

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Audited Financial Statements

For the Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Brewery Neighborhood Improvement District No. 1
Milwaukee, Wisconsin

We have audited the accompanying financial statements of The Brewery Neighborhood Improvement District No. 1 ("District") which comprise the statements net position as of December 31, 2018, the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, 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 entity'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 entity'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 2018 financial statements referred to above present fairly, in all material respects, the financial position of The Brewery Neighborhood Improvement District No. 1 as of December 31, 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of The Brewery Neighborhood Improvement District No. 1 as of December 31, 2017, were audited by other auditors whose report dated July 18, 2018, expressed an unmodified opinion on those statements.

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Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 and the required supplementary information on page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of managements about the methods of preparing information and comparing the information for consistency with managements' responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Rielly, Penner & Barton LLP

September 6, 2019
Milwaukee, Wisconsin

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Management's Discussion and Analysis (Unaudited)

This section of The Brewery Neighborhood Improvement District No. 1 ("the District") financial report presents a discussion and analysis of the District's financial performance for the years ended December 31, 2018 and 2017. The discussion has been prepared by management, along with the financial statements and related footnote disclosures, and should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes. This discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts.

Using the Financial Report

The financial report consists of three financial statements that focus on the financial condition of the District and the results of its operations as a whole.

One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. A key to the understanding of this questions is the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows which present financial information in a format similar to that used by business.

The statements of net position include all of the District's assets and liabilities. It is prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The District's net position is one indicator of its financial health. Generally, over time, increases or decreases in net position will indicate the improvement or erosion the District's financial health.

The statements of revenues, expenses, and changes in net position present the revenues earned and the expenses incurred during the period. The District's activities are reported as operation. The District currently has only minimal operating activities, which are shown in detail in the statements of revenues, expenses, and changes in net position. Note that the amount for net assets at end of period on these statements agrees with total net assets on the statements of net position.

Other important factors to consider when evaluating financial viability are the District's ability to meet financial obligations as they are due and its ability to generate future net cash flows. The statements of cash flows present the information related to cash inflows and outflows summarized by operating, capital financing, and investing activities. In addition to information about cash transactions, the statements of cash flows reconciles the increase in net position on the statements of revenues, expenses, and changes in net position, with net cash provided by operating activities on the statements of cash flows.

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Management's Discussion and Analysis (Unaudited)

Statements of Net Position

December 31		2018		2017
Assets				
Current assets	\$	154,701	\$	182,858
Non-current capital assets		50,931		50,000
Other assets		65,079		---
Total Assets	\$	270,711	\$	232,858
Liabilities				
Current liabilities	\$	23,533	\$	18,320
Net Position		247,178		214,538
Total Liabilities and Net Position	\$	270,711	\$	232,858

Current Assets

Current assets consist of cash in the District's bank account and prepaid insurance premiums for the District's business insurance policy.

Non-current Capital Assets

During 2009, the District received a donation of property that had a fair value of \$50,000. The District received no material donations during 2018 or 2017. The District did capitalize a security guard bike during 2018. The historical cost of the bike was \$990.

Other Assets

During 2018, the District entered into an agreement with the City of Milwaukee and Midwest Bikeshare, Inc. d/b/a Bublr Bikes ("Bublr") to sponsor a Bublr Bike Station for a period of five years. The agreement totals \$63,800, including the costs for the electrical installation for the bike station to operate. The total cost will be amortized over the 5 year period.

During 2018, the District entered into a project contract with Rev Pop Inc. to redesign the District's website. The total project cost was \$12,500. Due to the nature of this type of project, the cost will be amortized over a 3 year period.

Current Liabilities

Current liabilities consist of accounts payable, which consist of expenses for goods and services received from vendors in the current year but paid for in the following year. The balance of accounts payable at December 31, 2018 and 2017 is predominantly made up of expenses incurred near the year end, snow removal fees, management fees, electricity, repairs and maintenance, and other miscellaneous items.

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Management's Discussion and Analysis (Unaudited)

Statements of Revenues, Expenses, and Changes in Net Assets

Year Ended December 31	2018	2017
Revenues		
Assessment income	\$ 187,500	\$ 87,500
Preservation park rental	250	---
Interest income	770	---
Expenses		
Operating expenses	144,600	95,721
Depreciation and amortization expense	11,280	1,444
Increase (Decrease) in Net Position	32,640	(9,665)
Net Position, beginning of period	214,538	224,203
Net Position, end of period	\$ 247,178	\$ 214,538

Revenues

The District's revenue primarily consists of the assessment income earned annually from the City of Milwaukee. The District earned \$187,500 and \$87,500 in assessment income during 2018 and 2017, respectively. The annual assessment for the District's operating expenses is levied by the City of Milwaukee and remitted to the District annually.

Expenses

The District incurred \$155,880 and \$97,165 in operating expenses in 2018 and 2017, respectively, primarily for professional fees, right of way landscaping, landscaping, snow removal, management fees, repairs and maintenance, security, insurance, utilities, depreciation, and amortization.

Budget to Actual Amounts Significant Variance Comparison

The District budgeted \$14,500 for landscaping related expenses in 2018. However, throughout the year, the District unexpectedly assumed responsibility for 17 bioswales, adding work and required labor from their contracted landscaping company for 2018. This additional work caused actual landscaping expenses to be over the planned budget.

The District budgeted \$25,000 for the holiday lighting display in 2018. However, the District decided to only spend \$12,500 on the holiday lighting in its inaugural year due to properties still under construction and street closures. The District plans to expand its holiday lighting program in 2019 when there will be nearly 100% of construction completed in the District.

Overall Financial Position

Management believes the District is in good condition financially. Revenues derived from the City of Milwaukee's 2018 annual assessment, along with other revenues earned and reserves from prior year surpluses, are expected to be adequate to cover operating working capital requirements in 2019.

Requests for Information

This financial report is designed to provide a general overview of the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michael Kelly, Board President.

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1

Milwaukee, Wisconsin

Statements of Net Position

December 31, 2018 and 2017

Assets		<u>2018</u>	<u>2017</u>
Current Assets:			
Cash	\$	151,418	\$ 176,350
Prepaid expense		<u>3,283</u>	<u>6,508</u>
Total current assets		154,701	182,858
Capital Assets:			
Land	\$	50,000	\$ 50,000
Other capital assets net of accumulated depreciation		<u>931</u>	<u>---</u>
Net capital assets		50,931	50,000
Other Assets:			
Deferred sponsorship		63,800	---
Web design and development		<u>12,500</u>	<u>---</u>
Total other assets		76,300	---
Less accumulated amortization		<u>(11,221)</u>	<u>---</u>
Net other assets		65,079	---
Total assets	\$	<u>270,711</u>	\$ <u>232,858</u>
Liabilities and Net Position			
Current Liabilities:			
Accounts payable	\$	23,533	\$ 12,320
Accrued expenses		<u>-</u>	<u>6,000</u>
Total current liabilities		23,533	18,320
Net Position:			
Net investment in capital assets		50,931	50,000
Unrestricted		<u>196,247</u>	<u>164,538</u>
Total net position		<u>247,178</u>	<u>214,538</u>
Total liabilities and net position	\$	<u>270,711</u>	\$ <u>232,858</u>

The accompanying notes to financial statements
are an integral part of these statements.

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Assessment	\$ 187,500	\$ 87,500
Preservation park rental	250	-
Total operating revenue	<u>187,750</u>	<u>87,500</u>
Operating Expenses:		
Electric	3,583	2,445
Insurance expense	8,149	9,730
Landscaping	34,175	14,423
Professional fees	21,985	24,068
Real Estate taxes	179	112
Repair and maintenance	20,054	20,438
Security	32,540	13,413
Sewer and water	-	1,223
Sign maintenance	-	583
Holiday lighting	13,190	-
Snow removal	10,524	9,005
Licenses and fees	-	229
Depreciation	59	1,444
Amortization	11,221	-
Miscellaneous	221	52
Total operating expenses	<u>155,880</u>	<u>97,165</u>
Operating income (loss)	<u>31,870</u>	<u>(9,665)</u>
Nonoperating Revenues and (Expenses):		
Interest income	770	-
Increase (decrease) in net position	<u>32,640</u>	<u>(9,665)</u>
Net position, beginning of year	<u>214,538</u>	<u>224,203</u>
Net position, end of year	<u>\$ 247,178</u>	<u>\$ 214,538</u>

The accompanying notes to financial statements
are an integral part of these statements.

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Assessment receipt	\$ 187,500	\$ 87,500
Preservation park rental	250	-
Payments to vendors	(212,462)	(93,144)
Real estate taxes received	-	5,135
Net cash used by operating activities	<u>(24,712)</u>	<u>(509)</u>
Cash Used by Capital and Related Financing Activities:		
Purchase of capital assets	(990)	-
Cash Provided by Investing Activities:		
Interest income	<u>770</u>	<u>-</u>
Net decrease in cash	(24,932)	(509)
Cash, beginning of year	<u>176,350</u>	<u>176,859</u>
Cash, end of year	<u>\$ 151,418</u>	<u>\$ 176,350</u>
Reconciliation of Operating Income (Loss) to Cash Used by Operating Activities:		
Operating income (loss)	\$ 31,870	\$ (9,665)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	59	1,444
Amortization	11,221	-
Changes in assets and liabilities:		
Prepaid expenses	3,225	(32)
Other assets	(76,300)	-
Miscellaneous receivables	-	5,135
Accounts payable	11,213	2,609
Accrued expenses	(6,000)	-
Total adjustments	<u>(56,582)</u>	<u>9,156</u>
Net cash used by operating activities	<u>\$ (24,712)</u>	<u>\$ (509)</u>

The accompanying notes to financial statements
are an integral part of these statements.

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Notes to Financial Statements
December 31, 2018 and 2017

1. Nature of Operations

The Brewery Neighborhood Improvement District No. 1 ("District") was created by the Common Council of the City of Milwaukee on May 13, 2009 under the provisions of Wisconsin Statute Section 66.1110. The purpose of the District is to sustain the development and operation of the former historic Pabst Brewery as a thriving, mixed-use development to be known as The Brewery, a Joseph J. Zilber Historic Redevelopment.

The District is governed by a five-member board appointed by the mayor and approved by the city council. All of the board members represent commercial and residential property owners as defined in the District's bylaws.

2. Summary of Significant Accounting Policies

The District complies with U.S. generally accepted accounting principles ("GAAP"). GAAP includes all relevant Governmental Accounting Standards Board ("GASB") pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Measurement Focus and Basis of Accounting

The statements of net position and the statements of revenues, expenses, and changes in net position are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash receipts or cash disbursements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Equivalents

For purposes of the statements of cash flows, the District considers all demands deposits and highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Currently the District holds only demand deposits which are subject to custodial risk, the risk that in the event of a financial institution failure, the District's deposits may not be returned to the District. As of the years ended December 31, 2018 and 2017, the District's deposits were fully insured by FDIC coverage. The District does not have a policy on custodial risk.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through legislation or other external restrictions. Net position related to property and equipment is classified as invested in capital assets, and the remainder of the District's net position is classified as unrestricted.

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded at cost if purchased and fair value at the time of receipt if donated. Depreciable capital assets consist of equipment, which is stated at cost and depreciated using the straight-line method over the estimated useful life, which ranges between 3 and 7 years. Land is not depreciated.

Budget

The budget for the District for 2018 was \$187,500 of operating expenses. In 2019, an annual operating budget of \$200,000 was adopted.

Operating Revenues

The District considers its assessment income and any rental income generated from the use of its assets to be operating income.

Subsequent Events

Management has evaluated subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed, September 6, 2019. There were no subsequent events other than those mentioned in Note 5 that required recognition or disclosure.

3. Assessment Income

The annual assessment for the District's operating expenses is levied against each property within the District in direct proportion to the current assessed value of each property for real estate purposes. The City of Milwaukee levies the assessment and remits payment to the District annually. During 2018 and 2017, the District received \$187,500 and \$87,500, respectively, in assessment income.

4. Related Party Activity

Zilber, Ltd. (Zilber) is related by common ownership to the developer of property within the District. Towne Realty, Inc. (Towne), a wholly owned subsidiary of Zilber, maintained the District's records through December 31, 2017, and earned a management fee of \$15,500 in 2017 for all administrative and accounting services. During the year ended December 31, 2018, the District no longer used Towne to maintain the District's records. No management fees were paid to Towne in 2018.

5. Commitments

The District entered into a lease on June 2, 2016 which expired on June 30, 2019, for a vacant parcel of land located at The Brewery. In lieu of the District paying any monetary rent under the lease, the District was responsible for all costs and expenses related to the development and use of the land as an urban pocket park. Upon the termination of the lease on June 30, 2019, the parcel of land was transferred to the District with a fair market value of \$220,000.

The District has pledged to contribute \$5,000 per year for three years up to \$15,000 total to support Milwaukee Downtown Business Improvement District 21's efforts to raise funds to secure a Community Prosecutor and Homeless Outreach and Housing Coordinator.

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Notes to Financial Statements
December 31, 2018 and 2017

6. Capital Asset Activity

The following tables summarize capital asset activity for the years ended December 31, 2018 and 2017:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance December 31</u>
2018 Activity:				
Nondepreciable capital assets:				
Land	\$ 50,000	\$ ---	\$ ---	\$ 50,000
Depreciable capital assets:				
Equipment	10,395	990	---	11,385
Less accumulated depreciation	<u>(10,395)</u>	<u>(59)</u>	<u>---</u>	<u>(10,454)</u>
Net depreciable capital assets	<u>---</u>	<u>931</u>	<u>---</u>	<u>931</u>
Net capital assets	<u>\$ 50,000</u>	<u>\$ 931</u>	<u>\$ ---</u>	<u>\$ 50,931</u>
2017 Activity:				
Nondepreciable capital assets:				
Land	\$ 50,000	\$ ---	\$ ---	\$ 50,000
Depreciable capital assets:				
Equipment	10,395	---	---	10,395
Less accumulated depreciation	<u>(8,951)</u>	<u>(1,444)</u>	<u>---</u>	<u>(10,395)</u>
Net depreciable capital assets	<u>1,444</u>	<u>(1,444)</u>	<u>---</u>	<u>---</u>
Net capital assets	<u>\$ 51,444</u>	<u>\$ (1,444)</u>	<u>\$ ---</u>	<u>\$ 50,000</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$59 and \$1,444, respectively.

7. Deferred Sponsorship Costs

During the year ended December 31, 2018, the District entered into an agreement with the City of Milwaukee and Midwest BikeShare, Inc. d/b/a Bublr Bikes ("Bublr") to sponsor a Bublr Bike Station for a period of five years. If the Bublr Bike Station is removed from the District location within five years from the date the station became operational (May 2018), the District is entitled to a refund of its sponsorship costs, on a pro rata basis, over the five-year term. The District was also required to install an electrical connection for the bike station. Therefore, the sponsorship costs and electrical installation costs are being amortized over this five-year period. Amortization of these costs were \$8,443 and \$0 during the years ended December 31, 2018 and 2017, respectively.

8. Website Development Costs

During the year ended December 31, 2018, the District entered into an agreement with Rev Pop, Inc. to redesign the District's website. The total project cost amounted to \$12,500. Due to the nature of this asset as developing computer software, the total cost is being amortized over a three-year period. Amortization of these costs were \$2,778 and \$0 during the years ended December 31, 2018 and 2017, respectively.

9. Reclassifications

Certain amounts in the prior period financial statements have been reclassified to conform to their current period presentation.

THE BREWERY NEIGHBORHOOD IMPROVEMENT DISTRICT NO. 1
Milwaukee, Wisconsin

Budgetary Comparison Schedule (Unaudited)
For the Year Ended December 31, 2018

	Original and Final Budget	Actual
Revenues:		
Assessment	\$ 187,500	\$ 187,500
Preservation park rental	-	250
Interest income	-	770
Total revenue	<u>187,500</u>	<u>188,520</u>
Expenses:		
Electric	6,000	3,583
Insurance expense	8,500	8,149
Landscaping	14,500	34,175
Professional fees	38,500	21,985
Real Estate taxes	500	179
Repair and maintenance	27,000	20,054
Security	36,500	32,540
Sewer and water	2,000	-
Holiday lighting	25,000	13,190
Snow removal	7,500	10,524
Depreciation	-	59
Amortization	20,000	11,221
Miscellaneous	-	221
Legal Fees	1,000	-
Property identification	500	-
Total expenses	<u>187,500</u>	<u>155,880</u>
Increase (decrease) in net assets	<u>-</u>	<u>32,640</u>
Net assets, beginning of year	<u>214,538</u>	<u>214,538</u>
Net assets, end of year	<u><u>\$ 214,538</u></u>	<u><u>\$ 247,178</u></u>

The accompanying notes to financial statements
are an integral part of these statements.