

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5
Franklin, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

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

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Franklin
Franklin, Wisconsin

Report on the Financial Statements

We have audited the accompanying Combined Balance Sheet, Combined Historical Summary of Project Costs, Project Revenues, and Net Cost to be Recovered Through Tax Increments and Combined Historical Summary of Sources, Uses, and Status of funds of the City of Franklin's Tax Incremental District No. 5 as of December 31, 2018 and from the date of creation through December 31, 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 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 City of Franklin'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 City of Franklin'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.

To the City Council
City of Franklin

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Franklin's Tax Incremental District No. 5 and the net project costs to be recovered through tax increments as of December 31, 2018 and the sources, uses, and status of funds from the date of creation through December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the transactions of City of Franklin's Tax Incremental District No. 5 and do not purport to, and do not, present fairly the financial position of the City of Franklin, Wisconsin, as of December 31, 2018, and the changes in financial position, or, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Franklin's Tax Incremental District No. 5'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.

To the City Council
City of Franklin

Report on Other Legal and Regulatory Requirements

We have also issued our report dated May 17, 2019 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 Virchow Krause, LLP

Milwaukee, Wisconsin
May 17, 2019

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

COMBINED BALANCE SHEET
As of December 31, 2018

	Capital Projects Fund	Debt Service Fund	Combined Fund
ASSETS			
Cash and investments	\$ 8,234,250	\$ 555,960	\$ 8,790,210
Taxes receivable	30,951	-	30,951
Total Assets	<u>\$ 8,265,201</u>	<u>\$ 555,960</u>	<u>\$ 8,821,161</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ 24,695	\$ -	\$ 24,695
Long-term advances	80,000	-	80,000
Total Liabilities	<u>104,695</u>	<u>-</u>	<u>104,695</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	<u>30,951</u>	<u>-</u>	<u>30,951</u>
FUND BALANCES			
Reserved for debt service	-	555,960	555,960
Restricted for capital projects	<u>8,129,555</u>	<u>-</u>	<u>8,129,555</u>
Total Fund Balances	<u>8,129,555</u>	<u>555,960</u>	<u>8,685,515</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 8,265,201</u>	<u>\$ 555,960</u>	<u>\$ 8,821,161</u>

See accompanying notes to financial statements.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

COMBINED HISTORICAL SUMMARY OF PROJECT COSTS, PROJECT REVENUE
AND NET COST TO BE RECOVERED THROUGH TAX INCREMENTS
From Date of Creation Through December 31, 2018

	Capital Projects Fund	Debt Service Fund	Combined Fund
PROJECT COSTS			
Capital expenditures	\$ 14,399,213	-	\$ 14,399,213
Professional services	123,958	-	123,958
Development incentives - interest subsidy	4,597	-	4,597
Administration	64,588	-	64,588
Interest and fiscal charges	-	227,520	227,520
Issuance costs on long-term debt	203,184	-	203,184
Total Project Costs	14,795,540	227,520	15,023,060
PROJECT REVENUE			
Tax Increments	30,500	-	30,500
Investment earnings	198,075	-	198,075
Total Project Revenue	228,575	-	228,575
NET COST TO BE RECOVERED THROUGH TAX INCREMENTS - DECEMBER 31, 2018			
	\$ 14,566,965	\$ 227,520	\$ 14,794,485
RECONCILIATION OF RECOVERABLE COSTS			
General obligation debt	\$ 22,696,520	\$ 783,480	\$ 23,480,000
Less: Fund balance	8,129,555	555,960	8,685,515
NET COST TO BE RECOVERED THROUGH TAX INCREMENTS - DECEMBER 31, 2018			
	\$ 14,566,965	\$ 227,520	\$ 14,794,485

See accompanying notes to financial statements.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

COMBINED HISTORICAL SUMMARY OF SOURCES, USES AND STATUS OF FUNDS
From Date of Creation Through December 31, 2018

	Capital Projects Fund	Debt Service Fund	Combined Fund
SOURCES OF FUNDS			
Tax Increments	\$ 30,500	\$ -	\$ 30,500
Investment earnings	198,075	-	198,075
Subtotal	228,575	-	228,575
Long-term debt issued	22,696,520	783,480	23,480,000
Total Sources of Funds	<u>22,925,095</u>	<u>783,480</u>	<u>23,708,575</u>
USES OF FUNDS			
Capital expenditures	14,399,213	-	\$ 14,399,213
Professional services	123,958	-	123,958
Development incentives - interest subsidy	4,597	-	4,597
Administration	64,588	-	64,588
Interest and fiscal charges	-	227,520	227,520
Issuance costs on long-term debt	203,184	-	203,184
Total Uses of Funds	<u>14,795,540</u>	<u>227,520</u>	<u>15,023,060</u>
FUND BALANCES - December 31, 2018	<u>\$ 8,129,555</u>	<u>\$ 555,960</u>	<u>\$ 8,685,515</u>

See accompanying notes to financial statements.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

NOTES TO FINANCIAL STATEMENTS

From Date of Creation Through December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying policies of the City of Franklin's Tax Incremental District Number Five ("District") conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Section 66.1105.

A. REPORTING ENTITY

The City of Franklin uses the criteria set forth by the Governmental Accounting Standards Board to determine the scope of the City of Franklin's Tax Incremental District Number Five reporting entity. The accompanying financial statements reflect all the significant operations of the City of Franklin's Tax Incremental District Number Five.

B. DESCRIPTION OF FUND STRUCTURE AND LONG-TERM DEBT

The report contains the financial information of the City of Franklin's Tax Incremental District Number Five. The summary statements were prepared from the data recorded in the following City funds and the City's long-term debt:

- Debt Service Fund
- Capital Projects Fund

The Debt Service Fund records the activity of outside borrowings entered into for the benefit of the District. The Capital Projects Fund records the activity of the District in receiving all other revenues and making all other expenditures on behalf of the District including interfund advances. The data was combined for the purposes of this report. Therefore the amounts shown in the accompanying statements will not directly correlate with amounts shown in the City of Franklin basic financial statements.

The District was created under the provisions of by Wisconsin Statutes Section 66.1105. The purpose of that section is to allow a municipality to recover development and improvement costs in a designated area from the property taxes generated on the increased value of the property after the creation date of the District. The tax on the increased value is called a tax increment.

The statutes allow the municipality to collect tax increments until the net project cost has been fully recovered, or until 20 years after the creation date, whichever occurs first. Project costs uncollected at the dissolution date, if any, would be absorbed by the City of Franklin. Project costs may be incurred up to five years before the unextended termination date of the district.

	<u>Creation Date</u>	<u>Last Date to Incur Project Costs</u>	<u>Last year to collect increment</u>
District Number Five	September 6, 2016	September 6, 2031	2037

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

NOTES TO FINANCIAL STATEMENTS

From Date of Creation Through December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF ACCOUNTING

The modified accrual basis of accounting was followed in the preparation of these statements. Under the modified accrual basis of accounting, revenue is recorded when it is 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. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Project costs, other than interest on long-term debt are recorded when the related fund liability is incurred.

District tax increments are recorded as revenue in the year due. Intergovernmental aids and grants are recognized as revenue in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City that are not available are recorded as receivables and deferred revenue. Amounts received prior to the entitlement period are recorded as deferred revenue.

Special assessments are recorded as revenue when they become measurable and available. Annual installments due in future years are recorded as receivables and deferred revenue. No special assessments have been levied in this district.

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

D. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

E. 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 deferred revenue or a reservation of fund equity. Liabilities for claims, judgements, 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.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

NOTES TO FINANCIAL STATEMENTS

From Date of Creation Through December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. PROJECT PLAN BUDGETS

The estimated revenue 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. There have been no amendments to the project plan of the District.

G. CAPITAL ASSETS

Public domain (infrastructure) capital assets, such as roads, bridges, curb and gutters, sidewalks, drainage systems and lighting systems are not capitalized in the District's financial statements, but are capitalized as part of the City's capital assets.

H. 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 are reported as an expenditure in the year in which the debt matures or is repaid, whichever is earlier.

I. CLAIMS AND JUDGMENTS

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the government funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in governmental fund financial statements. The related expenditure is recognized when the liability is liquidated.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

NOTES TO FINANCIAL STATEMENTS

From Date of Creation Through December 31, 2018

NOTE 2 – CASH AND INVESTMENTS

The District invests its funds in accordance with the provisions of Wisconsin Statutes.

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 earnings.

The District does not maintain separate cash and investments accounts, but rather owns an equity share in the City’s cash and investments. Federal depository insurance and the State of Wisconsin Guarantee fund insurance apply to the City of Franklin as an individual municipality and, accordingly, the amount of the insured funds is not determinable for the District.

NOTE 3 – LONG-TERM DEBT

A. GENERAL OBLIGATION DEBT

All general obligation promissory notes payable are backed by the full faith and credit of the City of Franklin. Notes borrowed to finance the District’s expenditures will be retired with developer payments received by the Debt Service fund and by tax increments accumulated by the Capital Projects fund. If those revenues are not sufficient payments will be made by future property tax levies.

The City issued a Note Anticipation Note on May 1, 2018 to initially fund project costs. The City has pledged General Obligation Debt capacity for refundings of the Notes.

Details of the Note Anticipation Note payable is as follows:

<u>Type</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Principal Payable</u>	<u>Interest Payable</u>	<u>Original Amount</u>	<u>Balance Outstanding 12/31</u>
General obligation promissory notes						
	5/1/2018	2.50 - 3.20%	3/ 1/18-23	3/1 & 9/1	\$ 23,480,000	\$ 23,480,000

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

NOTES TO FINANCIAL STATEMENTS

From Date of Creation Through December 31, 2018

NOTE 4 – LONG-TERM DEBT (continued)

A. GENERAL OBLIGATION DEBT (continued)

Annual principal and interest payments to maturity on the note anticipation note payable is as follows:

Year	Principal	Interest	Total	Balance Outstanding 12/31
2018	\$ -	\$ -	\$ -	\$ 23,480,000
2019	10,000,000	556,360	10,556,360	13,480,000
2020	-	431,360	431,360	13,480,000
2021	-	431,360	431,360	13,480,000
2022	-	431,360	431,360	13,480,000
2023	<u>13,480,000</u>	<u>215,680</u>	<u>13,695,680</u>	-
	<u>\$ 23,480,000</u>	<u>\$ 2,066,120</u>	<u>\$ 25,546,120</u>	

B. LONG TERM ADVANCES

The City of Franklin is providing short and long term advances to the District. The amounts advanced are either from proceeds of a City borrowing or from City fund reserves. They are used to enable the District to carry out its approved project plans and may be replaced in the future by a direct borrowing. The District's interest rate is based upon the interest rate incurred by the City debt service fund on its borrowings or the reinvestment rate available to other City funds.

	Amount	Amounts not due within one year
Advance from City Funds:		
General Fund	<u>\$ 80,000</u>	\$ 80,000
Total	<u>\$ 80,000</u>	

NOTE 5 – TAX INCREMENT

The tax increment from the 2018 tax roll which will be recorded after December 31, 2018 as revenue in the calendar year 2019 is \$30,951.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

NOTES TO FINANCIAL STATEMENTS

From Date of Creation Through December 31, 2018

NOTE 6 – COMMITMENTS AND CONTINGENCIES

A. Developers Agreement

A Developer's Agreement was signed in February, 2018. The agreement required the City to fund \$22,491,484 of infrastructure and site preparation costs. The City also issued a \$3.5 million municipal revenue obligation, payable from tax increment after City General Obligation debt service has been paid. This MRO bears interest at 5.5% per annum. The City also committed to issuing a \$1.5 million municipal revenue obligation on May 1, 2031 to fund reconstruction, maintenance and/or repair of the Project methane system. The 2031 MRO bears no interest.

The developer guaranteed \$94 million in new development by January 1, 2021. The guarantee required payments in lieu of taxes for shortfalls in development below that level so long as City General Obligation Bonds are outstanding.

B. Municipal Revenue Obligations

The City issued a \$3.5 million municipal revenue obligation note on April 2, 2018 bearing interest at 5.5% per annum. Interest and Principal payments, due March 1, each year, are subordinate to City General Obligation Debt service. The MRO has other provisions that limit principal and interest payments.

The City also committed to issuing a \$1.5 million non-interest bearing municipal revenue obligation on May 1, 2031 to partially fund reconstruction, maintenance and/or repair of the Project methane system. Payment on this MRO is subordinate to City General Obligation Debt service. The MRO has other provisions that limit principal and interest payments.

NOTE 7 – SUBSEQUENT EVENT

On Feb 20, 2019 the City issued \$10,680,000 of Taxable General Obligation Corporate Purpose Bonds, Series 2019A. The proceeds were used to make the 2019 principal payment on the 2018 Note Anticipation Notes. The Bonds are payable until 2032 and carry interest rates between 3.0% and 3.5%.

SUPPLEMENTAL INFORMATION

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>	<u>Project Plan Estimate</u>
SOURCES OF FUNDS					
Tax Increments	\$ -	\$ -	\$ 30,500	\$ 30,500	\$ 37,951,952
Investment earnings	-	-	198,075	198,075	28,696
Miscellaneous revenue	-	-	-	-	10,833
Subtotal	-	-	<u>228,575</u>	<u>228,575</u>	<u>37,991,481</u>
Proceeds of long-term debt	-	-	<u>23,480,000</u>	<u>23,480,000</u>	<u>11,625,000</u>
Total Sources of Funds	-	-	<u>23,708,575</u>	<u>23,708,575</u>	<u>49,616,481</u>
USES OF FUNDS					
Capital expenditures	-	-	14,399,213	14,399,213	12,788,751
Professional services	50,846	15,759	57,353	123,958	-
Development incentives	-	-	4,597	4,597	14,964,616
Administration	1,000	31,270	32,318	64,588	485,000
Net Interest and fiscal charges	-	-	<u>227,520</u>	<u>227,520</u>	<u>2,495,713</u>
Subtotal	<u>51,846</u>	<u>47,029</u>	<u>14,721,001</u>	<u>14,819,876</u>	<u>30,734,080</u>
Principal on long-term debt	-	-	-	-	11,625,000
Debt issuance costs	-	-	<u>203,184</u>	<u>203,184</u>	<u>224,888</u>
Total Uses of Funds	<u>51,846</u>	<u>47,029</u>	<u>14,924,185</u>	<u>15,023,060</u>	<u>42,583,968</u>
FUND BALANCE - December 31, 2018				<u>\$ 8,685,515</u>	

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 5**

DETAILED SCHEDULE OF CAPITAL EXPENDITURES
From Date of Creation Through December 31, 2018

	<u>Actual</u>	<u>Project Plan Estimate</u>
Street improvements	\$ 1,617,593	\$ 887,500
Storm sewer	4,200,079	943,000
Land improvements	2,565,501	2,450,000
Berms	247,226	560,000
Methane gas	2,810,367	2,009,500
Parking lots	607,861	3,000,000
Sanitary Sewer	876,608	314,000
Water mains	1,396,803	378,375
Recreation improvements	77,175	170,000
Contingency	-	2,046,375
Developer Incentives (Municipal Revenue Obligations)	<u>-</u>	<u>9,290,000</u>
 Total Capital Expenditures	 <u>\$ 14,399,213</u>	 <u>\$ 22,048,750</u>

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To the City Council
City of Franklin
Franklin, Wisconsin

We have audited the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues and Net Cost to be Recovered Through Tax Increments and the related Historical Summary of Sources, Uses and Status of Funds of the City of Franklin's, Wisconsin's Tax Incremental District No. 5 as of December 31, 2018 and from the date the district was created through December 31, 2018 and have issued our report thereon dated May 17, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the district failed to comply with Wisconsin State Statutes Section 66.1105, insofar as it relates to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the district's noncompliance with the above-referenced statute, insofar as it relates to accounting matters.

This report is intended solely for the information and use of the 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.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
May 17, 2019