by the City. Project costs may be incurred up to five years before the unextended termination date of the District.

Original Project Plan

	<u>Creation Date</u>	<u>Termination Date</u>
TID No. 4	January 1, 2005	March 31, 2025

Plan Amendment

	<u>Adoption Date</u>
Amendment 1	November 6, 2006
Amendment 2	May 15, 2012

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.

City of Watertown Tax Incremental District No. 4

Notes to Financial Statements
August 31, 2025

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 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.

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.

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.

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.

City of Watertown Tax Incremental District No. 4

Notes to Financial Statements
August 31, 2025

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

3. Long-Term Debt

General Obligation Bond Debt

All general obligation notes and bonds payable are backed by the full faith and credit of City. Notes and bonds borrowed to finance the District's expenditures were retired by tax increments accumulated by the TID No. 4 fund.

Title of Issue	Date of Issue	Due Date	Interest Rate	Original Indebtedness	Repaid	Balance 08/31/2025
2008 G.O Corporate Purpose Bond	07/22/2008	06/01/2023	4.00-4.25 %	\$ 180,000	\$ 180,000	\$ -
2013 G.O Refunding Bond	02/26/2013	04/01/2025	2.00-2.25	5,015,000	5,015,000	-
2016 G.O Refunding Bond	02/23/2016	06/01/2023	4.00-4.15	90,000	90,000	-
Total				<u>\$ 5,285,000</u>	<u>\$ 5,285,000</u>	<u>\$ -</u>

Lease Payable

The City had entered into a lease agreement with the Community Development Authority of the City of Watertown (CDA) for certain improvements in TID No. 4. In 2006, the CDA issued lease revenue bonds totaling \$6,670,000, out of which TID No.4's portion was \$6,002,989 .

Title of Issue	Date of Issue	Due Date	Interest Rate	Original Indebtedness	Repaid	Balance 08/31/2025
2006 CDA lease	10/01/2016	10/01/2025*	3.45-4.37 %	\$ 6,002,989	\$ 6,002,989	\$ -
Total				<u>\$ 6,002,989</u>	<u>\$ 6,002,989</u>	<u>\$ -</u>

*Amount repaid in 2016.

4. Increment Sharing

As allowable under TIF Statutes, the City may share positive TIF increments. In 2012, the City and joint review board approved sharing increments from TIF District No. 3 (Donor District) to TID No. 4 (Donee District). \$3,960,639 was transferred from TID No. 3 to TID No. 4. Transfers are reflected as recoverable costs in the Donor District and as project revenues in the Donee District.

5. Developer Grants and Tax Abatement

The City agreed to provide a \$600,000 incentive payment in the form of a Municipal Revenue Obligation from 85% of the available increment generated by the project until paid, but no later than December 31, 2026. The City has paid \$574,054 during years 2019 through 2025 and a final outstanding balance of \$25,946 recorded as a payable as of August 31, 2025. These payments are considered tax abatements.

City of Watertown Tax Incremental District No. 4

Notes to Financial Statements
August 31, 2025

The City entered into a developer agreement with Clasen Quality Coatings, Inc. whereby the City was to reimburse Clasen up to \$650,000. During 2006, the City made a payment of \$250,000 to Clasen and another payment of \$231,000 was made in 2008.

6. Refund to Overlying Districts

The refund to overlying districts is calculated based on increments collected in excess of project costs using the ratio of tax levies in the 2024 tax roll as follows:

Jefferson County	\$ 747,035
City of Watertown	1,854,322
Watertown School District	1,594,480
Madison Technical College	<u>168,825</u>
Total	<u>\$ 4,364,662</u>

City of Watertown Tax Incremental District No. 4

Detailed Schedule of Sources, Uses and Status of Funds
 From the Date of Creation Through August 31, 2025

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sources of Funds												
Tax increments	\$ -	\$ -	\$ -	\$ 68,280	\$ 229,287	\$ -	\$ 132,870	\$ 135,864	\$ 139,273	\$ 377,382	\$ 383,046	\$ 356,196
Exempt computer aid	-	-	-	-	-	-	-	71	647	420	962	552
Personal property aid	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental grants	-	-	325,000	419,815	36,185	-	-	-	-	-	-	-
Subsidy from TIF #3	-	-	-	-	-	-	-	796,784	466,087	479,063	619,798	532,969
Investment income	-	19,153	110,715	22,181	2,590	272	99	129	154	335	866	4,393
Sale of property	-	-	-	-	-	-	-	-	-	-	-	20
Premium on debt issued	-	75,685	-	-	-	-	-	-	121,208	-	-	6,484
Lease proceeds	-	6,002,989	-	-	-	-	-	-	-	-	-	-
Long-term debt issued	-	-	-	180,000	-	-	-	-	5,015,000	-	-	90,000
Total sources of funds	-	6,097,827	435,715	690,276	268,062	272	132,969	932,848	5,742,369	857,200	1,004,672	990,614
Uses of Funds												
Capital expenditures	-	2,511,345	2,354,280	315,433	1,376	-	3,073	-	-	-	-	-
Administration (in-house)	-	-	9,128	903	338	589	210	270	150	150	150	149
Professional services - planning, engineering, other	17,644	380,184	221,810	1,203	-	-	-	-	-	300	3,553	-
Developer grants	-	250,000	-	231,000	-	-	-	-	-	-	-	-
Interest and fiscal charges on long-term debt	-	-	-	5,559	11,986	7,400	7,400	7,400	70,299	111,126	108,807	112,170
Interest on lease	-	-	254,655	275,073	275,073	275,473	275,072	269,549	804,484	36,274	25,324	13,155
Debt issuance costs	-	152,015	-	-	-	-	-	-	76,321	-	-	1,402
Principal payments on lease	-	-	-	-	-	-	175,000	250,000	4,727,989	300,000	325,000	225,000
Principal on long-term debt	-	-	-	-	-	-	-	-	15,000	100,000	100,000	195,000
Total uses of funds	17,644	3,293,544	2,839,873	829,171	288,773	283,462	460,755	527,219	5,694,243	547,850	562,834	546,876

Fund Balance, August 31, 2025

Refund payable to the city and overlying districts

Balance

City of Watertown Tax Incremental District No. 4

Detailed Schedule of Sources, Uses and Status of Funds
 From the Date of Creation Through August 31, 2025

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Total</u>	<u>Project Plan Estimate</u>
Sources of Funds											
Tax increments	\$ 489,004	\$ 492,349	\$ 761,996	\$ 817,829	\$ 948,358	\$ 989,827	\$ 856,770	\$ 1,056,824	\$ 898,989	\$ 9,134,144	\$ 8,946,000
Exempt computer aid	350	355	363	363	363	363	363	363	363	5,898	-
Personal property aid	-	-	3,102	17	(3,067)	17	17	17	119,008	119,111	-
Intergovernmental grants	-	-	-	-	-	-	-	-	-	781,000	-
Subsidy from TIF #3	532,969	532,969	-	-	-	-	-	-	-	3,960,639	-
Investment income	13,904	34,212	64,361	23,244	1,395	36,841	169,483	212,227	122,719	839,273	-
Sale of property	1	1	-	-	-	-	-	-	-	22	3,050,000
Premium on debt issued	-	-	-	-	-	-	-	-	-	203,377	-
Lease proceeds	-	-	-	-	-	-	-	-	-	6,002,989	6,066,000
Long-term debt issued	-	-	-	-	-	-	-	-	-	<u>5,285,000</u>	-
Total sources of funds	<u>1,036,228</u>	<u>1,059,886</u>	<u>829,822</u>	<u>841,453</u>	<u>947,049</u>	<u>1,027,048</u>	<u>1,026,633</u>	<u>1,269,431</u>	<u>1,141,079</u>	<u>26,331,453</u>	<u>18,062,000</u>
Uses of Funds											
Capital expenditures	-	-	-	-	-	-	-	101,294	(101,294)	5,185,507	8,170,000
Administration (in-house)	150	30,811	11,743	2,891	3,097	3,514	2,974	3,103	7,961	78,281	305,000
Professional services - planning, engineering, other	2,521	7,094	-	2,280	-	-	650	183	12,000	649,422	-
Developer grants	-	-	91,738	90,709	86,369	86,584	75,362	73,034	96,204	1,081,000	-
Interest and fiscal charges on long-term debt	98,688	88,589	78,613	68,988	59,313	48,263	35,763	22,544	7,814	950,722	-
Interest on lease	-	-	-	-	-	-	-	-	-	2,504,132	3,169,000
Debt issuance costs	-	-	-	-	-	-	-	-	-	229,738	-
Principal payments on lease	-	-	-	-	-	-	-	-	-	6,002,989	6,066,000
Principal on long-term debt	<u>485,000</u>	<u>490,000</u>	<u>480,000</u>	<u>475,000</u>	<u>475,000</u>	<u>610,000</u>	<u>620,000</u>	<u>615,000</u>	<u>625,000</u>	<u>5,285,000</u>	-
Total uses of funds	<u>586,359</u>	<u>616,494</u>	<u>662,094</u>	<u>639,868</u>	<u>623,779</u>	<u>748,361</u>	<u>734,749</u>	<u>815,158</u>	<u>647,685</u>	<u>21,966,791</u>	<u>17,710,000</u>
Fund Balance, August 31, 2025										<u>\$ 4,364,662</u>	
Refund payable to the city and overlying districts										<u>\$ (4,364,662)</u>	
Balance										<u>\$ -</u>	

Independent Auditors' Report on Other Legal and Regulatory Requirements

To the City Council of
City of Watertown

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 Watertown, Wisconsin's Tax Incremental District No. 4 (District) as of August 31, 2025 and from the date the District was created through August 31, 2025 and have issued our report thereon dated December 4, 2025. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In connection with our audit, we noted that the District failed to comply with the following requirement of Wisconsin State Statutes Section 66.1105:

1. 100% audit for this District was not completed within 12 months of the end of expenditure period.

Our audit was not directed primarily toward obtaining knowledge as to whether the District failed to comply with Wisconsin State Statutes Section 66.1105, insofar as it relates to accounting matters. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding 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 City 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.



Madison, Wisconsin
December 4, 2025