

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT
NUMBER THREE
Franklin, Wisconsin**

FINANCIAL STATEMENTS

From Date of Creation Through December 31, 2007

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE

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From Date of Creation through December 31, 2007

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Independent Auditors' Report

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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 Three (the "District") as of December 31, 2007 and from the date the District was created through December 31, 2007. 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 do not purport to, and do not, present fairly the financial position of the City of Franklin as of December 31, 2007 and the changes in its financial position for the year then ended 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 December 31, 2007 and the sources, uses and status of funds from the creation date of the District through December 31, 2007, 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 basic 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 Tax Incremental District Number Three. 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
March 20, 2009

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CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE

COMBINED BALANCE SHEET
December 31, 2007

	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash and investments	\$ 404,395	\$ -
Taxes receivable	504,283	-
Note receivable	-	10,000,000
Due from other governments	<u>102,405</u>	<u>-</u>
Total assets	<u>\$ 1,011,083</u>	<u>\$ 10,000,000</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 184,007	\$ -
Deferred revenue	504,283	-
Long-term advances	<u>9,700,000</u>	<u>-</u>
Total Liabilities	<u>10,388,290</u>	<u>-</u>
FUND BALANCES		
Reserved for contractual obligations	413,000	-
Reserved for debt service	-	10,000,000
Unreserved - undesignated	<u>(9,790,207)</u>	<u>-</u>
Total fund balances (deficit)	<u>\$ (9,377,207)</u>	<u>10,000,000</u>

See accompanying notes to financial statements.

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE

HISTORICAL SUMMARY OF PROJECT COSTS, PROJECT REVENUE
AND NET COST TO BE RECOVERED THROUGH TAX INCREMENTS
From Date of Creation Through December 31, 2007

PROJECT COSTS

Capital expenditures	\$ 4,208,139
Development incentives - grants	6,000,000
Development incentives - interest subsidy	236,456
Administration	148,891
Interest and fiscal charges	709,451
Issuance costs on long-term debt	<u>51,625</u>
Total Project Costs	<u>11,354,562</u>

PROJECT REVENUE

Tax Increments	251,402
Exempt computer aid	317,482
TEA Grant	1,000,000
Investment earnings	277,521
Miscellaneous revenue	<u>130,950</u>
Total Project Revenue	<u>1,977,355</u>

NET COST TO BE RECOVERED THROUGH

TAX INCREMENTS - DECEMBER 31, 2007 \$ 9,377,207

LONG-TERM OBLIGATIONS OUTSTANDING - DECEMBER 31, 2007

\$ 19,700,000

RECONCILIATION OF RECOVERABLE COSTS

General Obligation Promisory Notes Outstanding	\$ 10,000,000
Less: Fund Balance	<u>622,793</u>

NET COST TO BE RECOVERED THROUGH

TAX INCREMENTS - DECEMBER 31, 2007 \$ 9,377,207

See accompanying notes to financial statements.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE**

**HISTORICAL SUMMARY OF SOURCES, USES AND STATUS OF FUNDS
From Date of Creation Through December 31, 2007**

SOURCES OF FUNDS

Tax Increments	\$ 251,402
Exempt computer aid	317,482
TEA Grant	1,000,000
Investment earnings	277,521
Miscellaneous revenue	<u>130,950</u>
Subtotal	1,977,355
Long-term debt issued	<u>10,000,000</u>
Total Sources of Funds	<u>11,977,355</u>

USES OF FUNDS

Capital expenditures	4,208,139
Development incentives - grants	6,000,000
Development incentives - interest subsidy	236,456
Administration	148,891
Interest and fiscal charges	709,451
Issuance costs on long-term debt	<u>51,625</u>
Total Uses of Funds	<u>11,354,562</u>

FUND BALANCE - December 31, 2007 **\$ 622,793**

See accompanying notes to financial statements.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE**

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying policies of the City of Franklin's Tax Incremental District Number Three ("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 Three reporting entity. The accompanying financial statements reflect all the significant operations of the City of Franklin's Tax Incremental District Number Three.

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 Three. 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 Three	June 21, 2005	June 21, 2020	2026

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE**

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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 NUMBER THREE**

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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.

J. NATURE AND PURPOSE OF RESERVATION OF FUND BALANCE

The District may establish reserves of fund balance to segregate that portion of fund balance 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. The nature and purpose of the District's reserve for contractual obligations represents the balance of the amounts contracted for and unbilled at the report date representing work to be completed on contracts outstanding.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE**

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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 – NOTE RECEIVABLE

The District, at December 31, 2007, has a \$10 Million Note Receivable from the developer/owner of a large project in which the District has issued taxable debt and provided those proceeds to the company to be used as part of the construction. The company is to repay the District over the seven year life of the issue as the principal payments on the taxable debt issue are due. The note receivable is unsecured.

NOTE 4 – 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 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.

Details of the general obligation promissory 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	1/3/07	4.95	3/ 1/08-14	3/1 & 9/1	\$ 10,000,000	\$ 10,000,000

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE**

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 4 – LONG-TERM DEBT (continued)

A. GENERAL OBLIGATION DEBT (continued)

Annual principal and interest payments to maturity on the taxable general obligation note payable is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance Outstanding 12/31</u>
2007				\$ 10,000,000
2008	\$ 600,000	\$ 480,150	\$ 1,080,150	9,400,000
2009	615,000	450,079	1,065,079	8,785,000
2010	625,000	419,389	1,044,389	8,160,000
2011	640,000	388,080	1,028,080	7,520,000
2012	655,000	356,029	1,011,029	6,865,000
2013 - 2014	<u>6,865,000</u>	<u>476,561</u>	<u>7,341,561</u>	-
	<u>\$ 10,000,000</u>	<u>\$ 2,570,288</u>	<u>\$ 12,570,288</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.

	<u>Amount</u>	<u>Amounts not due within one year</u>
Advance from City Funds:		
Equipment replacement	\$ 1,200,000	\$ -
Debt service	8,500,000	8,500,000
 Total	 <u>\$ 9,700,000</u>	

The advances were repaid in August of 2008 with the issuance of \$10 million in general obligation promissory notes with interest rates from 3% to 3.5% with the principal payable from 2009 thru 2014.

NOTE 5 – TAX INCREMENT

The tax increment from the 2007 tax roll which will be recorded after December 31, 2007 as revenue in the calendar year 2008 is \$504,283.

SUPPLEMENTARY INFORMATION

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE

DETAILED SCHEDULE OF SOURCES, USES AND STATUS OF FUNDS
 From Date of Creation Through December 31, 2007

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>	<u>Project Plan Estimate</u>
SOURCES OF FUNDS					
Tax Increments	-	-	\$ 251,402	\$ 251,402	\$ 17,253,624
Exempt computer aid	-	-	317,482	317,482	-
TEA grant	-	-	1,000,000	1,000,000	-
Investment earnings	60,525	114,349	102,647	277,521	36,471
Miscellaneous revenue	-	-	130,950	130,950	-
Subtotal	<u>60,525</u>	<u>114,349</u>	<u>1,802,481</u>	<u>1,977,355</u>	<u>17,290,095</u>
Proceeds of long-term debt	-	-	10,000,000	10,000,000	13,575,000
Total Sources of Funds	<u>60,525</u>	<u>114,349</u>	<u>11,802,481</u>	<u>11,977,355</u>	<u>30,865,095</u>
USES OF FUNDS					
Capital expenditures	906,440	2,021,092	1,280,607	4,208,139	7,800,000
Development incentives - grants	-	-	6,000,000	6,000,000	5,000,000
Development incentives - interest subsidy	-	-	236,456	236,456	-
Administration	43,054	70,526	35,311	148,891	-
Net interest and fiscal charges	66,036	179,643	463,772	709,451	4,311,874
Issuance costs on long-term debt	18,500	-	33,125	51,625	178,221
Subtotal	<u>1,034,030</u>	<u>2,271,261</u>	<u>8,049,271</u>	<u>11,354,562</u>	<u>17,290,095</u>
Principal on long-term debt	-	-	10,000,000	-	13,575,000
Debt issuance costs	-	-	-	-	-
Total Uses of Funds	<u>1,034,030</u>	<u>2,271,261</u>	<u>18,049,271</u>	<u>11,354,562</u>	<u>30,865,095</u>
FUND BALANCE - December 31, 2007				<u>\$ 622,793</u>	

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NUMBER THREE**

**DETAILED SCHEDULE OF CAPITAL EXPENDITURES
From Date of Creation Through December 31, 2007**

	<u>Actual</u>	<u>Project Plan Estimate</u>
31st street extension	\$ 3,451,792	\$ 3,500,000
31st street reconstruction	576,747	1,000,000
Drexel Avenue (27th to 31st street)	73,421	1,100,000
27th street reconstruction	<u>106,179</u>	<u>2,200,000</u>
 Total Capital Expenditures	 <u>\$ 4,208,139</u>	 <u>\$ 7,800,000</u>

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**Virchow Krause
& company**

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

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 Tax Incremental District Number Three (the "District") as of December 31, 2007 and from the date the District was created through December 31, 2007 and have issued our report thereon date March 20, 2009.

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 of Franklin'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 complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to 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 City of Franklin 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
March 20, 2009

