

CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 4
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. 4**

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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 Balance Sheet, Historical Summary of Project Costs, Project Revenues, and Net Cost to be Recovered Through Tax Increments and Historical Summary of Sources, Uses, and Status of funds of the City of Franklin's Tax Incremental District No. 4 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. Except as discussed in the following paragraph, 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.

Sources of funds of \$6,544,207 and uses of funds of \$2,066,640 were incurred between 2009 and 2015. Those amounts were included in the City of Franklin's basic financial statements as supplemental information which were audited by other auditors. Their reports indicated that their audits were made for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information was subjected to the auditing procedures applied in their audits of the basic financial statements and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole. Additional audit procedures on those sources of funds and uses of funds have not been performed.

To the City Council
City of Franklin

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.

Opinion

In our opinion, based on our audit and the report of other auditors and except for the effect of such adjustments, if any, as might have been necessary had we performed additional audit procedures on the sources of funds and uses of funds incurred between 2009 and 2015, the financial statements referred to above present fairly, in all material respects, the financial position of City of Franklin's Tax Incremental District No. 4 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.4 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.

To the City Council
City of Franklin

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. 4'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.

The City of Franklin's financial statements for the years ended December 31 2009 - 2015, which are not presented with the accompanying financial statements, were audited by other auditors whose reports expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Their report on the 2009 - 2015 combining and individual nonmajor fund financial statements stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the years ended December 31 2009 - 2015, as a whole.

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. 4**

COMBINED BALANCE SHEET
December 31, 2018

	Capital Projects Fund
ASSETS	
Cash and investments	\$ 3,258,641
Taxes receivable	<u>1,011,224</u>
Total Assets	<u><u>\$ 4,269,865</u></u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	
LIABILITIES	
Accounts payable	<u>\$ 167,182</u>
DEFERRED INFLOWS	
Unearned revenue	<u>1,011,224</u>
FUND BALANCES	
Restricted	<u>3,091,459</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u><u>\$ 4,269,865</u></u>

See accompanying notes to financial statements.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 4**

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

PROJECT COSTS

Capital expenditures	\$ 6,025,487
Professional services	267,718
Administration	311,677
Interest and fiscal charges	<u>1,492,820</u>
Total Project Costs	<u>8,097,702</u>

PROJECT REVENUE

Tax Increments	9,633,214
Exempt computer aid	277,627
Payment in lieu of taxes	677,988
Investment earnings	285,872
Miscellaneous revenue	314,460
Total Project Revenue	<u>11,189,161</u>

NET TAX INCREMENTS TO BE REFUNDED THROUGH DECEMBER 31, 2018 \$ (3,091,459)

See accompanying notes to financial statements.

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 4**

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

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 Four. The summary statements were prepared from the data recorded in the City Capital Projects Fund.

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 Four	June 21, 2005	June 21, 2020	2026

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 4**

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 revenues 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. 4**

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. The District financed all projects with interfund advances from other City funds.

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. 4**

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. LONG TERM ADVANCES

The City of Franklin provided short and long term advances to the District. The amounts advanced were from City fund reserves. They were 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. All of the advances had been repaid by December 31, 2018.

NOTE 4 – 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 \$1,011,224.

SUPPLEMENTAL INFORMATION

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 4**

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
SOURCES OF FUNDS										
Tax Increments	\$ -	\$ -	\$ 17,702	\$ 236,803	\$ 221,611	\$ 1,268,430	\$ 836,103	\$ 909,841	\$ 815,923	\$ 954,727
Exempt computer aid	-	-	4,884	6,862	5,474	3,254	59,197	57,003	46,504	24,620
Payment in lieu of taxes	-	-	-	-	71,124	78,217	-	-	46,374	18,001
Investment earnings	39,408	117,860	28,754	9,354	8,341	5,120	5,849	3,800	(3,255)	906
Miscellaneous revenue	-	-	294,196	34,337	(14,073)	-	-	-	-	-
Total Sources of Funds	<u>39,408</u>	<u>117,860</u>	<u>345,536</u>	<u>287,356</u>	<u>292,477</u>	<u>1,355,021</u>	<u>901,149</u>	<u>970,644</u>	<u>905,546</u>	<u>998,254</u>
USES OF FUNDS										
Capital expenditures	165,595	659,840	3,522,075	226,464	473,936	47,277	359,491	-	-	83,760
Professional services	-	-	-	161,542	55,102	3,949	11,290	-	-	-
Administration	34,844	35,237	53,667	51,827	28,685	9,626	9,986	13,687	12,123	9,585
Net Interest and fiscal charges	61,428	129,485	116,893	187,046	223,924	198,646	174,164	144,248	101,797	59,904
Total Uses of Funds	<u>261,867</u>	<u>824,562</u>	<u>3,692,635</u>	<u>626,879</u>	<u>781,647</u>	<u>259,498</u>	<u>554,931</u>	<u>157,935</u>	<u>113,920</u>	<u>153,249</u>
FUND BALANCE (DEFICIT) - December 31,	<u>\$ (222,459)</u>	<u>\$ (929,161)</u>	<u>\$ (4,276,260)</u>	<u>\$ (4,615,783)</u>	<u>\$ (5,104,953)</u>	<u>\$ (4,009,430)</u>	<u>\$ (3,663,212)</u>	<u>\$ (2,850,503)</u>	<u>\$ (2,058,877)</u>	<u>\$ (1,213,872)</u>

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 4**

DETAILED SCHEUDLE OF SOURCES, USES AND STATEUS OF FUNDS
From Date of Creation Through December 31, 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>	Project Plan <u>Estimate</u>
SOURCES OF FUNDS						
Tax Increments	\$ 1,009,060	\$ 1,289,709	\$ 1,013,892	\$ 1,059,413	\$ 9,633,214	\$ 33,565,487
Exempt computer aid	19,631	18,043	15,960	16,195	277,627	-
Payment in lieu of taxes	92,021	91,206	148,173	132,872	677,988	-
Investment earnings	404	(5,035)	18,283	56,083	285,872	795,226
Miscellaneous revenue	-	-	-	-	314,460	-
Total Sources of Funds	<u>1,121,116</u>	<u>1,393,923</u>	<u>1,196,308</u>	<u>1,264,563</u>	<u>11,189,161</u>	<u>34,360,713</u>
USES OF FUNDS						
Capital expenditures	-	-	-	487,049	6,025,487	22,683,400
Professional services	-	1,300	27,371	7,164	267,718	-
Administration	30,765	11,205	5,220	5,220	311,677	-
Net Interest and fiscal charges	14,695	920	-	79,670	1,492,820	1,258,714
Total Uses of Funds	<u>45,460</u>	<u>13,425</u>	<u>32,591</u>	<u>579,103</u>	<u>8,097,702</u>	<u>23,942,114</u>
FUND BALANCE (DEFICIT) - December 31,	<u>\$ (138,216)</u>	<u>\$ 1,242,282</u>	<u>\$ 2,405,999</u>	<u>\$ 3,091,459</u>	<u>\$ 3,091,459</u>	

**CITY OF FRANKLIN
TAX INCREMENTAL DISTRICT NO. 4**

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

	<u>Actual</u>	<u>Project Plan Estimate</u>
ROW land acquisition	\$ 401,337	\$ 2,495,000
31st street reconstruction	2,496,114	1,860,000
Elm Road Reconstruction	-	1,490,000
S County Line Road Reconstruction	-	1,830,000
Other Road Construction	-	5,120,000
Sewer & water	1,752,530	5,980,000
Lift Station	-	2,200,000
Wheaton Way	763,524	172,400
Oak Creek Water & intersection	146,837	-
Franklin signal & intersection	465,145	600,000
Contingency & Other	-	936,000
	<u> </u>	<u> </u>
Total Capital Expenditures	<u>\$ 6,025,487</u>	<u>\$ 22,683,400</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. 4 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.

Sources of funds of \$6,544,207 and uses of funds of \$2,066,640 were incurred between 2009 and 2015. Those amounts were included in the City of Franklin's financial statements as supplemental information which were audited by other auditors. Their reports indicated that their audits were made for the purpose of forming opinions on the basic financial statements as a whole. The supplemental information was subjected to the auditing procedures applied in their audits of the basic financial statements and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole. Additional audit procedures on those sources of funds and uses of funds have not been performed.

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