CITY OF WATERLOO
TAX INCREMENTAL DISTRICT NO. 2

Waterloo, Wisconsin

COMPILED
FINANCIAL STATEMENTS

Including Accountants' Compilation Report

As of and for the Year Ended December 31, 2018 and
From the Date of Creation Through December 31, 2018

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CITY OF WATERLOO
TAX INCREMENTAL DISTRICT NO. 2

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From the Date of Creation Through December 31, 2018

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ACCOUNTANTS' COMPILATION REPORT

To the City Council
City of Waterloo
Waterloo, Wisconsin

Management is responsible for the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues and Net Cost to be Recovered Through Tax Increments and Historical Summary of Sources, Uses, and Status of Funds of the City of Waterloo's Tax Incremental District No. 2 ("district") as of and for the year ended December 31, 2018 and from the date of creation through December 31, 2018, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the *Accounting and Review Services Committee* of the American Institute of Certified Public Accountants. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

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 Waterloo as of December 31, 2018, the changes in its 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.

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. This information is the representation of management. This information was subject to our compilation engagement, however, we have not audited or reviewed the information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such 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, economical, or historical context.

Madison, Wisconsin
March 30, 2019

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CITY OF WATERLOO
TAX INCREMENTAL DISTRICT NO. 2

COMPILED
BALANCE SHEET
As of December 31, 2018

	Capital Projects Fund
ASSETS	
Taxes receivable	$ 43,357
Due from other governments	417,724
Accounts receivable	60,362
TOTAL ASSETS	$ 521,443
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities	
Accounts payable	$ 1,993
Due to other funds	126,098
Total Liabilities	128,091
Deferred Inflows of Resources	
Unearned revenue	43,357
Unavailable revenue	417,724
Total Deferred Inflows of Resources	461,081
Fund Balance	
Unassigned (deficit)	(67,729)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	$ 521,443

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See accompanying notes to financial statements and accountants' compilation report.

CITY OF WATERLOO
TAX INCREMENTAL DISTRICT NO. 2

COMPILED
HISTORICAL SUMMARY OF PROJECT COSTS, PROJECT REVENUES
AND NET COST TO BE RECOVERED THROUGH TAX INCREMENTS
For the Year Ended December 31, 2018 and
From the Date of Creation Through December 31, 2018

	Year Ended	From Date of Creation
PROJECT COSTS		
Capital expenditures	$ 2,380	$ 537,152
Developer incentives	69,414	1,019,414
Professional services - planning, engineering, other	21,272	464,812
Interest and fiscal charges	15,524	93,429
Total Project Costs	108,590	2,114,807
PROJECT REVENUES		
Tax increments	60,894	108,498
Exempt computer aid	765	4,879
Intergovernmental	21,780	21,780
Subsidy from TIF No. 1	789,860	1,194,325
Sale of property	-	1,100
Developer guarantees	60,361	134,086
Miscellaneous revenues	-	105,730
Total Project Revenues	933,660	1,570,398
NET COST TO BE RECOVERABLE (RECOVERED) THROUGH TAX INCREMENTS – DECEMBER 31, 2018	$ (825,070)	$ 544,409
RECONCILIATION OF RECOVERABLE COSTS		
G.O. debt		$ 476,680
Plus: Fund balance deficit		67,729
NET COST TO BE RECOVERABLE THROUGH TAX INCREMENTS – DECEMBER 31, 2018		$ 544,409

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See accompanying notes to financial statements and accountants' compilation report.

CITY OF WATERLOO
TAX INCREMENTAL DISTRICT NO. 2

COMPILED
HISTORICAL SUMMARY OF SOURCES, USES, AND STATUS OF FUNDS
For the Year Ended December 31, 2018 and
From the Date of Creation Through December 31, 2018

	Year Ended	From Date of Creation
SOURCES OF FUNDS		
Tax increments	$ 60,894	$ 108,498
Exempt computer aid	765	4,879
Intergovernmental	21,780	21,780
Subsidy from TIF No. 1	789,860	1,194,325
Sale of property	-	1,100
Developer guarantees	60,361	134,086
Miscellaneous revenues	-	105,730
Long-term debt issued	-	900,000
Total Sources of Funds	933,660	2,470,398
USES OF FUNDS		
Capital expenditures	$ 2,380	$ 537,152
Developer incentives	69,414	1,019,414
Professional services - planning, engineering, other	21,272	464,812
Interest and fiscal charges	15,524	93,429
Principal on long-term debt	87,826	423,320
Total Uses of Funds	196,416	2,538,127
Excess (deficiency) of sources of funds over uses of funds	737,244	(67,729)
BEGINNING FUND BALANCE (DEFICIT)	(804,973)	-
ENDING FUND BALANCE (DEFICIT)	$ (67,729)	$ (67,729)

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See accompanying notes to financial statements and accountants' compilation report.

CITY OF WATERLOO
TAX INCREMENTAL DISTRICT NO. 2

COMPILED
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018 and
From the Date of Creation Through December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Waterloo's Tax Incremental District No. 2 (the "district") conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Section 66.1105.

The City of Waterloo 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. 2. The accompanying financial statements reflect all the significant operations of the City of Waterloo's Tax Incremental District No. 2. The accompanying financial statements do not include the full presentation of the City of Waterloo.

A. DESCRIPTION OF FUND STRUCTURE AND LONG-TERM DEBT

This report contains the financial information of the City of Waterloo's Tax Incremental District No. 2. The summary statements were prepared from data recorded in the following fund and the city's long-term debt:

Capital Projects Fund

Detailed descriptions of the purpose of this fund and long-term debt can be found in the City of Waterloo'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 27 years after the creation date, whichever occurs first. Project costs uncollected at the dissolution date are absorbed by the City of Waterloo. Project costs may be incurred up to five years before the unextended termination date of the district.

Original Project Plan

	Creation Date	Last Date to Incur Project Costs	Last Year to Collect Increment
TID No. 2	January 1, 2011	July 21, 2033	2039

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

A. DESCRIPTION OF FUND STRUCTURE AND LONG-TERM DEBT (cont.)

Plan Amendment

	Adoption Date	Last Date to Incur Project Costs
TID No. 2	December 5, 2013	July 21, 2033

B. BASIS OF ACCOUNTING

The modified accrual basis of accounting was followed in the preparation of these statements. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Project costs, other than interest on long-term debt, are recorded when the related fund liability is incurred.

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

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

C. USE OF ESTIMATES

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

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

E. PROJECT PLAN BUDGET

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

F. LONG-TERM DEBT

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

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

G. CLAIMS AND JUDGMENTS

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

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

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

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

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

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CITY OF WATERLOO
TAX INCREMENTAL DISTRICT NO. 2

COMPILED
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018 and
From the Date of Creation Through December 31, 2018

NOTE 3 – LONG-TERM DEBT

A. GENERAL OBLIGATION DEBT

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

Title of Issue	Date of Issue	Due Date	Interest Rate	Original Indebted-ness	Repaid	Balance 12-31-18
State Trust Fund Loan	07/01/13	05/15/23	2.75%	$ 900,000	$ 423,320	$ 476,680

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

Calendar Year	Principal	Interest	Totals
2019	$ 90,241	$ 13,109	$ 103,350
2020	92,693	10,656	103,349
2021	95,271	8,078	103,349
2022	97,891	5,458	103,349
2023	100,584	2,766	103,350
Totals	$ 476,680	$ 40,067	$ 516,747

NOTE 4 – INCREMENT SHARING

As allowable under TIF statutes, the district may share positive TIF increments. In 2011, the common council and joint review board approved sharing increments from TIF District No. 1 (donor district) to TIF District No. 2 (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 2012. TIF increment sharing is valid for the life of the donor district or the recipient district, whichever date comes first, and the life of the donor district may not be extended. Transfers between districts are subject to various conditions in the statutes. The first transfer happened during 2017 in the amount of $404,465. During 2018, an additional transfer of $789,860 was made, bringing the total to $1,194,325.

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NOTE 5 – GUARANTEED REVENUE

In 2013, the city acquired multiple parcels ("properties") for $1 as part of one transaction with the WP Carey Corporation. The bulk of the acreage is located in TIF No. 2 with two parcels located adjacent to TIF No. 2 or within a ½ mile radius of TIF No. 2. The property owner, WP Carey Corporation, was thirteen years into a seventeen year lease-back arrangement with the RR Donnelley Corporation, the lease-holder.

Both corporations were seeking to exit the city. Provisions in the long-term lease-back arrangement permitted a "one-time only, all-in-one" sale of the properties during the term of the lease. As such, a sale could only occur if all of the properties were sold in one transaction.

During 2013, the city purchased the properties for $1. The properties had been sitting vacant in the city for numerous years with no interested buyers until the city offered to buy the properties in one transaction and break them into separate components. The city purchased the property with the intent to divide it into six (6) components and sell to developers to generate additional tax base in TIF No. 2, as well as create additional jobs in the city.

The following are the six property components and the status as of December 31, 2018:

1. Warehouse 1 was sold to a local business for $1 in 2013.
2. Warehouse 2 was also sold to a local business for $1 in 2013.
3. Warehouse 3 (275 S. Jackson) was sold to a recycling company in 2013 for approximately $8,400.
4. The Corporate Office (575 W. Madison) was sold in January 2014 for $1.
5. The parking lot (217 N. Monroe) which was the last piece of property was sold during March 2016 for $1.
6. The Printing Plant (333 W. Madison) was sold in December 2014 for $1.

The city entered into a developer agreement with Hawthorn & Stone, Inc. on June 25, 2013. For each revenue year beginning with revenue year 2016, the developer guarantees that the tax increment generated by the parcel during the revenue year should equal or exceed the guaranteed TIF revenue for the revenue year. If the city receives less than the guaranteed TIF revenue for the revenue year then the developer shall pay to the city an amount equal to the difference. This difference equated to $73,725 in 2017 and was paid in full to the district by year-end. This difference equated to $60,361 in 2018 and is shown as a receivable and developer guarantees revenue at year-end as it was not received until January of 2019. Any developer subsidy not paid will bear an interest rate of 6.0% per year until paid. As a part of the developer agreement, the developer shall also employ not less than three (3) full time employment positions at the facilities. The original developer agreement was amended in 2018 which resulted in changes to the developer guaranteed amounts.

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NOTE 5 – GUARANTEED REVENUE (cont.)

On December 11, 2013, the city entered into a developer agreement with Lang Group, LLC relating to the corporate office at 575 W. Madison Street. For each revenue year beginning with revenue year 2016, the developer guarantees that the tax increment generated by the parcel during the revenue year should equal or exceed the guaranteed TIF revenue for the revenue year. If the city receives less than the guaranteed TIF revenue for the revenue year then the developer shall pay to the city an amount equal to the difference. Any developer subsidy not paid will bear an interest rate of 18.0% per year until paid.

On March 23, 2015, the city entered into a developer agreement with Movin' Out Waterloo MM, LLC relating to 217 N. Monroe Street. As part of the agreement for each revenue year beginning with revenue year 2018, the developer guarantees that the tax increment generated by the parcel during the revenue year should equal or exceed the guaranteed TIF revenue for the revenue year. If the city receives less than the guaranteed TIF revenue for the revenue year then the developer shall pay to the city an amount equal to the difference. Any developer subsidy not paid will bear an interest rate of 18.0% per year until paid.

NOTE 6 – DEVELOPER PAYMENTS

As part of the developer agreement with Hawthorn & Stone, Inc., the city promises to pay the developer, subject to certain terms and conditions, the amount of One Million Three Hundred Twenty Thousand Dollars ($1,320,000). The city is obligated to make these payments before September 30 of each Revenue Year, commencing with Revenue Year 2024. The obligation ceases upon the earlier of (i) the expiration of the term of the TIF district), or (ii) payment of the sum of $1,320,000. The city paid out an $800,000 contribution related to this agreement during 2013.

The city paid a $150,000 contribution to Movin' Out Waterloo MM, LLC during 2015 which was derived from the proceeds of a WEDC grant.

The city paid a $69,414 contribution to Rediscovered LLC during 2018 which was derived from the proceeds of a WEDC grant.

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SUPPLEMENTARY INFORMATION

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CITY OF WATERLOO
TAX INCREMENTAL DISTRICT NO. 2

COMPILED
DETAILED SCHEDULE OF SOURCES, USES, AND STATUS OF FUNDS
From the Date of Creation Through December 31, 2018

	2011	2012	2013	2014	2015	2016	2017	2018	Totals	Project Plan Estimate
SOURCES OF FUNDS										
Tax increments	$ -	$ -	$ 1,976	$ -	$ -	$ -	$ 45,628	$ 60,894	$ 108,498	$ 6,662,540
Exempt computer aid	-	-	1,053	803	798	706	754	765	4,879	-
Intergovernmental	-	-	-	-	-	-	-	21,780	21,780	-
Investment income	-	-	-	-	-	-	-	-	-	106,054
Subsidy from TIF No. 1	-	-	-	-	-	-	404,465	789,860	1,194,325	900,000
Sale of property	-	-	-	-	-	-	1,100	-	1,100	-
Developer guarantees	-	-	-	-	-	-	73,725	60,361	134,086	-
Miscellaneous revenues	1,000	1,000	94,410	8,318	1,002	-	-	-	105,730	1,000
Long-term debt issued	-	-	900,000	-	-	-	-	-	900,000	2,645,000
Total Sources of Funds	1,000	1,000	997,439	9,121	1,800	706	525,672	933,660	2,470,398	10,314,594
USES OF FUNDS										
Capital expenditures	$ 1,491	$ -	$ 208,221	$ 51,744	$ 2,263	$ 194,997	$ 76,056	$ 2,380	$ 537,152	$ 1,830,000
Developer incentives	-	-	800,000	-	150,000	-	-	69,414	1,019,414	3,340,000
Professional services - planning, engineering, other	21,619	83,986	203,093	54,194	58,800	3,353	18,495	21,272	464,812	338,793
Interest and fiscal charges	-	-	-	17,427	22,388	20,216	17,874	15,524	93,429	1,327,091
Principal on long-term debt	-	-	-	85,923	80,962	83,134	85,475	87,826	423,320	2,645,000
Total Uses of Funds	23,110	83,986	1,211,314	209,288	314,413	301,700	197,900	196,416	2,538,127	9,480,884
FUND BALANCE (DEFICIT) – DECEMBER 31, 2018									$ (67,729)	

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See accountants' compilation report.

CITY OF WATERLOO
TAX INCREMENTAL DISTRICT NO. 2

COMPILED
DETAILED SCHEDULE OF CAPITAL, DEVELOPER INCENTIVE, AND
PROFESSIONAL SERVICE EXPENDITURES
From the Date of Creation Through December 31, 2018

	Actual	Project Plan Estimate
Original Project Plan		
Development incentives	$ 800,000	$ 1,120,000
Downtown property improvements	190,712	80,000
Signage and way finding	-	15,000
Riverfront/parking improvements	271,053	130,000
Professional services	210,188	178,793
Utility improvements	-	100,000
TID creation and administration	20,000	25,000
Amended Project Plan		
Developer incentives	219,414	2,220,000
Demolition	75,387	100,000
Public infrastructure	-	520,000
Revolving loan	-	350,000
Professional services	234,624	135,000
Utility improvements	-	535,000
TOTAL CAPITAL, DEVELOPER INCENTIVE, AND PROFESSIONAL SERVICE EXPENDITURES	$ 2,021,378	$ 5,508,793

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See accountants' compilation report.