CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT
NUMBER TWO

Franklin, Wisconsin

FINANCIAL STATEMENTS

From the Date of Creation Through January 5, 2003

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER TWO

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From Date of Creation through January 5, 2003

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Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

To the Mayor and
Common Council
City of Franklin
Franklin, Wisconsin

We have audited the accompanying Combined 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 Tax Incremental District Number Two (the "District") as of January 5, 2003 and from the date the District was created through January 5, 2003. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the transactions of the District and are not intended to present fairly the financial position of the City of Franklin and the results of its operations and cash flows of its proprietary and similar fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, and the net project costs to be recovered through tax increments as of January 5, 2003 and the sources, uses and status of funds from the creation date of the District through January 5, 2003, in conformity with accounting principles generally accepted in the United States of America.

The City of Franklin, Wisconsin, has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The detailed schedules included as supplementary information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the City of Franklin, Wisconsin. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
January 5, 2004

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER TWO

COMBINED BALANCE SHEET
January 5, 2003

	Debt Service Fund	Capital Projects Fund
ASSETS		
Cash and investments	$ -	$ 542,193
Accounts receivable	-	16,942
Developer receivable	-	355,201
Taxes receivable	2,631,082	-
TOTAL ASSETS	$ 2,631,082	$ 914,336
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ -	$ 66,193
Deferred revenue	2,631,082	355,201
Total Liabilities	2,631,082	421,394
FUND BALANCES		
Fund balances		
Reserved for debt service	-	492,942
Total Fund Balances	-	492,942
TOTAL LIABILITIES AND FUND BALANCES	$ 2,631,082	$ 914,336

See accompanying notes to financial statements

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER TWO

HISTORICAL SUMMARY OF PROJECT COSTS, PROJECT REVENUES
AND NET COST TO BE RECOVERED THROUGH TAX INCREMENTS
From Date of Creation Through January 5, 2003

PROJECT COSTS	
Capital expenditures	$ 24,800,536
Administration	805,574
Interest and fiscal charges	12,577,376
Issuance costs on long-term debt	750,597
Refunding costs	409,599
Total Project Costs	39,343,682
PROJECT REVENUES	
Tax increments	9,350,687
Exempt computer aid	222,403
Special assessments	223,403
Investment income	1,712,372
Property sale proceeds	4,600,080
Miscellaneous revenues	157,679
Total Project Revenues	16,266,624
NET COST TO BE RECOVERED THROUGH TAX INCREMENTS - JANUARY 5, 2003	$ 23,077,058
LONG-TERM DEBT OUTSTANDING - JANUARY 5, 2003	$ 23,570,000

See accompanying notes to financial statements.

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER TWO

HISTORICAL SUMMARY OF SOURCES, USES AND STATUS OF FUNDS
From Date of Creation Through January 5, 2003

SOURCES OF FUNDS	
Tax increments	$ 9,350,687
Exempt computer aid	222,403
Special assessments	223,403
Investment income	1,712,372
Property sale proceeds	4,600,080
Miscellaneous revenues	157,679
Proceeds of long-term debt	32,955,000
Proceeds of refunding debt	21,390,000
Total Sources of Funds	70,611,624
USES OF FUNDS	
Capital expenditures	24,800,536
Administration	805,574
Interest and fiscal charges	12,577,376
Issuance costs on long-term debt	750,597
Refunding costs	409,599
Principal on long-term debt	9,150,000
Principal on advance refunded debt	21,625,000
Total Uses of Funds	70,118,682
FUND BALANCE - JANUARY 5, 2003	$ 492,942

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Franklin's Tax Incremental District Number Two (the "District") conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statues 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 Two reporting entity. The accompanying financial statements reflect all the significant operations of the City of Franklin's Tax Incremental District Number Two

During 1992, the City of Franklin created the Community Development Authority of the City of Franklin ("Authority"). The Authority is governed by a seven member board appointed by the City Common Council. Although it is legally separate from the District, the Authority is reported as if it were part of the District because its sole purpose is to finance and construct the City's business park located within the City of Franklin Tax Incremental District Number Two.

During 2003, the City Common Council restricted the power of the Authority to conduct the sole review and approval of land use and site and building plans

The Authority is included in the City's reporting entity as a discretely presented component unit. The City is financially accountable for the Authority due to the municipal lease revenue obligation of the City which supports the lease revenue bonds issued by the Authority. Separate financial statements are not published for the Authority. The Authority follows the accounting policies of the City and individual fund information is included in the financial section of the City of Franklin's comprehensive annual financial report.

B. DESCRIPTION OF FUND AND ACCOUNT GROUP STRUCTURE

This report contains the financial information of the City of Franklin's Tax Incremental District Number Two. The summary statements were prepared from data recorded in the following City funds and account group:

Debt Service Fund
Capital Projects Fund
General Fixed Asset Account Group (through December 31, 2002)
General Long-Term Obligations Account Group (through December 31, 2002)

Detailed descriptions of the purpose of these funds and account groups can be found in the City of Franklin's comprehensive annual financial report.

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 comprehensive annual financial report of the City.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. DESCRIPTION OF FUND AND ACCOUNT GROUP STRUCTURE (CONTINUED)

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 Franklin.

	Creation Date	Last Date to Incur Project Costs	Final Dissolution Date
District Number Two	January 1, 1993	January 5, 2003	December 31, 2019 or earlier

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, 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.

Special assessments are recorded as revenues when collected. Annual installments due in future years are accounted for as receivables and deferred revenues. All special assessments have been collected as of the date of this report.

Other general revenues, including revenue related to the developer receivable, are recognized when received in cash or when measurable and available under the criteria described 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 revenues 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. PROJECT PLAN BUDGETS

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. Effective October 15, 1996, the City amended the project plan of the District.

G. CAPITAL ASSETS

Capital assets of the District consisted of the acquisition of land for the business park. The land was subsequently sold to the developer with the District sharing in the proceeds as land sales occur. Accordingly, the land is not capitalized. Public domain (infrastructure) capital assets, such as roads, bridges, curbs 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 ahown 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.

J. CLAIMS AND JUDGEMENTS

Claims and judgements are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgements that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not liquidated with expendable available financial resources, a liability is shown in the long-term debt footnote disclosure. The related expenditure is recognized when the liability is liquidated.

K. NATURE AND PURPOSE OF RESERVATIONS OF FUND BALANCE

The District may establish reserves of fund balance to segregate that portion of fund equity which may not be appropriated for expenditures, or which is legally segregated for a specific future use. The nature and purpose of the District's reserve for debt service represents amounts provided for future payment of principal and interest on obligations of the District.

NOTE 2 – CASH AND INVESTMENTS

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

The District does not maintain separate cash and investment 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 insured funds is not determinable for the District.

NOTE 3 – DEVELOPER RECEIVABLE

At January 5, 2003, the District has a financial interest in approximately 80 acres of land in the business park with a cost of approximately $1,377,000. The District receives a percentage share of the proceeds of land sales in the business park. In addition, the developer has committed to pay the District certain cumulative minimum amounts, as defined in the development agreement and related amendments, over the period of the development agreement. The recorded receivable reflects the unremitted balance to meet the cumulative minimum.

NOTE 4 - LONG-TERM DEBT

A. REDEVELOPMENT LEASE REVENUE BOND DEBT

The Authority issued Redevelopment Lease Revenue Bonds for the purpose of financing a loan from the Authority to the City to finance project costs associated with the City's Tax Incremental District Number Two. The bonds are not general obligations of the Authority or the City, but are secured by the obligation of the City to make payments under a lease between the Authority and the City. The lease generally provides for payments by the City to the Authority in amounts equal to the principal and interest payments on the bonds on the dates such payments are due

Title of Issue	Date of Issue	Interest Rates	Principal Payable	Interest Payable	Original Amount	Balance Outstanding Jan. 5, 2003
Redevelopment Lease Revenue Bonds	05/01/93	3.75-6.20%	4/1/95-04	4/1&10/1	$ 14,355,000	$ 1,800,000
	07/01/98	6.65-6.95%	4/1/04-08	4/1&10/1	5,275,000	5,275,000
	07/01/98	3.90-5.20%	4/1/99-13	4/1&10/1	18,145,000	16,495,000
						$ 23,570,000

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Annual principal and interest payments to maturity on Redevelopment Lease Revenue Bonded Debt are as follows:

Calendar Year	Principal	Interest	Totals	Balance Outstanding Jan. 5, 2003
				$ 23,570,000
2003	$ 1,300,000	$ 1,223,168	$ 2,523,168	22,270,000
2004	2,240,000	1,125,053	3,365,053	20,030,000
2005	2,315,000	996,836	3,311,836	17,715,000
2006	2,750,000	858,780	3,608,780	14,965,000
2007	2,820,000	705,335	3,525,335	12,145,000
2008	2,910,000	544,432	3,454,432	9,235,000
2009	1,715,000	420,960	2,135,960	7,520,000
2010	1,870,000	333,985	2,203,985	5,650,000
2011	1,875,000	241,295	2,116,295	3,775,000
2012	1,880,000	146,480	2,026,480	1,895,000
2013	1,895,000	49,270	1,944,270	-
Totals	$ 23,570,000	$ 6,645,594	$ 30,215,594	

B. REFUNDED DEBT

In 1998, the Authority and the City defeased certain redevelopment lease revenue bonds by placing the proceeds of new debt in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and liability for the defeased debt is not included in the District's financial statements. At January 5, 2003, $11,500,000 of debt outstanding is considered defeased. The defeased debt is callable on April 1, 2004.

NOTE 5 - TAX INCREMENT

The tax increment from the 2002 tax roll which will be recorded after January 5, 2003 as revenue in the calendar year 2003 is $2,631,082.

SUPPLEMENTARY INFORMATION

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER TWO

DETAILED SCHEDULE OF SOURCES, USES AND STATUS OF FUNDS
From Date of Creation Through January 5, 2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Totals	Project Plan Estimate
SOURCES OF FUNDS													
Tax increments	$ -	$ -	$ 36,477	$ 126,691	$ 159,352	$ 799,660	$ 1,434,790	$ 1,886,513	$ 2,220,643	$ 2,686,561	$ -	$ 9,350,687	$ 43,944,765
Exempt computer aid	-	-	-	-	-	-	-	64,544	77,808	80,051	-	222,403	-
Special assessments	-	223,403	-	-	-	-	-	-	-	-	-	223,403	-
Investment income	250,999	289,217	227,530	154,914	129,652	278,617	69,366	136,086	109,862	66,129	-	1,712,372	2,058,796
Property sale proceeds	-	248,923	354,692	748,712	999,238	1,002,708	234,796	567,294	185,052	258,665	-	4,600,080	7,238,983
Miscellaneous revenues	12,690	20,200	31,717	9,417	3,587	3,000	62,211	9,588	-	5,269	-	157,679	-
Subtotal	263,689	781,743	650,416	1,039,734	1,291,829	2,083,985	1,801,163	2,664,025	2,593,365	3,096,675	-	16,266,624	53,242,544
Proceeds of long-term debt	17,555,000	45000	925,000	5955	~~9,300,000~~	~~5,275,000~~	-	-	-	-	-	32,955,000	30,365,000
Proceeds of refunding debt	-	3,245,000	-	-	3245000	~~18,145,000~~	-	-	-	-	-	21,390,000	-
Total Sources of Funds	17,818,689	4,026,743	1,575,416	1,039,734	10,491,829	25,503,985	1,801,163	2,664,025	2,593,365	3,096,675		70,611,624	83,607,544
		00				21625							
USES OF FUNDS													
Capital expenditures	10,035,011	2,622,154	658,371	2,375,662	3,623,156	2,930,034	259,920	599,070	918,919	778,239	-	24,800,536	23,993,000
Administration	53,705	73,875	51,602	59,044	57,962	54,948	153,868	61,564	137,237	101,769	-	805,574	2,185,000
Interest and fiscal charges	463,011	1,082,166	1,045,656	1,122,109	1,112,130	2,405,066	1,370,607	1,360,096	1,328,615	1,287,920	-	12,577,376	26,270,344
Issuance costs on long-term debt	438,875	-	21,057	-	190,000	100,665	-	-	-	-	-	750,597	794,200
Refunding costs	-	42,000	-	-	-	367,599	-	-	-	-	-	409,599	-
Subtotal	10,990,602	3,820,195	1,776,686	3,556,815	4,983,248	5,858,312	1,784,395	2,020,730	2,384,771	2,167,928	-	39,343,682	53,242,544
Principal on long-term debt	-	~~3,260,000~~	15,000	15,000	15 ~~3,260,000~~	20,000	565,000	375,000	615,000	1,085,000	-	9,150,000	30,365,000
Principal on advance refunded debt	-	3260000	-	-	3245000	21,625,000	-	-	-	-	22070	21,625,000	-
Total Uses of Funds	10,990,602	7,020,195	1,791,686	3,571,815	8,243,248	27,503,312	2,349,395	2,395,730	2,999,771	3,252,928	-	70,118,682	83,607,544
FUND BALANCE - JANUARY 5, 2003												$ 492,942	

Note - The project plan and amendment adopted by the City on October 15, 1996 estimated $66,091,243 of tax increment revenue over the statutory life of the District. For presentation purposes of this schedule, the tax increment amount was estimated based upon the expected dissolution of the District prior to its statutory life.

Correct as is called on 4-1-94

Correct as is called on 4-1-97

54345000
22070000
20275000

54345000
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23570000
cll 12/31/2002

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER TWO

DETAILED SCHEDULE OF CAPITAL EXPENDITURES
From Date of Creation Through January 5, 2003

	Actual	Project Plan Estimate
Land assembly and related activities	$ 5,595,030	$ 5,660,000
Site improvement activities	6,683,801	3,710,000
Development incentives	-	170,000
Municipal infrastructure improvements	7,604,610	7,745,000
Develop business (industrial) park entrance	756,008	1,010,000
Develop central business (industrial) park area	99,844	1,800,000
Organizational costs	2,441,403	915,000
Relocation costs	688,495	750,000
Contributions to the CDA related to implementation of project plan	-	125,000
Payments necessary to the creation of TID Number Two	-	50,000
Construction costs outside TID Number Two necessitated by this project plan	790,698	668,000
Contingency amounts	140,647	1,390,000
TOTAL CAPITAL EXPENDITURES	$ 24,800,536	$ 23,993,000

Note - Project Plan Estimate amounts reflect amendments to the project plan adopted by the City of Franklin on October 15, 1996.

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Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

To the Mayor and
Common Council
City of Franklin
Franklin, Wisconsin

We have audited the accompanying Combined 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, Wisconsin Tax Incremental District Number Two (the "district") from the date the district was created through January 5, 2003 and have issued our report thereon dated January 5, 2004.

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 Franklin, Wisconsin management. As part of obtaining reasonable assurance about whether the aforementioned financial statements are free of material misstatement, we performed tests of the city's compliance with Wisconsin State Statutes Section 66.1105 and the project plan. However, it should be noted that our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that with respect to the items tested, the City of Franklin, Wisconsin compiled, in all material respects, with the provisions referred to in the preceding paragraph. With respect to any items not tested, nothing came to our attention that caused us to believe that the City of Franklin, Wisconsin had not complied, in all material respects, with those provisions.

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

Virchow, Krause + Company, LLP

Milwaukee, Wisconsin
January 5, 2004