

CITY OF BURLINGTON
ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

FROM THE DATE OF CREATION THROUGH
MARCH 20, 2018

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Burlington
Racine County, Wisconsin

We were engaged to audit the accompanying financial statements of the City of Burlington Environmental Remediation Tax Incremental District No. 1 ("District"), which comprise the Balance Sheet as of March 20, 2018, the related Historical Summary of Project Costs, Project Revenues and Net Cost to be Recovered Through Tax Increments, the Historical Summary of Sources, Uses and Status of Funds from the date the District was created through March 20, 2018, 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 the financial reporting provisions of the Wisconsin Department of Revenue. Management is also responsible 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 error or fraud.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Detailed project costs have not been maintained and certain prior-year records and supporting data were not available for our audit. Therefore, we were not able to obtain sufficient appropriate audit evidence about the amounts at which capital expenditures are recorded and classified in the accompanying historical summary of project costs, project revenues and net cost to be recovered through tax increments, and the historical summary of sources, uses and status of funds at March 20, 2018.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Emphasis of Matter

As discussed in Note A, the financial statements present only the City of Burlington Environmental Remediation Tax Incremental District No. 1 and do not purport to, and do not, present fairly the financial position of the City of Burlington, Wisconsin as of March 20, 2018, the changes in its financial position from the date of creation through March 20, 2018 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 Government 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.

Other Information

We were engaged for the purpose of forming an opinion on the financial statements of the Environmental Remediation Tax Incremental District No. 1 of the City of Burlington, Wisconsin. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Tax Incremental District Laws and Regulations

In accordance with tax incremental district laws and regulation, we have also issued our report dated November 6, 2018 on our test of compliance with Wisconsin State Statutes Sections 66.1105, 66.1106, and the project plan. 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. That report is an integral part of an audit performed in accordance with tax incremental district laws and regulation in considering the City of Burlington, Wisconsin's compliance.

Sitzberger & Company, S.C.

Sitzberger & Company, S.C.
Lake Geneva, Wisconsin
November 6, 2018

CITY OF BURLINGTON
ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1
BALANCE SHEET
MARCH 20, 2018

	<u>Environmental Tax Incremental District No. 1</u>
<u>ASSETS</u>	
Restricted cash	\$ 2,501,149
TOTAL ASSETS	<u>2,501,149</u>
<u>LIABILITIES</u>	
Interest payable	356,149
TOTAL LIABILITIES	<u>356,149</u>
<u>FUND BALANCES</u>	
Restricted	<u>2,145,000</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,501,149</u>

See accompanying independent auditors' report.
See notes to the financial statements.

CITY OF BURLINGTON
ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1
HISTORICAL SUMMARY OF PROJECT COSTS, PROJECT REVENUES
AND NET COST TO BE RECOVERED THROUGH TAX INCREMENTS
For the Period of January 1 - March 20, 2018
and From Date of Creation Through Termination Date of March 20, 2018

	<u>Period of January 1 - March 20, 2018</u>	<u>From Date of Creation</u>
<u>PROJECT COSTS</u>		
Administration	\$ 1,531	\$ 21,601
Capital expenditures	-	4,738,449
Debt service		
Interest and fiscal charges	356,149	914,422
Debt issuance costs	-	18,531
TOTAL PROJECT COSTS	357,680	5,693,003
 <u>PROJECT REVENUES</u>		
Tax increments	1,641,651	3,703,690
Exempt computer aid	-	2,325
Federal grants	-	330,000
Interest and other	6,802	481,788
Sale of property	-	15,200
Hampton Inn note	928,542	1,160,000
TOTAL PROJECT REVENUES	2,576,995	5,693,003
 NET COSTS RECOVERABLE (RECOVERED) THROUGH TAX INCREMENTS - MARCH 20, 2018		
	\$ (2,219,315)	-
 <u>RECONCILIATION OF RECOVERABLE COSTS</u>		
General obligation debt outstanding		2,145,000
Less: Fund balance		(2,145,000)
 NET COSTS RECOVERABLE (RECOVERED) THROUGH TAX INCREMENTS - MARCH 20, 2018		
		\$ -

See accompanying independent auditors' report.
See notes to the financial statements.

CITY OF BURLINGTON
ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1
HISTORICAL SUMMARY OF SOURCES, USES AND STATUS OF FUNDS
For the Period of January 1 - March 20, 2018
and From Date of Creation Through Termination Date of March 20, 2018

	Period of January 1 - March 20, 2018	From Date of Creation
<u>SOURCES OF FUNDS</u>		
Tax increments	\$ 1,641,651	\$ 3,703,690
Exempt computer aid	-	2,325
Federal grants	-	330,000
Interest and other	6,802	481,788
Sale of property	-	15,200
Hampton Inn note	928,542	1,160,000
Proceeds from debt	-	3,422,500
TOTAL SOURCES	2,576,995	9,115,503
<u>USES OF FUNDS</u>		
Administration	1,531	21,601
Capital expenditures	-	4,738,449
Debt service		
Interest and fiscal charges	356,149	914,422
Debt issuance costs		18,531
Long-term principal retirement	-	1,277,500
TOTAL USES	357,680	6,970,503
EXCESS (DEFICIENCY) OF SOURCES OVER USES	2,219,315	2,145,000
FUND BALANCE - BEGINNING	(74,315)	-
FUND BALANCE - ENDING	\$ 2,145,000	\$ 2,145,000

See accompanying independent auditors' report.
See notes to the financial statements.

CITY OF BURLINGTON
ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
MARCH 20, 2018

Note A – Summary of Significant Accounting Policies

The accounting policies of the City of Burlington’s Environmental Remediation Tax Incremental District No. 1 (“District”) conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Sections 66.1105 and 66.1106.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Wisconsin Statutes Sections 66.1105 and 66.1106 establish reporting requirements for the District. The significant accounting principles and policies utilized by the City of Burlington in preparing the financial statements of Environmental Remediation Tax Incremental District No. 1 are described below.

a) Reporting Entity

This report contains the financial information of the City of Burlington’s Environmental Remediation Tax Incremental District No. 1. The summary statements were prepared from data recorded in the TID No. 1 fund of the City of Burlington and are presented in a format prescribed by the Wisconsin Department of Revenue. The data was consolidated for the purposes of this report. Therefore, the amounts shown in the accompanying statements will not directly correlate with amounts shown in the basic/general purpose financial statements.

The District was created under the provisions of Wisconsin Statute Sections 66.1105 and 66.1106. The purpose of these sections are 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 City of Burlington to collect tax increments until the net project cost has been fully recovered, or until 23 years after the creation date, whichever occurs first. Project costs uncollected at the dissolution date are absorbed by the City of Burlington.

Listed below are the significant dates applicable to the City of Burlington’s Environmental Remediation Tax Incremental District No. 1:

Creation date:	September 7, 2010
Expenditure period:	September 7, 2025
Latest termination date:	September 7, 2033
Termination date:	March 20, 2018

b) Measurement Focus and Basis of Accounting

The District’s financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Project plan expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when a payment is due.

Property taxes are recognized as revenue in the fiscal year for which taxes have been levied. Grants, fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the District.

See accompanying independent auditors’ report.

CITY OF BURLINGTON
ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
MARCH 20, 2018

Note A – Summary of Significant Accounting Policies (continued)

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 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.

d) Project Plan Budget

The estimated revenues and expenditures of the District are adopted in the original project plan. Those estimates are for the entire life of the District, and may not be comparable to interim results presented in this report. There were no amendments to the original project plan.

e) Assets, Liabilities and Fund Balance

Cash and cash equivalents - Cash and cash equivalents are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. At times, the District relies on cash and cash equivalents of other City funds until additional revenues are received.

Property Taxes - The District's tax increment is certified annually in November based on tax increment value, which represents the equalized value in excess of the 2010 TID base value of properties within the District. Tax increments are collected by the City of Burlington and Racine County. On or before January 15, and by the 20th of February, the District is paid by the City its proportionate share of tax collections received through the last day of the preceding month. On or before August 20, the Racine County treasurer makes full settlement to the District for any remaining balance.

Property taxes are recognized as revenue in the fiscal year levied as they are considered due as of January 1, the date from which interest and penalties accrue for non-payment of a scheduled installment, and full receipt of the entire levy is assured within sixty days of fiscal year end, meeting the availability criteria necessary for property tax revenue recognition by accounting principles generally accepted in the United States of America

Fund Balance - Fund balance is reported in various categories for TID funds based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the related strength of spending constraints placed on the purposes for which resources can be used:

- Restricted Fund Balance - includes amounts that have constraints placed upon the use of resources either by an external party or imposed by law through a constitutional provision or enabling legislation.
- Assigned Fund Balance - includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. This is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the City Council.
- Committed Fund Balance - includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the City Council, the City's highest level of decision-making authority. This formal action is a City Council resolution.

CITY OF BURLINGTON
 ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 20, 2018

Note A – Summary of Significant Accounting Policies (continued)

- Nonspendable Fund Balance - includes amounts that cannot be spent because they are not in a spendable form and cannot be converted to cash or because they are legally or contractually required to remain intact.
- Unassigned Fund Balance - only deficit amounts are shown in this category.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the City’s general policy to use restricted resources first.

When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City’s general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Note B – Cash and Cash Equivalents

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

Note C – Receivables

The District issued notes receivable of \$1,160,000 on 9/01/2010 with an interest rate of 2.00% for Environmental TID capital projects. The remaining note receivable balance as of March 20, 2018 was \$913,937. This remaining amount has been recorded as revenue in the TID District and the note receivable balance of \$913,937 has been transferred to the General Fund of the City to collect the outstanding balance.

Note D – Long-Term Debt

The City of Burlington has allocated portions of general obligation debt issuances to the District to finance District project costs. The general obligation notes are backed by the full faith and credit of the City. The City anticipates the District will retire its share of the general obligation issues with tax increments generated from the development or other revenue sources of the District. If those revenues are not sufficient, payments will be made by future tax levies or other City revenues, as applicable.

The following is a summary of general obligation debt of the District outstanding as of March 20, 2018:

	Date of Issue	Due Date	Interest Rates	Original Principal	Outstanding 3/20/2018	Due Within One Year
General Obligation Notes						
2012B GO Refunding Bonds	06/12/12	04/01/22	2.0% - 3.0%	\$ 762,500	\$ 300,000	\$ 100,000
2014A GO Refunding Bonds	05/13/15	05/01/30	0.4% - 3.2%	1,845,000	1,845,000	125,000
Total General Obligation Notes				<u>\$ 2,607,500</u>	<u>\$ 2,145,000</u>	<u>\$ 225,000</u>

See accompanying independent auditors’ report.

CITY OF BURLINGTON
 ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 20, 2018

Note D – Long-Term Debt (continued)

Annual principal and interest maturities of the outstanding general obligation debt on March 20, 2018 are shown below:

Year Ending December 31,	Principal	Interest	Total
2018	\$ 225,000	\$ 47,357	\$ 272,357
2019	220,000	44,333	264,333
2020	225,000	40,720	265,720
2021	130,000	37,653	167,653
2022	135,000	35,265	170,265
2023-2027	745,000	127,149	872,149
2033-2037	465,000	23,672	488,672
	\$ 2,145,000	\$ 356,149	\$ 2,501,149

Note E – Increment Sharing

As allowable under TIF statutes, the City may share positive TIF increments. In 2014, the City and joint review board approved sharing increments from the TIF District No. 3 (donor district) to Environmental Remediation TIF District No. 1 (donee district). Transfers of \$3,386,354 are reflected as recoverable costs in the donor district, and as project revenues in the donee district. Transfers were approved to begin in 2017. TIF increment sharing is valid for the life of the district and the life of the donor district and may not be extended. Transfers between districts are subject to various conditions in the statutes.

SUPPLEMENTARY INFORMATION

CITY OF BURLINGTON
ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1
DETAILED SUMMARY OF SOURCES, USES AND STATUS OF FUNDS
From Date of Creation Through Termination Date of March 20, 2018

Projects	Project Plan Budget		Actual Costs			
	Original Plan	Total Project Plan	2009	2010	2011	2012
PROJECT COSTS						
Site investigation	\$ 64,725	\$ 64,725	\$ -	\$ 104,131	\$ -	\$ -
Remediation	123,100	123,100	-	199,208	-	-
Monitoring	6,200	6,200	-	21,660	1,209	-
Asbestos removal / abatement	84,090	84,090	-	157,020	-	-
Purchase	1,500,000	1,500,000	1,526,136	-	75,000	-
Demolition	384,030	384,030	-	258,649	8,052	-
Infrastructure	76,000	76,000	-	117,886	-	-
TID creation and legal	40,000	40,000	-	27,577	-	-
Contingency	137,543	137,543	-	32,247	55,622	1,906
Parking structure	-	-	-	1,963,230	193,795	-
TOTAL PROJECT COSTS	\$ 2,415,688	\$ 2,415,688	1,526,136	2,881,608	333,678	1,906
PROJECT REVENUES						
Tax increments			-	-	-	48,176
Contributions from other districts			-	-	-	-
Exempt computer aid			-	-	-	-
EPA Brownfield grant			-	330,000	-	-
Interest			-	7,035	85,684	80,732
Sale of property			-	-	-	-
Hampton Inn note			-	-	4,467	27,919
TOTAL PROJECT REVENUES			-	337,035	90,151	156,827
DEBT SERVICE						
Debt proceeds			-	1,845,000	815,000	762,500
Discount on debt			-	(24,978)	-	(5,805)
Issuance costs			-	(9,242)	-	(9,289)
Principal retirement			-	-	-	(815,000)
Interest			-	(26,010)	(58,919)	(97,447)
TOTAL DEBT SERVICE			-	1,784,770	756,081	(165,041)
CHANGE IN FUND BALANCE			(1,526,136)	(759,803)	512,554	(10,120)
FUND BALANCE - BEGINNING			-	(1,526,136)	(2,285,939)	(1,773,385)
FUND BALANCE - ENDING			\$ (1,526,136)	\$ (2,285,939)	\$ (1,773,385)	\$ (1,783,505)

CITY OF BURLINGTON
ENVIRONMENTAL REMEDIATION TAX INCREMENTAL DISTRICT NO. 1
DETAILED SUMMARY OF SOURCES, USES AND STATUS OF FUNDS (continued)
From Date of Creation Through Termination Date of March 20, 2018

Actual Costs (continued)							Project Costs (Over) Under Project Plan
2013	2014	2015	2016	2017	March 20, 2018	Total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,131	\$ (39,406)
-	-	-	-	-	-	199,208	(76,108)
-	-	-	-	-	-	22,869	(16,669)
-	-	-	-	-	-	157,020	(72,930)
-	-	-	-	-	-	1,601,136	(101,136)
-	-	-	-	-	-	266,701	117,329
-	-	-	-	-	-	117,886	(41,886)
-	-	-	-	-	-	27,577	12,423
2,650	180	235	442	11,684	1,531	106,497	31,046
-	-	-	-	-	-	2,157,025	(2,157,025)
2,650	180	235	442	11,684	1,531	4,760,050	\$ (2,344,362)
46,751	63,885	33,683	39,831	42,692	42,318	317,336	
-	-	-	-	1,787,021	1,599,333	3,386,354	
1,187	878	149	62	49	-	2,325	
-	-	-	-	-	-	330,000	
78,820	76,322	74,083	51,202	21,108	6,802	481,788	
-	-	-	-	15,200	-	15,200	
29,937	32,101	34,421	44,919	57,694	928,542	1,160,000	
156,695	173,186	142,336	136,014	1,923,764	2,576,995	5,693,003	
-	-	-	-	-	-	3,422,500	
-	-	-	-	-	-	(30,783)	
-	-	-	-	-	-	(18,531)	
(87,500)	(90,000)	(95,000)	(95,000)	(95,000)	-	(1,277,500)	
(108,327)	(85,721)	(51,321)	(50,419)	(49,326)	(356,149)	(883,639)	
(195,827)	(175,721)	(146,321)	(145,419)	(144,326)	(356,149)	1,212,047	
(41,782)	(2,715)	(4,220)	(9,847)	1,767,754	2,219,315	2,145,000	
(1,783,505)	(1,825,287)	(1,828,002)	(1,832,222)	(1,842,069)	(74,315)	-	
\$ (1,825,287)	\$ (1,828,002)	\$ (1,832,222)	\$ (1,842,069)	\$ (74,315)	\$ 2,145,000	\$ 2,145,000	



CPAs and Business Advisors

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To the City Council
City of Burlington
Racine County, Wisconsin

We were engaged to audit the accompanying financial statements of the City of Burlington Environmental Remediation Tax Incremental District No. 1 ("District") which comprise of the Balance Sheet as of March 20, 2018, the related Historical Summary of Project Costs, Project Revenues and Net Cost to be Recovered Through Tax Increments, the Historical Summary of Sources, Uses and Status of Funds from the date the District was created through March 20, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2018.

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 of material misstatement.

Compliance with tax increment financing district laws, regulations and the project plan is the responsibility of the City of Burlington, Wisconsin management. As part of obtaining reasonable assurance about whether the aforementioned financial statements are free of material misstatements, we performed tests of the District's compliance with Wisconsin State Statutes Sections 66.1105, 66.1106, and the project plan. However, it should be noted that our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to items tested, the City of Burlington, Wisconsin complied, in all material respects, with the provisions referred to in the preceding paragraph, except for the following:

- Retention of TID related invoices
- Maintain comprehensive list of expenditures by category of permissible project costs
- Expenditures incurred before the date the project plan was approved
- Project costs incurred exceeded the total project costs included in the project plan

With respect to items not tested, nothing came to our attention that caused us to believe that the City of Burlington, Wisconsin had not complied, in all material respects, with those provisions.

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

Sitzberger & Company, S.C.

Sitzberger & Company, S.C.
Lake Geneva, Wisconsin
November 6, 2018