

FINAL OFFICIAL STATEMENT DATED DECEMBER 6, 2005

NEW ISSUE

Bank Qualified
Moody's Rated "Aa2"

In the opinion of Quarles & Brady LLP, Bond Counsel, assuming continued compliance with the requirements of the Internal Revenue Code of 1986, under existing law interest on the Notes is excludable from gross income and is not an item of tax preference for federal income tax purposes. The Notes are designated as "qualified tax-exempt obligations". See "TAX EXEMPTION" herein for a more detailed discussion of some of the federal income tax consequences of owning the Notes. The interest on the Notes is not exempt from present Wisconsin income or franchise taxes.

**CITY OF FRANKLIN
Milwaukee County, Wisconsin
\$10,000,000 General Obligation Promissory Notes**

Dated: January 1, 2006

Due: March 1, 2009 – 2011

The \$10,000,000 General Obligation Promissory Notes (the "Notes") will be dated January 1, 2006, will be fully registered and issued in the denomination of \$5,000 or integral multiples thereof, and will mature on March 1 of the years 2009 through 2011. Interest on the Notes shall be payable commencing on March 1, 2006 and semi-annually thereafter on September 1 and March 1 of each year.

MATURITY SCHEDULE

| <u>(March 1)</u> | <u>Amount</u> | <u>Rate</u> | <u>Yield</u> |
|------------------|---------------|-------------|--------------|
| 2009 | \$2,300,000 | 3.50% | 3.35% |
| 2010 | 3,000,000 | 4.00 | 3.45 |
| 2011 | 4,700,000 | 4.00 | 3.53 |

The Notes are being issued pursuant to Chapter 67 of the Wisconsin Statutes. The Notes will be general obligations of the City for which its full faith and credit and unlimited taxing powers are pledged. The proceeds of the Notes will be used for the purpose of making a prepayment of rentals under a lease with the Community Development Authority of the City (the "CDA"), which the CDA will apply to a current refunding of certain of its outstanding obligations. (See "THE FINANCING PLAN" herein.)

The Notes are not subject to call and prior redemption.

The Notes will be issued only as fully registered Notes and will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as the securities depository of the Notes. Individual purchases will be made in book-entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. Purchasers of the Notes will not receive certificates representing their interest in the Notes purchased. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

The City of Franklin Notes are offered when, as and if issued subject to the approval of legality by Quarles & Brady LLP, Milwaukee, Wisconsin, Bond Counsel. The anticipated settlement date for the issue is on or about January 5, 2006.

ROBERT W. BAIRD & CO.
Financial Advisor

**CITY OF FRANKLIN
(Milwaukee County, Wisconsin)**

COMMON COUNCIL

Thomas M. Taylor, Mayor
Steve Olson, Alderperson
Timothy C. Solomon, Alderperson
Alan R. Hammelman, Alderperson
Pete Kosovich, Alderperson
Lyle Sohns, Alderperson (President)
Ken Skowronski, Alderperson

ADMINISTRATION

Director of Administration⁽¹⁾
Sandra L. Wesolowski, Clerk
Calvin A. Patterson, Director of Finance/Treasurer
John Bennett, Director of Public Works/City Engineer
Bill Wucherer, Director of Health & Human Services
Dana Zahn, Human Resources Coordinator
Roy Kainz, Superintendent of Sewer/Water
Jerry Schaefer, Superintendent of Public Works
Douglas B. Wheaton, Community Development Director
Planning Manager⁽¹⁾
Marty Kuehn, Assessor
Frederick M. Baumgart, Building Inspector
Ronald J. Wambach, Municipal Judge⁽²⁾
Richard Oliva, Chief of Police
James Martins, Fire Chief

⁽¹⁾ Position is currently vacant.

⁽²⁾ Mr. Wambach is an elected official whose term expires April, 2006.

CITY ATTORNEY

Jesse A. Wesolowski
Wesolowski, Reidenbach & Fleming, S.C.
Franklin, Wisconsin

FINANCIAL ADVISOR

Robert W. Baird & Co.
Milwaukee, Wisconsin

BOND COUNSEL

Quarles & Brady LLP
Milwaukee, Wisconsin

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesperson, or other person has been authorized by City of Franklin or by Robert W. Baird & Co. Incorporated, the Financial Advisor, to give any information or to make any representations other than those contained herein, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy the Notes, nor shall there be any sale of the Notes, in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Robert W. Baird & Co., in its role as Financial Advisor, assisted the issuer in preparing the Official Statement. Baird obtained information from the issuer and other sources that it believed was reliable, but cannot guarantee the accuracy or completeness of the information in this Official Statement.

The Underwriter has provided the following sentence for inclusion in the Official Statement. The Underwriter has reviewed the information in this official statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any other sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City of Franklin.

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Appendix A: 2004 Basic Financial Statements and Related Notes

Appendix B: Form of Continuing Disclosure Certificate

SUMMARY

| | |
|------------------------------|---|
| Issuer: | City of Franklin, Milwaukee County, Wisconsin. |
| Issue: | \$10,000,000 General Obligation Promissory Notes. |
| Dated Date: | January 1, 2006. |
| Interest Due: | Commencing on March 1, 2006 and on each September 1 and March 1 thereafter. Interest on the Notes will be computed on the basis of a 30-day month and a 360-day year. |
| Principal Due: | March 1 of the years 2009 through 2011. |
| Redemption Provision: | The Notes are not subject to call and prior redemption. |
| Security: | The full faith, credit and resources of the City are pledged to the payment of the principal of and the interest on the Notes as the same become due and, for said purposes, there are levied without limitation on all the taxable property in the City direct, annual, irrevocable taxes in each year and in such amounts which will be sufficient to meet such principal and interest payments when due. |
| Purpose: | The proceeds of the Notes will be used for the purpose of making a prepayment of rentals under a lease with the Community Development Authority of the City (the "CDA"), which the CDA will apply to a current refunding of certain of its outstanding obligations. (See "THE FINANCING PLAN" herein.) |
| Tax Status: | Interest on the Notes is excludable from gross income for federal income tax purposes. (See "TAX EXEMPTION" herein.) |
| Credit Rating: | This issue has been assigned a "Aa2" rating by Moody's Investors Service, Inc. (See "RATING" herein.) |
| Bank Qualification: | The Notes will be designated as "qualified tax-exempt obligations." |
| Paying Agent: | Treasurer, City of Franklin, Wisconsin. |
| Record Date: | The 15th day of the calendar month next preceding each interest payment date. |
| Bond Years: | 44,066.67 years. |
| Average Life: | 4.407 years. |

Information set forth on this page is qualified by the entire Official Statement. A full review of the entire Official statement should be made by potential investors.

INTRODUCTORY STATEMENT

This Official Statement presents certain information relating to the City of Franklin, Wisconsin (the "City" and the "State", respectively) in connection with the sale of the City's \$10,000,000 General Obligation Promissory Notes (the "Notes"). The Notes are issued pursuant to the Constitution and laws of the State and the resolution adopted by the City (the "Resolution") and other proceedings and determinations related thereto.

All summaries of statutes, documents and the Resolution contained in this Official Statement are subject to all the provisions of, and are qualified in their entirety by reference to such statutes, documents and the Resolution, and references herein to the Notes are qualified in their entirety by reference to the form thereof included in the Resolution. Copies of the Resolution may be obtained from the Financial Advisor upon request.

THE FINANCING PLAN

The Notes will be used for the purpose of making a prepayment of rentals under a lease with the Community Development Authority of the City (the "CDA"), which the CDA will apply to current refunding a portion of the following issue (the "Prior Issue"):

| Community Development Authority Redevelopment Lease Revenue Refunding Bonds, Series 1998B – Dated July 1, 1998 Original Amount of the Bonds: \$18,145,000 | | | | |
|---|-----------------|------------------------------|---------------------------------|---|
| Call Price | Redemption Date | Maturities to be Refunded | Amount of Principal Refunded | Balance after Refunding (April 1, 2006) ⁽¹⁾ |
| 102% | April 1, 2006 | 2008 ⁽²⁾ | \$535,000 | \$1,175,000 |
| 102% | April 1, 2006 | 2009-2013 ⁽³⁾ | \$9,235,000 | \$0 |

⁽¹⁾ Amounts in this column are for the corresponding maturities only. The total remaining balance after refunding is \$2,875,000.

⁽²⁾ Partial call.

⁽³⁾ Full call.

CONSTITUTIONAL STATUTORY CONSIDERATIONS AND LIMITATIONS CONCERNING THE CITY'S POWER TO INCUR INDEBTEDNESS

The Constitution and laws of the State limit the power of the City (and other municipalities of the State) to issue obligations and to contract indebtedness. Such constitutional and legislative limitations include the following, which are presented in summary form and are generally applicable to the City.

Purpose

The City may not borrow money or issue notes or bonds therefor for any purpose except those specified by statute, which include among others the purposes for which the Notes are being issued.

General Obligation Bonds

The principal amount of every sum borrowed by the City and secured by an issue of bonds may be payable at one time in a single payment or at several times in two or more installments; however, no installment may be made payable later than the termination of twenty years immediately following the date of the bonds. The Common Council is required to levy a direct, annual, irrevocable tax sufficient in amount to pay the interest on such bonds as it falls due and also to pay and discharge the principal thereof at maturity. Bonds issued by the City to refinance or refund outstanding notes or bonds issued by the City may be payable no later than twenty years following the original date of such notes or bonds.

Refunding Bonds

In addition to being authorized to issue bonds, the City is authorized to borrow money using refunding bonds for refunding existing debt. To evidence such indebtedness, the City must issue its refunding bonds (with interest) payable within a period not exceeding twenty years following the initial date of the debt to be refunded. Such refunding bonds constitute a general obligation of the City. Refunding bonds are not subject to referendum.

Bond Anticipation Notes

In anticipation of issuing general obligation bonds or notes, the City is authorized to borrow money using bond anticipation notes. The bond anticipation notes shall in no event be general obligations of the City, and do not constitute an indebtedness of the City, nor a charge against its general credit or taxing power. The bond anticipation notes are payable only from (a) proceeds of the bond anticipation notes set aside for payment of interest on the bond anticipation notes as they become due, and, (b) proceeds to be derived from the issuance and sale of general obligation bonds or notes which proceeds are pledged for the payment of the principal of and interest on the bond anticipation notes. The maximum term of any bond anticipation notes (including any refunding) is five years.

Promissory Notes

In addition to being authorized to issue bonds, the City is authorized to borrow money using promissory notes for any public purpose. To evidence such indebtedness, the City must issue its promissory notes (with interest) payable within a period not exceeding ten years following the date of said notes. Such notes constitute a general obligation of the City. Notes may be issued to refinance or refund outstanding notes or bonds. However, such notes must be payable not later than ten years following the original date of such notes.

Debt Limit

The City has the power to contract indebtedness for purposes specified by statute so long as the principal amount thereof does not exceed five percent of the equalized value of taxable property within the City. For information with respect to the City's percent of legal debt incurred, see the caption "INDEBTEDNESS OF THE CITY-*Debt Limit*," herein.

THE RESOLUTION

The following is a summary of certain provisions of the Resolution to be adopted by the City pursuant to the procedures prescribed by Wisconsin Statutes. Reference is made to the Resolution for a complete recital of its terms.

Award Resolution

By way of a resolution to be adopted on December 6, 2005 (the "Award Resolution"), the Common Council will authorize the issuance of the Notes and accept the bid (or reject all bids) of the Underwriters for the purchase of the Notes, in accordance with bid specifications, provide the details and form of the Notes, and set out certain covenants with respect thereto. The Award Resolution pledges the full faith, credit and resources of the City to payments of the principal of and interest on the Notes. Pursuant to the Award Resolution, the amount of direct, annual, irrevocable taxes levied for collection in the years 2006 through 2011 which will be sufficient to meet the principal and interest payments on the Notes when due will be specified (or monies to pay such debt service will otherwise be appropriated). The Award Resolution establishes separate and distinct from all other funds of the City a debt service fund with respect to payment of principal of and interest on the Notes.

THE CITY

Common Council

The Common Council is the legislative and policy making body of the City and consists of six council members who are elected from each of the City's aldermanic districts for three-year terms, and a mayor who is elected separately for a three-year term. The present members, their aldermanic districts and the expiration of their respective terms of office are as follows.

| Common Council | Aldermanic District | Expiration of Term |
|--|---------------------|--------------------|
| Thomas M. Taylor, Mayor (April, 2008) | | |
| Steve Olson, Alderperson | 1 | April, 2007 |
| Timothy C. Solomon, Alderperson | 2 | April, 2007 |
| Alan R. Hammelman, Alderperson | 3 | April, 2008 |
| Pete Kosovich, Alderperson | 4 | April, 2008 |
| Lyle Sohns, Alderperson (President) | 5 | April, 2007 |
| Ken Skowronski, Alderperson | 6 | April, 2008 |

Administration

The day-to-day affairs of the City is handled by the Director of Administration. The present members of the administration and their years of service are listed below.

| Name | Title | Years of Service |
|-----------------------|--|--------------------|
| -- | Director of Administration | --- ⁽¹⁾ |
| Sandra L. Wesolowski | Clerk | 6 |
| Calvin A. Patterson | Director of Finance/Treasurer | 5 |
| John Bennett | Director of Public Works/City Engineer | 36 |
| Bill Wucherer | Director of Health & Human Services | 13 |
| Dana Zahn | Human Resources Coordinator | --- ⁽²⁾ |
| Roy Kainz | Superintendent of Sewer/Water | 34 |
| Jerry Schaefer | Superintendent of Public Works | 30 |
| Douglas B. Wheaton | Community Development Director | --- ⁽³⁾ |
| -- | Planning Manager | --- ⁽¹⁾ |
| Marty Kuehn | Assessor | 3 ⁽⁴⁾ |
| Frederick M. Baumgart | Building Inspector | 32 |
| Ronald J. Wambach | Municipal Judge ⁽⁵⁾ | 33 |
| Richard Oliva | Chief of Police | --- ⁽⁶⁾ |
| James Martins | Fire Chief | 3 ⁽⁷⁾ |

⁽¹⁾ Position is currently vacant.

⁽²⁾ Prior to accepting the position at the City, Ms. Zahn was the Human Resources Manager for the Unified Solutions, Inc.

⁽³⁾ Prior to accepting the position at the City, Mr. Wheaton was the Government Affairs Director for Wisconsin Realtors Association.

⁽⁴⁾ Mr. Kuehn is a contracted assessor from CTL Corporation.

⁽⁵⁾ Mr. Wambach is an elected official whose term expires April, 2006.

⁽⁶⁾ Prior to accepting the position at the City, Mr. Oliva was a captain for the Milwaukee Police Department.

⁽⁷⁾ Prior to accepting the position at the City, Mr. Martins was a deputy chief for the Milwaukee Fire Department.

Employment Relations

| <u>Department</u> | <u>Number of Employees</u> |
|---------------------------------|----------------------------|
| Administration | 2 |
| Assessor | 1 |
| Building Inspection | 10 |
| Clerk | 4 |
| Community Development | 1 |
| Engineering | 14 |
| Finance | 5 |
| Fire | 43 |
| Health | 9 |
| Highways | 28 |
| Human Resources | 2 |
| Library | 28 |
| Mayor/Alderspersons | 7 |
| Municipal Buildings Maintenance | 7 |
| Municipal Court | 2 |
| Planning & Zoning | 3 |
| Police | 76 |
| Sewer/Water | 13 |
| Treasury | 4 |
| TOTAL | <u>259</u> |

The City of Franklin employees are represented by:

| <u>Organization</u> | <u>Employee Group Represented</u> | <u>Date of Contract</u> |
|--|---|-------------------------|
| Franklin Police Officers Association | Police officers | December 31, 2004* |
| Franklin Police and Fire Department Clerical Association | Dispatchers | December 31, 2005 |
| Franklin Professional Firefighters Association Local 2760 (I.A.F.F.) | Firefighters | December 31, 2006 |
| Teamsters General Union Local 200 | Clerical employees | December 31, 2006 |
| Franklin Inspection Employees Local 2 (AFSCME) (AFL-CIO) | Inspection employees | December 31, 2005 |
| Franklin Employees Local 2 (AFSCME) (AFL-CIO) | Public Works, Sewer and Water and Custodial employees | December 31, 2005 |

* In negotiation; employees are still working under the terms of the expired contracts.

All eligible City personnel are covered by the Municipal Employment Relations Act (MERA) of the Wisconsin Statutes. Pursuant to that law, employees have the right to organize and collectively bargain with the municipal employers. In the event of impasse, the City or employee union, other than fire or law enforcement personnel, has the option to pursue final and binding arbitration under a procedure referred to as mediation arbitration. Under this procedure, mediation is first attempted and in the event of its failure, final and binding arbitration is commenced. If, under arbitration, both parties withdraw their final offers, the labor organization upon proper notice, may strike. The parties can also agree to voluntary impasse resolution procedures including authorization for a strike or binding interest arbitration. As a practical matter, it is anticipated that strikes under either procedure will be rare. Furthermore, strikes, if they do occur, may be enjoined by the courts. Impasse resolution for fire fighters and law enforcement personnel is subject to final and binding arbitration procedures, which do not include a right to strike.

Pension Plan

All eligible City of Franklin Police and Fire employees participate in the Wisconsin Retirement System established under Chapter 40 of the Wisconsin Statutes. The total required retirement plan contribution for the years ended December 31, 2003 and 2004 were \$947,469 and \$1,089,239, respectively. The amounts of such contributions are determined by the Wisconsin Retirement Fund and were in accordance with the actuarially determined requirement.

All eligible City of Franklin Public Works employees (highway, janitors, sewer and water employees) are covered by a non-contributory single employer defined benefit pension plan. The total required retirement plan contribution for the years ended December 31, 2003 and 2004 were \$191,468 and \$204,665, respectively. The amounts of such contributions are determined by an actuarial valuation dated January 1, 2004.

All other eligible City of Franklin employees participate in a defined contribution plan. The City contributes 10% of covered payroll that amounted to \$279,939 and \$310,082 for the years ended December 31, 2003 and 2004, respectively.

GENERAL INFORMATION

Location

The City of Franklin is located in southeastern Wisconsin and encompasses approximately 34.5 square miles of the southwestern portion of Milwaukee County. It is located approximately 10 miles southwest of Milwaukee, 80 miles east of Madison, 85 miles northwest of Chicago and 130 miles south of Green Bay.

History

Franklin, a part of the Northwest Territory, was given the name "Franklin" in honor of Benjamin Franklin in 1838 by the Wisconsin Territorial Legislature and was organized into a township in 1841. Franklin's early town officials fought against annexation to the City of Milwaukee. In 1956 a City charter arrived from Madison to incorporate from a town to a city. Bounded by Greenfield to the north, Oak Creek to the east, and Racine and Waukesha Counties to the south and west, the City is primarily a residential community with a growing commercial and industrial base.

Education

The City is served by the Franklin, Oak-Creek Franklin and Whitnall School Districts, which offer comprehensive educational programs for students in pre-kindergarten through the twelfth grade. Between these schools, residents are served by a total of three high schools, four middle schools and twelve elementary schools.

Post-secondary education is available nearby at several schools in the University of Wisconsin ("UW") System. UW-Madison, Milwaukee and Whitewater, all four-year colleges, offer programs at the undergraduate, graduate and professional levels in a wide range of fields, while UW-Waukesha and Washington County offer freshman/sophomore level instruction. The Milwaukee Area Technical College, also a two-year institution that has campuses located in Milwaukee, Mequon, Oak Creek and West Allis, offers a variety of education and training opportunities through several associate degree and technical diploma programs. Private four-year colleges in the Milwaukee Metropolitan area include the following:

Alverno College
Cardinal Stritch University
Carroll College
Columbia College of Nursing
Concordia University
Marquette University
Medical College of Wisconsin
Milwaukee Institute of Art and Design
Milwaukee School of Engineering
Mount Mary College
Ottawa University
Wisconsin Lutheran College

Transportation

The City is easily accessible via Interstates 94 and 43, US Highways 41 and 45, State Highways 36 and 100, and several County Highways.

Three general aviation airports serve area residents: General Mitchell International Airport is located 8 miles northeast of the City, John H. Batten Field is located 10 miles to the southeast, and Chicago's OHare International Airport is located 70 miles to the south.

Rail freight service is accessible in nearby Oak Creek via the CP Rail System and the Union Pacific Railway on their Chicago to Minneapolis-St. Paul mainlines.

Water transportation is available through the Port of Milwaukee, which is located 12 miles northeast of the City.

Public transit is available through Freeway Flyer and shuttle bus routes operated by the Milwaukee County Transit System, and elderly and disabled residents also have access to specialized transportation services provided by two Milwaukee County programs.

Police, Fire and Public Safety

The Franklin Police Department provides law enforcement services to the City 24 hours per day, 7 days per week, which include protecting of life and property, preserving peace and good order of the community, and furnishing any other appropriate service that enhances the safe and orderly operation of the City.

The Franklin Fire Department's Mission is to render any service it is capable of delivering to protect the lives and property of the citizens within its jurisdiction. It will provide educational activities to the residents and actively promote fire prevention, and will provide these services as efficiently as possible within the limits of funding provided by the citizens of Franklin.

The City is now part of a cooperative effort with other Milwaukee County communities to jointly operate an animal control services facility, governed by the Milwaukee Area Domestic Animal Control Commission ("MADACC"), for animal control purposes.

Other Services

The City provides standard services such as street maintenance and lighting, snow and ice removal, waste collection and disposal, recycling facilities, water, solid waste and sanitary sewerage services, and a public library.

The City provides for the public safety of its residents through the Police Department with seventy-six full-time employees. The Police Department provides patrol, dispatch services, traffic control services, crime prevention and detection, investigations and community relations. The Fire Department has twenty-nine full-time employees, and the Emergency Medical Service Department has fifteen full-time employees. In addition to fire suppression and prevention, the department provides fire inspections, community education, paramedic level medical transportation and specialized rescues.

Health Care

The City's health care needs are served by the St. Luke's Franklin Health Care Center, Rawson Medical Center and Associated Surgical Clinic. The Franklin Health Department, located at the Franklin City Hall, offers immunizations for all ages, health screenings, including blood pressure clinics, a school health program, communicable disease education and follow-up, and an environmental health program including restaurant inspection and a sharps/syringe collection site in the Health Department. In addition, the City is served by the complete range of health facilities and health professionals offered by Milwaukee County's 24 area hospitals and various immediate care centers. Of special interest is the Milwaukee Regional Medical Center, a voluntary consortium of private, nonprofit, and governmental institutions dedicated to the delivery of health care, the education of health personnel, and the conduct of health-related research.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

| | Milwaukee County | City of Franklin |
|----------------|---------------------|---------------------|
| Estimate, 2005 | 938,995 | 32,548 |
| Estimate, 2004 | 939,358 | 31,804 |
| Estimate, 2003 | 941,301 | 31,467 |
| Estimate, 2002 | 941,091 | 30,749 |
| Estimate, 2001 | 939,919 | 30,199 |
| Census, 2000 | 940,164 | 29,494 |

Source: Wisconsin Department of Administration, Demographic Services Center.

Per Tax Return Adjusted Gross Income

| | State of Wisconsin | Milwaukee County | City of Franklin |
|------|-----------------------|---------------------|---------------------|
| 2004 | \$43,512 | \$38,350 | \$58,216 |
| 2003 | 42,474 | 37,459 | 56,755 |
| 2002 | 40,719 | 36,370 | 55,928 |
| 2001 | 40,847 | 37,111 | 54,510 |
| 2000 | 40,570 | 36,868 | 56,255 |

Source: Wisconsin Department of Revenue, Division of Research and Analysis.

Unemployment Rate

| | State of Wisconsin | Milwaukee County | City of Franklin |
|---------------|-----------------------|---------------------|---------------------|
| October, 2005 | 3.8% | 5.2% | 3.2% |
| October, 2004 | 4.0 | 5.5 | 3.4 |
| Average, 2004 | 4.9% | 6.3% | 4.2% |
| Average, 2003 | 5.6 | 7.1 | 4.7 |
| Average, 2002 | 5.3 | 6.6 | 4.5 |
| Average, 2001 | 4.4 | 5.4 | 3.5 |
| Average, 2000 | 3.4 | 4.2 | 2.8 |

Source: Wisconsin Department of Workforce Development.

2005 Estimated Effective Buying Income ("E.B.I.")

| | Percent of Households in E.B.I. Range | | |
|---|---------------------------------------|-----------------------|---------------------|
| | United States | State of Wisconsin | Milwaukee County |
| Under \$19,000 | 21.5% | 19.6% | 25.3% |
| 20,000 - 34,999 | 22.5 | 23.5 | 25.5 |
| 35,000 - 49,999 | 19.3 | 22.9 | 20.7 |
| 50,000 and over | 36.7 | 34.0 | 28.5 |
| Totals | 100.0% | 100.0% | 100.0% |
| Median Household Effective Buying Income..... | \$39,324 | \$38,991 | \$34,510 |
| Average Household Effective Buying Income | 51,284 | 46,855 | 42,436 |
| Per Capita Effective Buying Income..... | 19,289 | 18,468 | 17,204 |

Source: Survey of Buying Power, "Sales and Management Magazine", September 2005.

Building Permits

| | <u>Valuation</u> | <u>Number of Permits</u> |
|-----------------|------------------|--------------------------|
| 2005 as of 6/30 | \$49,627,523 | 310 |
| 2004 | 88,938,852 | 558 |
| 2003 | 96,189,402 | 365 |
| 2002 | 145,807,004* | 374 |
| 2001 | 67,254,395 | 411 |

* Valuation includes large commercial building.

Source: City of Franklin.

Largest Employers

| <u>Employer</u> | <u>Type of Business</u> | <u>Number of Employees</u> |
|---------------------------------------|---|----------------------------|
| Northwestern Mutual | Insurance/investment firm | 800 |
| Franklin Public School District | Education | 541 |
| Milwaukee County House of Corrections | Government | 450 |
| General Automotive Manufacturing LLC | Mfr. - Off-road engine components | 400 |
| Krones Inc. | Mfr. - High-speed labeling machines & fillers | 400 |
| Waste Management of Wisconsin | Solid waste/landfill services | 340 |
| Wal-Mart | Retail | 280 |
| All-Glass Aquarium Company Inc. | Mfr./Distribtr. - Glass aquariums, wooden stands & lights | 280 |
| City of Franklin | Government | 259 |
| BD Medical Systems | Mfr. - Medical devices/syringes | 220 |

Source: 2005 Wisconsin Manufacturers and Business Service Directories, employer calls.

Largest Taxpayers

| <u>Name</u> | <u>Type of Business</u> | <u>2004 Assessed Valuation</u> | <u>2004 Equalized Valuation</u> |
|---------------------------------|---|--------------------------------|---------------------------------|
| Northwestern Mutual | Insurance/investment firm | \$47,326,600 | \$50,076,338 |
| Whitnall Pointe Apartments | Apartments | 20,709,900 | 21,913,172 |
| Manchester Oaks | Apartments | 18,628,030 | 19,710,343 |
| Wal-Mart | Retail | 16,543,670 | 17,504,879 |
| Waste Management of Wisconsin | Solid waste/landfill services | 14,962,380 | 15,831,714 |
| Harley Davidson Motor Company | Mfr. - Motorcycles | 14,432,600 | 15,271,153 |
| TP Mission Hills Apartments | Apartments | 13,612,100 | 14,402,981 |
| All-Glass Aquarium Company Inc. | Mfr./Distribtr. - Glass aquariums, wooden stands & lights | 11,721,400 | 12,402,429 |
| Covenant Healthcare | Medical clinic | 10,071,890 | 10,657,080 |
| Krones Inc. | Mfr. - High-speed labeling machines & fillers | 8,599,600 | 9,099,248 |

Source: City of Franklin.

TAX LEVIES, RATES COLLECTIONS

Personal property taxes, special assessments, special charges and special taxes must be paid to the town, city or village treasurer in full by January 31. Real property taxes may be paid in full by January 31 or in installments with one-half of the taxes paid by January 31, one quarter are paid by March 31 and the remainder is paid by May 31. Any amounts paid after July 31 are paid to the county treasurer. The City of Franklin, which has adopted an installment payment plan, settles with other taxing jurisdictions for collections through the preceding month on January 15, February 15 and the 15th day of each month following a month in which an installment payment is due. On or before August 20, the county treasurer must settle in full with the underlying taxing districts for all unpaid real property taxes and special taxes. The County Board may authorize its County Treasurer to also settle in full with the underlying taxing districts for all special assessments and special charges. The county may then recover any tax delinquencies by enforcing the lien on the property and retain any penalties or interest on the delinquencies for which it has settled. Since, in practice, all delinquent real estate taxes are withheld from the county's share of taxes, the City receives 100 percent of the real estate taxes it levies.

Set forth below are the taxes levied and the tax rate per \$1,000 assessed value on all taxable property within the City. The rates, tax levies and collections set forth are for the collection years 2002 through 2006:

| Levy Year | Collection Year | City Tax Rate | City Levy | Uncollected Personal Property Taxes as of August 20 of Each Year | Percent of Levy Collected |
|--------------|--------------------|------------------|--------------|--|---------------------------------|
| 2005 | 2006 | \$6.83 | \$17,566,000 | - To Be Collected - | |
| 2004 | 2005 | 6.95 | 16,899,300 | \$53,237 | 99.68% |
| 2003* | 2004 | 6.80 | 15,813,611 | 65,425 | 99.59 |
| 2002 | 2003 | 8.17 | 15,606,851 | 57,488 | 99.63 |
| 2001 | 2002 | 8.06 | 14,861,543 | 83,606 | 99.44 |

* Reflects City-wide reassessment.

LEVY LIMIT LEGISLATION

The State of Wisconsin's Budget Bill (2005 Act 25) was signed by the Governor on July 25, 2005, after the exercise of numerous partial vetoes, and became effective on July 27, 2005. This legislation imposes a limit on property tax levies by cities, villages, towns and counties for a two-year period. It provides that no city, village, town or county may increase its tax levy in any year by a percentage that exceeds its valuation factor (which is defined as the percentage change in the municipality's January 1 equalized value due to new construction less improvements removed, but not less than two percent).

This levy limitation is an overall limit, applying to levies for operations as well as for other purposes. Special provisions are made for general obligation debt service. With respect to obligations authorized before July 1, 2005, if the amount of debt service in the preceding year is less than the amount of debt service needed in the current year, the levy limit is increased by the difference between the two amounts. The Department of Revenue currently interprets this adjustment to be based on scheduled debt service rather than the amount actually levied for debt service (after taking into account offsetting revenues such as sales tax revenues, special assessments, utility revenues, tax increment revenues or surplus funds). Therefore, the levy limit could negatively impact municipalities that experience a reduction in offsetting revenues. The limits do not apply to debt service on obligations authorized on or after July 1, 2005.

The Notes were authorized by adoption of a resolution after July 1, 2005.

In formulating its tax levy for 2006, the growth in new construction in the City would have allowed a tax levy increase of 4.948 percent, but the City's tax levy was increased by only 3.945 percent.

ASSESSED TAX RATES

| | Levy Years | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | 2004 | 2003* | 2002 | 2001 | 2000* |
| City of Franklin | \$6.95 | \$6.80 | \$8.17 | \$8.06 | \$7.61 |
| School Districts: | | | | | |
| Franklin | 12.61 | 12.74 | 13.86 | 14.50 | 13.89 |
| Oak Creek | 7.93 | 8.42 | 10.19 | 9.95 | 8.98 |
| Whitnall | 11.30 | 10.80 | 12.71 | 12.52 | 13.22 |
| Milwaukee Area Technical College | 2.05 | 1.95 | 2.24 | 2.13 | 2.05 |
| Milwaukee County | 4.81 | 4.72 | 5.67 | 5.65 | 5.60 |
| Milwaukee Metropolitan Sewerage District | 1.62 | 1.57 | 1.89 | 1.78 | 1.72 |
| State | 0.21 | 0.20 | 0.22 | 0.21 | 0.20 |
| Gross Tax Rate: | | | | | |
| Franklin Public School District | 28.25 | 27.98 | 32.05 | 32.33 | 31.07 |
| Oak Creek-Franklin Joint School District | 23.57 | 23.66 | 28.38 | 27.78 | 26.16 |
| Whitnall School District | 26.94 | 26.04 | 30.90 | 30.35 | 30.40 |
| Less: State Credit | (1.50) | (1.55) | (1.92) | (1.99) | (2.10) |
| Net Tax Rate: | | | | | |
| Franklin Public School District | 26.75 | 26.43 | 30.13 | 30.34 | 28.97 |
| Oak Creek-Franklin Joint School District | 22.07 | 22.11 | 26.46 | 25.79 | 24.06 |
| Whitnall School District | 25.44 | 24.49 | 28.98 | 28.36 | 28.30 |
| Ratio of Assessed to Equalized Valuation | 94.74% | 101.13% | 89.77% | 95.28% | 98.86% |
| Equalized Tax Rate: | | | | | |
| Franklin Public School District | <u>\$25.34</u> | <u>\$26.73</u> | <u>\$27.05</u> | <u>\$28.91</u> | <u>\$28.64</u> |
| Oak Creek-Franklin Joint School District | <u>\$20.91</u> | <u>\$22.36</u> | <u>\$23.75</u> | <u>\$24.57</u> | <u>\$23.79</u> |
| Whitnall School District | <u>\$24.10</u> | <u>\$24.77</u> | <u>\$26.02</u> | <u>\$27.02</u> | <u>\$27.98</u> |

* Reflects City-wide reassessment.

ASSESSED AND EQUALIZED VALUATIONS

All equalized valuations of property in the State of Wisconsin are determined by the State of Wisconsin, Department of Revenue, Supervisor of Assessments Office. Equalized valuations are the State's estimate of full market value. The State determines assessed valuations of all manufacturing property in the State. Assessed valuations of residential and commercial property are determined by local assessors.

Set forth in the table below are the assessed and equalized valuations of property located within the City for the years 2001 through 2005. The City equalized valuation has increased by 49.55 percent since 2001 with an average annual increase of 10.58 percent.

| Year | Assessed Valuation | Equalized Valuation (TID IN) | Equalized Valuation (TID OUT) |
|-------|-----------------------|---------------------------------|----------------------------------|
| 2005 | \$2,682,091,060 | \$3,030,815,900 | \$2,908,557,900 |
| 2004 | 2,540,818,170 | 2,681,945,500 | 2,566,348,500 |
| 2003* | 2,427,882,640 | 2,400,765,500 | 2,298,454,900 |
| 2002 | 1,995,679,040 | 2,223,010,500 | 2,127,136,800 |
| 2001 | 1,931,074,470 | 2,026,671,300 | 1,934,224,400 |

* Reflects City-wide reassessment.

The equalized valuation by class in the City for 2005 is as follows:

| | Amount | Percent of Total |
|---|------------------------|------------------|
| Real Estate | | |
| Residential | \$2,236,076,000 | 73.78% |
| Commercial | 595,070,200 | 19.63 |
| Manufacturing | 101,025,800 | 3.33 |
| Agricultural, Undeveloped, Forest, Other | 23,132,500 | 0.76 |
| Total Real Estate | 2,955,304,500 | 97.51 |
| Total Personal Property | 75,511,400 | 2.49 |
| Total | <u>\$3,030,815,900</u> | <u>100.00%</u> |

Tax Incremental Districts

The City has Tax Incremental Districts created under Wisconsin Statutes Section 66.1105 (formerly Section 66.46). TID valuations totaling \$122,258,000 have been excluded from the City's tax base for 2005. The City has also created Tax Incremental Districts No. 03 and 04 in 2005. TID valuations have not yet been certified.

| City of Franklin | Creation Date | Base Value | 2005 Value | Increment |
|------------------|---------------|-------------|---------------|---------------|
| 02 | 1993 | \$2,229,400 | \$124,487,400 | \$122,258,000 |

INDEBTEDNESS OF THE CITY

Direct Indebtedness

Set forth below is the direct indebtedness of the City, including principal and interest payments due on existing debt as well as debt service on the new issue. The interest on the Notes has been calculated using an average rate of 3.917 percent. Average life of the Notes is 4.407 years and bond years are 44,066.67 years.

| Year | Outstanding Bonds & Notes | | New Issue | | Total | Less: Projected | Total Projected |
|-------|---------------------------|---------------------|---------------------|--------------------|---------------------------|-----------------------|-------------------------------|
| | Principal | Interest | Principal | Interest | Debt Service Requirements | Offsetting Revenues* | Net Debt Service Requirements |
| 2006 | \$1,300,000 | \$1,433,187 | | \$259,000 | \$2,992,187 | (\$711,090) | \$2,281,097 |
| 2007 | 2,350,000 | 1,338,485 | | 388,500 | 4,076,985 | (1,266,483) | 2,810,502 |
| 2008 | 2,925,000 | 1,224,866 | | 388,500 | 4,538,366 | (2,136,554) | 2,401,813 |
| 2009 | 3,300,000 | 1,090,998 | \$2,300,000 | 348,250 | 7,039,248 | (2,514,923) | 4,524,325 |
| 2010 | 2,925,000 | 957,173 | 3,000,000 | 248,000 | 7,130,173 | (2,143,648) | 4,986,525 |
| 2011 | 3,180,000 | 824,510 | 4,700,000 | 94,000 | 8,798,510 | (2,451,873) | 6,346,637 |
| 2012 | 1,700,000 | 719,860 | -- | -- | 2,419,860 | (1,305,400) | 1,114,460 |
| 2013 | 2,270,000 | 637,270 | -- | -- | 2,907,270 | (1,656,500) | 1,250,770 |
| 2014 | 2,780,000 | 532,925 | -- | -- | 3,312,925 | (1,926,800) | 1,386,125 |
| 2015 | 2,915,000 | 415,935 | -- | -- | 3,330,935 | (1,959,750) | 1,371,185 |
| 2016 | 955,000 | 332,955 | -- | -- | 1,287,955 | (430,500) | 857,455 |
| 2017 | 900,000 | 288,098 | -- | -- | 1,188,098 | (430,500) | 757,598 |
| 2018 | 1,150,000 | 237,985 | -- | -- | 1,387,985 | (555,500) | 832,485 |
| 2019 | 1,210,000 | 180,165 | -- | -- | 1,390,165 | (655,500) | 734,665 |
| 2020 | 1,480,000 | 114,260 | -- | -- | 1,594,260 | (706,520) | 887,740 |
| 2021 | 1,560,000 | 39,000 | -- | -- | 1,599,000 | (758,000) | 841,000 |
| Total | <u>\$32,900,000</u> | <u>\$10,367,670</u> | <u>\$10,000,000</u> | <u>\$1,726,250</u> | <u>\$54,993,920</u> | <u>(\$21,609,540)</u> | <u>\$33,384,380</u> |

* The above outstanding debt was issued as general obligation debt of the City; however tax increment revenues, special assessments and other revenues are projected to partially offset the total debt service. The actual amount of these offsetting revenues is not guaranteed.

Other Debt

The following issues are not general obligations of the City:

- One Community Development Authority Taxable Redevelopment Lease Revenue Bond issue, Series 1998-A dated July 1, 1998, totaling \$3,375,000 in principal maturing 2006 through 2008.
- One Community Development Authority Redevelopment Lease Revenue Refunding Bond issue, Series 1998-B dated July 1, 1998, totaling \$4,445,000 in principal maturing 2006 through 2008, excluding the maturities to be refunded that will be repaid on April 1, 2006 with proceeds from the Notes. (See "THE FINANCING PLAN" herein.)

Future Financing

The City does not anticipate the issuance of additional long-term debt within the next six months.

Overlapping and Underlying Indebtedness

Set forth below is information relating to the outstanding overlapping and underlying indebtedness of the City.

| <u>Name of Entity</u> | <u>Amount of Debt (Net of 2005 Principal Amounts)</u> | <u>Percent Chargeable to City</u> | <u>Outstanding Debt Chargeable to City</u> |
|---|---|---|--|
| Milwaukee County | \$436,007,238 | 5.30% | \$23,108,384 |
| Milwaukee Area Technical College District | 75,165,000 | 4.40 | 3,307,260 |
| Franklin Public School District | 22,100,000 | 100.00 | 22,100,000 |
| Oak Creek-Franklin Joint School District | 35,155,265 | 16.80 | 5,906,085 |
| Whitnall School District | 7,710,000 | 13.90 | 1,071,690 |
| Milwaukee Metropolitan Sewerage District | 285,335,000 | 5.30 | 15,122,755 |
| TOTAL | \$861,472,503 | | \$70,616,173 |

Statistical Summary

Set forth in the following table is a statistical summary of certain information relating to the City.

| | |
|--|-----------------|
| 2005 Equalized Valuation | \$3,030,815,900 |
| Direct Bonded Indebtedness Including this Issue (Less 2005 Principal Amounts) | \$42,900,000 |
| Direct, Overlapping and Underlying Bonded Indebtedness Including this Issue (Less 2005 Principal Amounts) | \$113,516,173 |
| Direct Bonded Indebtedness as a Percentage of Equalized Valuation | 1.42% |
| Direct, Overlapping and Underlying Bonded Indebtedness as a Percentage of Equalized Valuation | 3.75% |
| Population of City (2005 Estimate) | 32,548 |
| Direct Bonded Indebtedness Per Capita | \$1,318.05 |
| Direct, Overlapping and Underlying Bonded Indebtedness Per Capita | \$3,487.65 |

Debt Limit

As described under the caption "CONSTITUTIONAL STATUTORY CONSIDERATIONS LIMITATIONS CONCERNING THE CITY'S POWER TO INCUR INDEBTEDNESS--Debt Limit," the total indebtedness of the City may not exceed five percent of the equalized value of property in the City. Set forth in the table below is a comparison of the outstanding indebtedness of the City as a percentage of the applicable debt limit.

| | |
|--|---------------------|
| Equalized Valuation (2005) as certified by Wisconsin Department of Revenue | \$3,030,815,900 |
| Legal Debt Percentage Allowed | <u>5.00%</u> |
| Legal Debt Limit | \$151,540,795 |
| Direct Bonded Indebtedness Including this Issue (Less 2005 Principal Amounts) | <u>\$42,900,000</u> |
| Unused Margin of Indebtedness | \$108,640,795 |
| Percent of Legal Debt Incurred | 28.31% |
| Percentage of Legal Debt Available | 71.69% |

FINANCIAL INFORMATION

The financial operations of the City are conducted through its general fund, library fund and capital equipment funds. Most taxes and non-tax revenues (such as license fees, fines and costs and user's fees) are paid into the general fund and current operating expenditures are made from the general fund pursuant to appropriations made by the Common Council. Taxes levied for debt service are paid directly into the debt service fund and debt service expenditures are made from that fund.

Budgeting Process

The City is required by State law to annually formulate a budget and to hold public hearings thereon prior to the determination of the amounts to be financed in whole or in part by general property taxes, funds on hand or estimated revenues from other sources. Such budget must list existing indebtedness of the City and all anticipated revenue from all sources during the ensuing year and must also list all proposed appropriations for each department, activity and reserve account of the City during the ensuing year. The budget must show actual revenues and expenditures for the preceding year, actual revenues and expenditures for not less than the first six months of the current year and estimated revenues and expenditures for the balance of the current year.

As part of the budgeting process, public hearings are held on the proposed budget, at which time any resident or taxpayer in the City may be heard. At an annual meeting in November of each year, the Common Council adopts the final budget for the succeeding year and levies taxes based on assessed valuations of property less any increment attributable to Tax Increment Districts. The amount of taxes so levied and the amounts of the various appropriations in the final budget (after any alterations made pursuant to public hearings) may not be changed unless authorized by a vote of two-thirds of the entire membership of the Common Council. Failure to publish notice of any such alteration within ten days thereafter shall preclude any change in the budget.

Financial Records

The City maintains its financial records on a calendar year basis. Appendix A hereto sets forth the General Fund financial statements of the City for the year ended December 31, 2004, which have been examined by Virchow, Krause & Company, LLP, Certified Public Accountants & Consultants, Milwaukee, Wisconsin. The City did not ask Virchow, Krause & Company, LLP to perform any additional review in connection with this Official Statement.

**GENERAL FUND SUMMARY
YEARS ENDED DECEMBER 31**

| | 2006 PROPOSED BUDGET | 2005 ESTIMATED | 2004 ACTUAL | 2003 ACTUAL | 2002 ACTUAL |
|---|----------------------------|-------------------|--------------------|--------------------|--------------------|
| Revenues | | | | | |
| Taxes | \$14,008,000 | \$13,383,300 | \$11,711,134 | \$11,051,639 | \$10,316,760 |
| Intergovernmental revenue | 2,601,000 | 2,582,700 | 2,641,983 | 2,930,916 | 2,843,462 |
| Licenses and permits | 1,161,450 | 1,053,500 | 1,258,457 | 1,030,984 | 1,254,563 |
| Fines, forfeitures and penalties | 450,000 | 450,000 | 397,169 | 362,638 | 414,878 |
| Public charges for services | 1,509,100 | 1,370,584 | 1,607,075 | 1,682,030 | 1,642,046 |
| Intergovernmental charges for services | 563,000 | 548,000 | 575,009 | 628,953 | 607,395 |
| Interdepartmental charges for services | -- | -- | -- | -- | 5,094 |
| Investment earnings | 262,500 | 240,500 | 177,420 | 276,385 | -- |
| Miscellaneous revenue | 140,950 | 140,200 | 136,127 | 118,663 | 539,291 |
| Total revenues | <u>20,696,000</u> | <u>19,768,784</u> | <u>18,504,374</u> | <u>18,082,208</u> | <u>17,623,489</u> |
| Expenditures | | | | | |
| General government | 2,518,252 | 2,622,572 | 2,262,025 | 2,293,560 | 2,069,034 |
| Public safety | 13,305,286 | 12,649,614 | 12,102,357 | 11,237,842 | 10,584,319 |
| Public works | 4,138,537 | 3,868,816 | 3,580,392 | 3,395,468 | 3,134,753 |
| Health and human services | 551,678 | 460,241 | 468,087 | 494,215 | 446,005 |
| Culture, recreation and education | 187,616 | 154,819 | 134,440 | 130,067 | 263,853 |
| Conservation and development | 553,631 | 540,070 | 374,864 | 428,151 | 316,592 |
| Contingency | 391,000 | 234,925 | -- | -- | -- |
| Total Expenditures | <u>21,646,000</u> | <u>20,531,057</u> | <u>18,922,165</u> | <u>17,979,303</u> | <u>16,814,556</u> |
| Excess (deficiency) of revenues over expenditures | (950,000) | (762,273) | (417,791) | 102,905 | 808,933 |
| Other financing sources (uses) | | | | | |
| Operating transfers in | 950,000 | 940,000 | 634,462 | 462,500 | -- |
| Operating transfers (out) | -- | (200,000) | (40,073) | (6,982) | -- |
| Net other financing sources (uses) | <u>950,000</u> | <u>740,000</u> | <u>594,389</u> | <u>455,518</u> | <u>--</u> |
| Revenues and other sources over (under) expenditures and other uses | <u>\$0</u> | <u>(\$22,273)</u> | 176,598 | 558,423 | 808,933 |
| Fund balances - beginning of year | | | <u>6,106,240</u> | <u>5,547,817</u> | <u>4,738,884</u> |
| Fund balances - end of year | | | <u>\$6,282,838</u> | <u>\$6,106,240</u> | <u>\$5,547,817</u> |

The amounts shown for the years ended December 31, 2002 through 2004 are excerpts from the audit reports that have been examined by Virchow, Krause & Company, LLP, Certified Public Accountants & Consultants, Milwaukee, Wisconsin. The amounts shown for the years ended December 31, 2005 and 2006 are shown on a budgetary basis. The comparative statement of revenues, expenditures and encumbrances should be read in conjunction with the other financial statements and Notes thereto appearing at Appendix A to this Official Statement. The Auditor was not asked to perform any additional review in connection with this Official Statement.

UNDERWRITING

The Notes have been purchased at a public sale by a group of Underwriters for whom Robert W. Baird & Co. Incorporated, Milwaukee, Wisconsin, is acting as Managing Underwriter. The Underwriter intends to offer the Notes to the public initially at the prices which produce the yields set forth on the first page of this Official Statement plus accrued interest from January 1, 2006, which prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Notes to the public. The Underwriter may offer and sell the Notes to certain dealers (including dealers depositing the Notes into investment trusts) at prices lower than the public offering prices. In connection with this offering, the Underwriter may over allocate or effect transactions which stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The reoffering prices shown on the cover of this Official Statement have been provided by the Underwriter, and not by the Issuer.

RATING

This issue has been assigned a "Aa2" rating by Moody's Investors Service, Inc. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Notes.

TAX EXEMPTION

Quarles & Brady LLP, Milwaukee, Wisconsin, Bond Counsel, will deliver a legal opinion with respect to the federal income tax exemption applicable to the interest on the Notes under existing law substantially in the following form:

"The interest on the Notes is excludable for federal income tax purposes from the gross income of the owners of the Notes. The interest on the Notes is not an item of tax preference for purposes of the federal alternative minimum tax imposed by Section 55 of the Internal Revenue Code of 1986, as amended (the "Code") on corporations (as that term is defined for federal income tax purposes) and individuals. However, for purposes of computing the alternative minimum tax imposed on corporations, the interest on the Notes is included in adjusted current earnings. The Code contains requirements that must be satisfied subsequent to the issuance of the Notes in order for interest on the Notes to be or continue to be excludable from gross income for federal income tax purposes. Failure to comply with certain of those requirements could cause the interest on the Notes to be included in gross income retroactively to the date of issuance of the Notes. The Issuer has agreed to comply with all of those requirements. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Issuer comply with those requirements. We express no opinion regarding other federal tax consequences arising with respect to the Notes."

The interest on the Notes is not exempt from present Wisconsin income or franchise taxes.

Prospective purchasers of the Notes should be aware that ownership of the Notes may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Notes. Bond Counsel will not express any opinion as to such collateral tax consequences. Prospective purchasers of the Notes should consult their tax advisors as to collateral federal income tax consequences.

From time to time, legislation is proposed which, if enacted, could alter one or more of the federal tax matters referred to above or would adversely affect the market value of the Notes. It cannot be predicted whether or in what form any of such proposals may be enacted and whether, if enacted, such proposals will apply to obligations (such as the Notes) issued prior to enactment.

DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS

The Issuer will designate the Notes as "qualified tax-exempt obligations" for purposes of Section 265 of the Internal Revenue Code of 1986 relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule"), the Issuer shall covenant pursuant to a Award Resolution adopted by the Governing Body to enter into an undertaking (the "Undertaking") for the benefit of holders including beneficial holders of the Notes to provide certain financial information and operating data relating to the Issuer to certain information repositories annually, and to provide notices of the occurrence of certain events enumerated in the Rule to certain information repositories or the Municipal Securities Rulemaking Board and to any state information depository. The details and terms of the Undertaking, as well as the information to be contained in the annual report or the notices of material events, are set forth in the Continuing Disclosure Certificate to be executed and delivered by the Issuer at the time the Notes are delivered. Such Certificate will be in substantially the form attached hereto as Appendix B. The Issuer has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the Issuer to comply with the Undertaking will not constitute an event of default on the Notes (although holders will have the right to obtain specific performance of the obligations under the Undertaking). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Notes in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Notes and their market price.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for each maturity of the Notes, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

LITIGATION

There is no controversy or litigation of any nature now pending or, to the knowledge of the City of Franklin, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Notes, or in any way contesting or affecting the validity of the Notes or any proceedings of the City taken with respect to the issuance or sale thereof.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Notes are subject to the unqualified approving opinion of Quarles & Brady LLP, Bond Counsel. A copy of such opinion will accompany the Notes and will be available at the time of the delivery of the Notes.

FINANCIAL ADVISOR

Robert W. Baird & Co., Milwaukee, Wisconsin has acted as Financial Advisor to the City of Franklin in connection with the issuance of the Notes.

MISCELLANEOUS

Any statement made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

Bond Counsel has not participated in the preparation of this Official Statement and will not pass on its accuracy, completeness or sufficiency. Bond Counsel has not examined or attempted to examine or verify any of the financial or statistical statements or data contained in this Official Statement, and will express no opinion with respect thereto. The execution and delivery of this Official Statement by its Clerk has been duly authorized by the City.

In accordance with SEC Rule 15c2-12, the Preliminary Official Statement is deemed final except for the omission of certain information described in the rule.

AUTHORIZATION

This Official Statement has been approved for distribution to prospective purchasers and the Underwriter of the City of Franklin, Milwaukee County, Wisconsin, \$10,000,000 General Obligation Promissory Notes, dated January 1, 2006.

The City, acting through its City Clerk, will provide to the Underwriter of the above Notes at the time of delivery of the Notes, a certificate confirming to the Underwriter that, to the best of its knowledge and belief, the Official Statement with respect to the Notes, together with any supplements thereto, at the time of acceptance of the adoption of the Award Resolution and at the time of delivery of the Notes, was true and correct in all material respect and did not at any time contain an untrue statement of a material fact or omit to state a material fact required to be stated, where necessary to make the statements in light of the circumstances under which they were made, not misleading.

CITY OF FRANKLIN

By /s/ Sandra L. Wesolowski
City Clerk

APPENDIX A

**BASIC FINANCIAL STATEMENTS
AND RELATED NOTES**

CITY OF FRANKLIN

MILWAUKEE COUNTY, WISCONSIN

For year ended December 31, 2004

**Virchow, Krause & Company, LLP
Certified Public Accountants & Consultants
Milwaukee, Wisconsin**

**The Auditor was not asked to perform any additional review
in connection with this Official Statement.**

CITY OF FRANKLIN
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December 31, 2004

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Franklin, Wisconsin, as of and for the year ended December 31, 2004, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Franklin's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information for the enterprise funds has been derived from the City of Franklin's 2003 financial statements and, in our report dated March 18, 2004, we expressed an unqualified opinion on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information.

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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Franklin, Wisconsin, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 13 through 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Mayor and Common Council
City of Franklin

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin's basic financial statements. The combining and individual fund financial statements and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The "Letter of Transmittal" and "Statistical Section" listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Franklin, Wisconsin. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such information.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
March 11, 2005

Management's Discussion and Analysis

As management of the City of Franklin (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2004, by \$110,370,675 (net assets). Of this amount, \$10,974,543 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The total net assets include infrastructure of the governmental funds installed during 2003 and 2004. Prior year's governmental funds infrastructure has not yet been included in these statements.
- The City's total net assets increased by a net amount of \$24,312,777. Investment in capital assets, net of related debt accounted for a \$25,544,929 increase, operating activities accounted for a \$915,651 decrease with all other changes accounting for a \$316,501 decrease.
- The City's governmental funds reported, as of December 31, 2004, combined ending fund balances of \$14,154,460, a decrease of \$915,651 from the prior year. Approximately 71 percent of the total fund balance, or \$10,015,277, is available for spending at the government's discretion (unreserved fund balance).
- The unreserved fund balance as of December 31, 2004 for the general fund was \$6,150,910 or approximately 30 percent of total anticipated 2005 general fund expenditures.
- The City's total general obligation debt decreased by \$4,000,000 (13.9%) during 2004. In addition to normal repayments of \$2,250,000 the balance of 1996 General Obligation Bonds of the City (\$1,750,000) were retired.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-like activities). The governmental activities of the City include general government, public safety, public works, health & human services, culture & recreation and conservation & development. The business-type activities include the Franklin Water Utility and the City Sanitary Sewer fund.

The government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate Community Development Authority for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A & B of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General and Debt Service Funds, that are considered to be major funds. Data from the remaining eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements later in this report.

The basic governmental fund financial statements can be found on Exhibits C, D, E & F of this report. These statements include a budgetary comparison statement of the General Fund.

**CITY OF FRANKLIN NET ASSETS
December 31, 2004 and 2003**

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund, Library Fund, Capital Outlay Fund, Equipment Revolving Fund, Street Improvement Fund, Capital Improvement Fund, Sanitary Service Fund and the Franklin Water Utility. A budgetary comparison statement has been provided for all governmental funds demonstrating compliance with their budgets.

Proprietary funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Franklin Water Utility, the Sanitary Sewer Fund and the Internal Service Fund.

The basic proprietary fund financial statements can be found on Exhibits G, H & I of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The fiduciary funds maintained by the City are the Property Tax Agency Fund, that records the tax roll and tax collections for the City and other taxing jurisdictions, and other agency funds to record their activity.

The basic fiduciary fund financial statements can be found on Exhibit J of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37 - 68 of this report.

Other information. In addition to the basic financial statements and accompanying notes, the combining and individual fund financial statements and schedules section presents combining statements in connection with non-major governmental funds, a detailed budgetary comparison schedule for the General Fund to demonstrate compliance with the budget complementing the statement included in the basic governmental fund financial statements, and other information related to the individual funds are presented immediately following the notes to the financial statements. These schedules 1 to 11 can be found on pages 69 - 85 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$110,370,675 and \$86,057,898 at the end of 2004 and 2003 respectively.

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|----------------------|-----------------------------|----------------------|-----------------------|----------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Current and other assets | \$ 37,447,724 | \$ 37,726,668 | \$ 3,159,958 | \$ 3,091,633 | \$ 40,607,682 | \$ 40,818,301 |
| Capital assets | <u>35,200,666</u> | <u>28,518,497</u> | <u>81,402,130</u> | <u>66,424,389</u> | <u>116,602,796</u> | <u>94,942,886</u> |
| Total assets | <u>72,648,390</u> | <u>66,245,165</u> | <u>84,562,088</u> | <u>69,516,022</u> | <u>157,210,478</u> | <u>135,761,187</u> |
| Long-term liabilities | 24,242,956 | 26,882,640 | 45,106 | 45,253 | 24,288,062 | 26,927,893 |
| Current liabilities | <u>21,589,722</u> | <u>22,101,223</u> | <u>962,019</u> | <u>674,173</u> | <u>22,551,741</u> | <u>22,775,396</u> |
| Total liabilities | <u>45,832,678</u> | <u>48,983,863</u> | <u>1,007,125</u> | <u>719,426</u> | <u>46,839,803</u> | <u>49,703,289</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 14,205,552 | 3,638,363 | 81,402,130 | 66,424,389 | 95,607,682 | 70,062,752 |
| Restricted | 3,656,415 | 3,777,630 | 132,035 | 118,985 | 3,788,450 | 3,896,616 |
| Unrestricted | <u>8,953,745</u> | <u>9,845,309</u> | <u>2,020,798</u> | <u>2,253,221</u> | <u>10,974,543</u> | <u>12,098,530</u> |
| Total net assets | <u>\$ 26,815,712</u> | <u>\$ 17,261,302</u> | <u>\$ 83,554,953</u> | <u>\$ 68,796,596</u> | <u>\$ 110,370,675</u> | <u>\$ 86,057,898</u> |

The largest portion of the City's net assets (approximately 87 and 81 percent, in 2004 and 2003 respectively) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these net assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets accounted for \$95,607,682 and \$70,662,752 in 2004 and 2003 respectively of the year end net assets. The changes in capital assets were as follows:

| | Capital Asset Additions | Depreciation | Decrease in Capital Related Debt | Net Increase |
|------|----------------------------|----------------|--|-----------------|
| 2004 | \$ 24,264,433 | \$ (2,604,524) | \$ 3,885,020 | \$ 25,544,929 |
| 2003 | 9,100,712 | (2,014,983) | 3,334,225 | 10,419,954 |

The major City project contributing to this increase in 2004 was the Briarwood Sewer project and in 2003 was the Drexel Avenue sewer and water project. Infrastructure contributed by developers as part of developer's agreements contributed approximately \$6,210,000 in 2004 and \$2,263,000 in 2003 to the capitalized infrastructure through capital grants and contributions of governmental activities and \$7,352,000 in 2004 and \$3,250,000 in 2003 to capitalized infrastructure through capital grants and contributions for business-type activities.

In addition, during 2004 \$6,079,000 in capitalized infrastructure was acquired through capital grants and contributions for business-type activities by reacquiring water utility infrastructure at the expiration of a water service agreement with an adjoining community.

An additional portion of the City's net assets (approximately 3.4 percent and 4.5 percent, in 2004 and 2003 respectively) represent resources that are subject to external restrictions on how they may be used. There were \$3,788,450 and \$3,896,616, respectively in net assets that were restricted to specific purposes with the remaining balance of \$10,974,543 and \$12,098,530, in 2004 and 2003 respectively in unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current and prior fiscal years the City was able to report positive balances in all three categories of net assets, as a government as a whole, as well as for its separate governmental and business-type activities.

There was a 2004 decrease of \$121,215 in restricted net assets reported in connection with the governmental activities. The decrease was primarily due to the use of debt service net assets to reduce outstanding debt (\$1,168,000), the use of utility improvement funds to pay for part of the Briarwood sewer improvement project (\$756,000) offset by the growth in available Development funds (\$1,766,000).

There was a 2003 decrease of \$1,137,243 in restricted net assets reported in connection with the governmental activities. The decrease was primarily due to the use of debt service net assets to reduce outstanding debt and the use of utility improvement funds to pay for part of the 31st and Drexel sewer improvement project.

There was a 2004 decrease of \$891,564 in unrestricted net assets reported in connection with the governmental activities. The major decrease was in the capital improvement fund (\$678,000) reflecting expenditures on projects that had received funding in prior years.

There was a 2003 increase of \$1,733,427 in unrestricted net assets reported in connection with the governmental activities. The major increase was due to growth in the general fund and the reimbursement from primarily utility improvement funds (restricted) for funds advanced on sewer and water improvement projects.

Governmental activities. Governmental activities in 2004 increased the City's net assets by \$9,554,410 accounting for 39 percent of the total growth in the net assets of the City. Elements of this increase follow:

- Increase due to the reduction in Long term Debt of \$4,000,307
- Increase in governmental activities capital assets net of depreciation of \$6,682,169
- Net decrease from general fund activities of \$915,651
- Net decrease from internal service activities of \$97,434
- Net decrease from special assessment activities of \$114,981

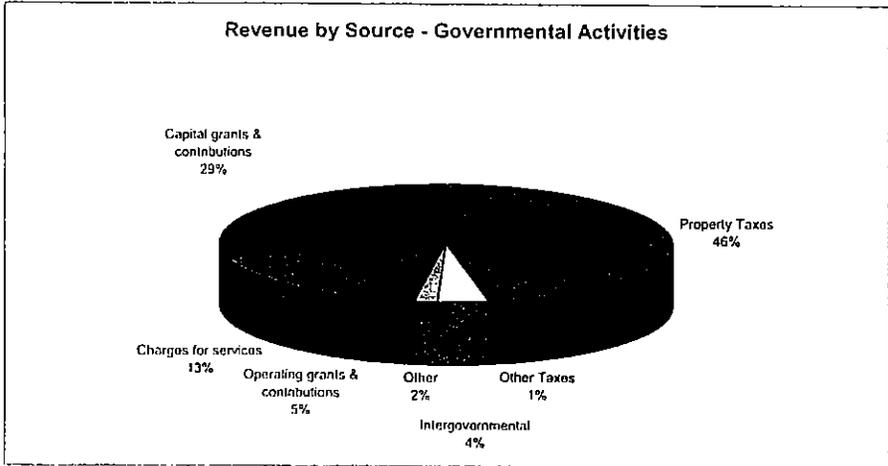
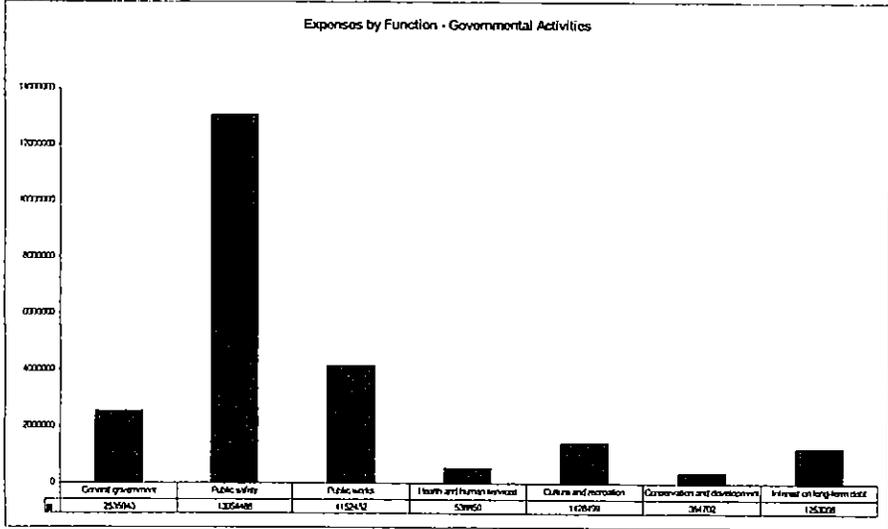
Governmental activities in 2003 increased the City's net assets by \$5,598,901 accounting for 53 percent of the total growth in the net assets of the City. Elements of this increase follow:

- Increase due to the reduction in Long term Debt of \$2,612,418
- Increase in governmental activities capital assets net of depreciation of \$2,583,418
- Net increase from general fund activities of \$949,063
- Net decrease from internal service activities of \$338,800
- Net decrease from special assessment activities of \$207,198

The details of governmental activities changes in net assets follow:

**City of Franklin Changes in Net Assets
For the Year Ending December 31, 2004 and 2003**

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|----------------------|-----------------------|----------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 4,525,973 | \$ 4,172,471 | \$ 4,325,814 | \$ 4,607,111 | \$ 8,851,787 | \$ 8,779,582 |
| Operating grants & contributions | 1,886,800 | 1,623,047 | - | - | 1,886,800 | 1,623,047 |
| Capital grants & contributions | 10,048,400 | 5,465,904 | 13,431,131 | 3,292,803 | 23,479,531 | 8,758,707 |
| General revenue: | | | | | | |
| Property taxes | 15,807,807 | 15,484,083 | - | - | 15,807,807 | 15,484,083 |
| Other taxes | 376,038 | 352,280 | - | - | 376,038 | 352,280 |
| Intergovernmental | 1,233,790 | 1,474,558 | - | - | 1,233,790 | 1,474,558 |
| Other | 657,246 | 794,764 | 84,013 | 72,173 | 741,259 | 866,937 |
| Total revenue | 34,536,054 | 29,367,907 | 17,840,958 | 7,972,087 | 52,377,912 | 37,339,994 |
| Expenses: | | | | | | |
| General government | 2,535,943 | 2,560,386 | - | - | 2,535,943 | 2,560,386 |
| Public safety | 13,054,488 | 12,344,323 | - | - | 13,054,488 | 12,344,323 |
| Public works | 4,152,452 | 3,581,846 | - | - | 4,152,452 | 3,581,846 |
| Health & Human services | 538,850 | 574,163 | - | - | 538,850 | 574,163 |
| Cultura & Recreation | 1,428,499 | 1,290,360 | - | - | 1,428,499 | 1,290,360 |
| Conservation & development | 384,702 | 445,732 | - | - | 384,702 | 445,732 |
| Interest on long-term debt | 1,253,065 | 1,388,325 | - | - | 1,253,065 | 1,388,325 |
| Water | - | - | 2,572,320 | 2,528,709 | 2,572,320 | 2,528,709 |
| Sewer | - | - | 2,143,916 | 2,032,336 | 2,143,916 | 2,032,336 |
| Total expenses | 23,347,999 | 22,185,135 | 4,716,236 | 4,561,045 | 28,064,235 | 26,746,180 |
| increase in net assets before transfers | 11,188,055 | 7,182,772 | 13,124,722 | 3,411,042 | 24,312,777 | 10,593,814 |
| Transfers | (1,633,645) | (1,583,871) | 1,633,645 | 1,583,871 | - | - |
| increase in net assets | 9,554,410 | 5,598,901 | 14,758,367 | 4,994,913 | 24,312,777 | 10,593,814 |
| Net assets - beginning | 17,261,302 | 11,662,401 | 68,796,596 | 63,801,683 | 86,057,898 | 75,464,084 |
| Net assets - ending | \$ 26,815,712 | \$ 17,261,302 | \$ 83,554,963 | \$ 68,796,596 | \$ 110,370,675 | \$ 86,057,898 |



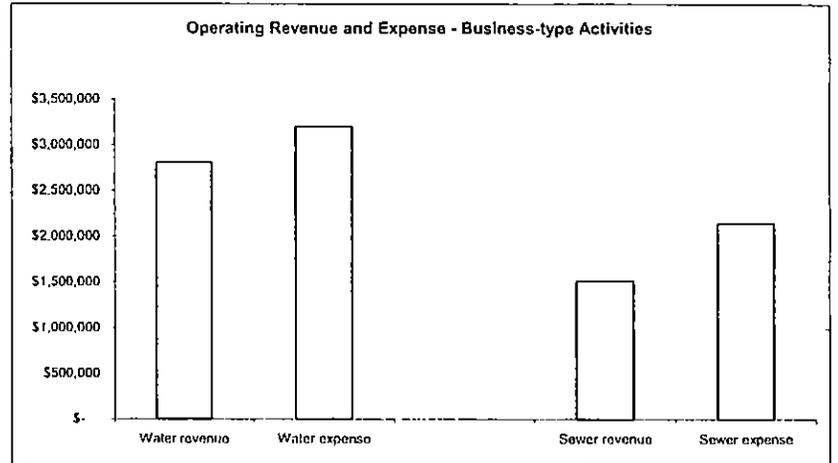
Business-type activities. In 2004, business-type activities increased the City's net assets by \$14,758,367 or 21.5 percent from the prior year. The key elements of this increase follow:

- The income (loss) from operations excluding capital contributions and its related depreciation expense - \$(126,885). The goal of the business activities is to provide these services at a break even basis to minimize the cost to the users.
- Developer contributions of water infrastructure - \$3,567,696 consisting of ten projects
- Developer contributions of water infrastructure - \$6,078,824 from the water utility reacquiring infrastructure at the expiration of a water service agreement
- Developer contributions of sewer infrastructure - \$6,052,718 consisting of nine developer projects, one other government entity project and one City project
- Depreciation expense related to contributed assets - \$813,986

In 2003, business-type activities increased the City's net assets by \$4,994,913 or 7.8 percent from the prior year. The key elements of this increase follow:

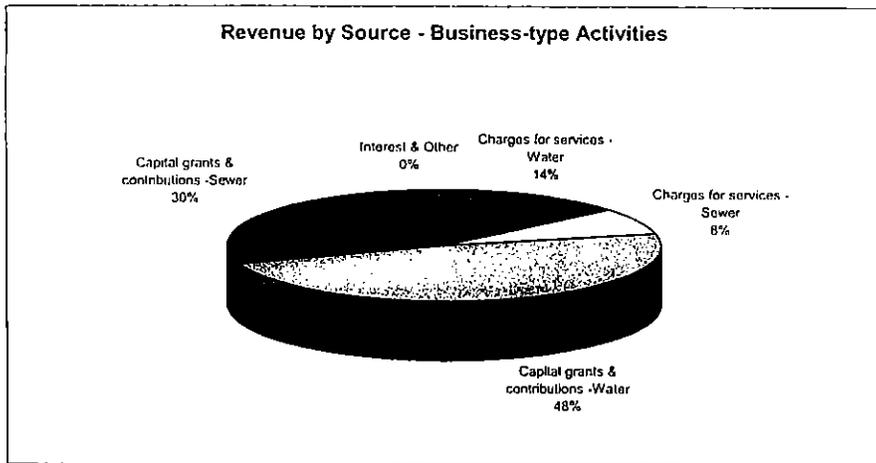
- Long term debt elimination - \$940,000
- A reduction in water rates by 17% at mid year reflecting that future capital needs would now be provided through impact fees and that water revenue would no longer be needed for debt service obligations
- Developer contributions of water infrastructure - \$2,742,062 consisting of thirteen developer projects and three City projects
- Developer contributions of sewer infrastructure - \$2,554,558 consisting of ten developer projects and one City project

The following graph compares the 2004 charges for services to the operating expenses for water and sewer activities.



Water and Sewer expenses exceed revenue due to the current policy of only including depreciation from City spending on Capital assets in the rate formula. The large amount of new infrastructure that is being installed each year is the reason for this policy. When maintenance and replacement costs begin to increase this policy may need to be reevaluated.

As shown on the following chart, the Business-type revenue includes capital grants and contributions, investment earnings and miscellaneous income in addition to charges for services (operating revenue).



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,154,460, a decrease of \$915,651 in comparison with the prior year. Approximately 71 percent or \$10,015,277 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been

committed 1) to pay debt service (\$126,566), 2) for utility improvement purposes (\$765,805), 3) for development purposes (\$2,743,066), 4) for library purposes (\$208,274), and 5) for emergency medical services, prepaid expenses, inventories, encumbrances, donations and grants (\$295,472).

Of the \$10,015,277 unreserved fund balance, the use of \$3,864,367 or approximately 39 percent was committed to specific types of activities; i.e., \$184,079 for special revenue fund activities, and \$3,680,288 for capital project activities.

The **General Fund** is the chief operating fund of the City. As of December 31, 2004, the total fund balance of the general fund was \$6,282,838 of which \$6,150,910 was unreserved. This unreserved fund balance represents approximately 30 percent of 2005 total general fund expenditures.

The fund balance of the general fund increased by \$176,598 in fiscal year 2004. The 2004 annual program budget for the City's general fund identified the appropriation of \$780,000 in fund balance to reduce the impact of taxes levied and to balance the budget. However, actual expenses were less than budgeted expenses by approximately 3 percent or \$630,135 and actual revenue and other sources were more than budget revenue in the general fund by \$203,536 or approximately 1 percent. The increase in revenue can be attributed to increased development activity resulting in more permit and development review fees.

The **Debt Service Fund** has a total fund balance of \$126,566, all of which is reserved for the payment of debt service. The fund balance reflects a decrease of \$1,445,472 due primarily to exercising the call privilege on one of the debt issues.

Proprietary fund. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Utility at the end of the year amounted to \$1,049,458, a decrease of \$89,255 from December 31, 2003. The growth in total net assets was \$9,324,214.

Unrestricted net assets of the Sanitary Sewer Fund at the end of the year amounted to \$971,341, a decrease of \$143,167 from December 31, 2003. The total growth in total net assets was \$5,434,153.

The financial statements for the enterprise funds can be found on Exhibits G, H and I of this report.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. There were additional appropriations that came from other departments or from the contingency budgeted.

As identified earlier, total actual revenue and other sources exceeded the budgeted revenue by \$203,536. Building permits and engineering review fees exceeded their budgets due to increased development activity. This gain was partially offset by interest income accounting for most of the revenue increase.

Actual expenditures were less than budgeted expenditures by \$630,135. This amount was across all functions. The unused portion of the contingency budget of \$501,791 was the main portion of the under expenditures. The insurance and dispatch budget provided additional underexpenditures reduced by overexpenditures in the fire and refuse collection budgets.

Because revenue increased and expenditures declined, the need to draw upon existing fund balance was unnecessary. The combination of favorable variances in revenue and expenditures enabled the fund balance to increase \$176,598.

Capital assets.

The City's investment in capital assets for its governmental and business type activities as of December 31, 2004, amounts to \$116,602,796 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings and machinery and equipment.

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|-------------------------|---------------|--------------------------|---------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | Land | \$ 4,777,991 | \$ 3,482,996 | \$ 426,384 | \$ 426,384 | \$ 5,204,375 |
| Buildings and Improvements | 21,190,277 | 20,730,209 | 2,345,953 | 1,248,910 | 23,536,230 | 21,979,119 |
| Improvements other than buildings | 8,323,261 | 2,594,723 | 91,140,721 | 75,009,527 | 99,463,982 | 77,604,250 |
| Machinery and equipment | 11,482,674 | 11,108,414 | 1,873,833 | 1,729,746 | 13,356,507 | 12,838,160 |
| Total capital assets | 45,774,203 | 37,916,342 | 95,786,891 | 78,414,567 | 141,561,094 | 116,330,909 |
| Less Accumulated depreciation | (10,573,537) | (9,397,845) | (14,384,761) | (11,990,178) | (24,958,298) | (21,388,023) |
| Capital assets net of Depreciation | \$ 35,200,666 | \$ 28,518,497 | \$ 81,402,130 | \$ 66,424,389 | \$ 116,602,796 | \$ 94,942,886 |

The total increase in the City's net investment in capital assets for the current fiscal year was a total of \$21,659,910 net of depreciation or a 23 percent increase.

For further details on capital asset activity, refer to Note 1(D)5, Note 4(D) of the Notes to Financial Statements and Schedules 8 – 8.2.

Long-term debt

At December 31, 2004, the City had general obligation note and bond issues outstanding totaling \$24,800,000. State statutes limit the amount of general obligation debt a governmental entity may issue to 5 percent of its total equalized valuation. The current debt limitation for the City is \$134,097,275. The City's current outstanding general obligation debt is 18% of the statutory debt limit. In the last 15 years the City has not exceeded 36 percent of the statutory debt limit. No new debt was issued in 2004. The City paid off the balance of the 1996 bond issue, in addition to making required principal payments on the remaining debt

issues that came due. The City maintains an "Aa3" rating from Moody's for its general obligation debt.

The Franklin Water Utility has no debt outstanding. The Board of Water Commissioners intention is to generally avoid debt by maintaining and building cash and investments and from time to time making improvements to its rate structure. The utility's plan is to make future infrastructure improvements including water main replacement and new water service from current reserves and from City collected impact fees.

The City also has outstanding \$20,030,000 of redevelopment revenue obligations that were issued in order to evidence a loan from the City's Community Development Authority (CDA) to the City. The CDA financed its loan to the City by issuing redevelopment lease revenue bonds. The proceeds of the redevelopment revenue obligations were used to finance the City's Business Park. The obligations are being repaid from its interest in land sales and property tax revenue generated by the City's TIF District No. 2. The CDA debt is not subject to the City's statutory debt limit referred to in a preceding paragraph.

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------|------------------------------------|---------------|--------------------------|------|---------------|---------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | General obligation bonds and notes | \$ 24,800,000 | \$ 28,800,000 | \$ - | \$ - | \$ 24,800,000 |
| Revenue bonds | 20,030,000 | 22,270,000 | - | - | 20,030,000 | 22,270,000 |
| Total | \$ 44,830,000 | \$ 51,070,000 | \$ - | \$ - | \$ 44,830,000 | \$ 51,070,000 |

Additional information of the City's long-term debt can be found in note 4(F), Schedule 5 and Tables 7 – 10 in the statistical section of the report.

Economic Factors, Tax Rates and Next Year's Budgets

- The unemployment rate as of December 31, 2004 for the City was 3.5%, Milwaukee County which includes the City, is 5.2 percent. This compares with an unemployment rate of 4.3 percent for the State of Wisconsin.
- The local tax rate change for operations for the current and prior two years were (1.28%), 1.42% and 6.0%, respectively.
- The tax levy increase for operations for the current and prior two years were, \$206,760, \$745,308 and \$1,373,644, respectively.
- The 2005 budgets require a local tax rate that increased 1.89% which together with growth will result in a tax levy increased of \$1,085,689 or 6.9 percent.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance & Treasurer or the Director of Administration, 9229 West Loomis Road, Franklin, WI 53132.

General information or more detailed financial and budget information relating to the City of Franklin, Wisconsin, can be found at the City's website, www.franklinwi.gov.

CITY OF FRANKLIN
Statement of Net Assets
December 31, 2004

BASIC FINANCIAL STATEMENTS

| | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|-----------------------|---------------------------------------|
| | Governmental Activities | Business-type Activities | Total | Community Development Authority |
| ASSETS | | | | |
| Cash and investments | \$ 15,405,550 | \$ 1,591,919 | \$ 16,997,469 | \$ 370,686 |
| Receivables | | | | |
| Accounts receivable | 1,031,810 | 1,341,713 | 2,373,523 | 3,300 |
| Taxes receivable | 17,493,605 | 150,351 | 17,643,956 | - |
| Special assessments receivable | 3,239,485 | - | 3,239,485 | - |
| Internal balances | 56,060 | (56,060) | - | - |
| Due from primary government | - | - | - | 2,925,386 |
| Due from other governments | 183,219 | - | 183,219 | - |
| Developer receivable | - | - | - | 237,830 |
| Prepaid items | 26,714 | - | 26,714 | - |
| Inventories | 11,281 | - | 11,281 | - |
| Restricted cash and investments | - | 132,035 | 132,035 | - |
| Capital assets (net of accumulated depreciation) | | | | |
| Land | 4,777,991 | 426,384 | 5,204,375 | - |
| Buildings and improvements | 17,363,501 | 1,796,652 | 19,160,153 | - |
| Machinery and equipment | 4,845,626 | 852,220 | 5,697,846 | - |
| Improvements other than buildings | 8,213,548 | 78,326,874 | 86,540,422 | - |
| Total assets | \$ 72,648,390 | \$ 84,562,088 | \$ 157,210,478 | \$ 3,537,202 |
| LIABILITIES | | | | |
| Accounts payable | \$ 1,615,065 | \$ 800,884 | \$ 2,415,949 | \$ 157,139 |
| Accrued liabilities | 893,848 | 23,791 | 917,639 | - |
| Due to other governments | 59,844 | 102,368 | 162,212 | - |
| Accrued interest | 346,331 | - | 346,331 | 265,009 |
| Special deposits | 29,424 | 500 | 29,924 | - |
| Unearned revenue | 16,942,487 | - | 16,942,487 | 2,925,386 |
| Noncurrent liabilities: | | | | |
| Due within one year | 1,702,723 | 34,476 | 1,737,199 | 2,315,000 |
| Due in more than one year | 24,242,956 | 45,106 | 24,288,062 | 17,715,000 |
| Total liabilities | 45,832,678 | 1,007,125 | 46,839,803 | 23,377,534 |
| NET ASSETS (LIABILITIES) | | | | |
| Investment in capital assets, net of related debt | 14,205,552 | 81,402,130 | 95,607,682 | - |
| Restricted for: | | | | |
| Utility improvements | 765,805 | - | 765,805 | - |
| Development | 2,743,066 | - | 2,743,066 | - |
| Other purposes | 147,544 | 132,035 | 279,579 | - |
| Unrestricted | 8,953,745 | 2,020,798 | 10,974,543 | (19,840,332) |
| Total net assets (liabilities) | \$ 26,815,712 | \$ 83,554,963 | \$ 110,370,675 | \$ (19,840,332) |

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Activities
Year Ended December 31, 2004

| Functions/Programs | Expenses | Program Revenue | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------------|---------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Component Unit | |
| | | | | | Governmental Activities | Business-type Activities | Total | Community Development Authority |
| Primary Government: | | | | | | | | |
| Government activities: | | | | | | | | |
| General government | \$ 2,535,943 | \$ 195,401 | \$ - | \$ - | \$ (2,340,542) | \$ - | \$ (2,340,542) | \$ - |
| Public safety | 13,054,488 | 2,478,751 | 106,086 | - | (10,469,651) | - | (10,469,651) | - |
| Public works | 4,152,452 | 1,473,029 | 1,390,703 | 9,887,125 | 8,598,405 | - | 8,598,405 | - |
| Health and human services | 538,850 | 61,273 | 353,221 | - | (124,356) | - | (124,356) | - |
| Culture and recreation | 1,428,499 | 201,129 | 36,790 | 161,275 | (1,029,305) | - | (1,029,305) | - |
| Conservation and development | 384,702 | 116,390 | - | - | (268,312) | - | (268,312) | - |
| Interest on long term debt | 1,253,065 | - | - | - | (1,253,065) | - | (1,253,065) | - |
| Total governmental activities | <u>23,347,999</u> | <u>4,525,973</u> | <u>1,886,800</u> | <u>10,048,400</u> | <u>(6,886,826)</u> | <u>-</u> | <u>(6,886,826)</u> | <u>-</u> |
| Business-type activities: | | | | | | | | |
| Water | 2,572,320 | 2,810,730 | - | 9,514,855 | - | 9,753,265 | 9,753,265 | - |
| Sewer | 2,143,916 | 1,515,084 | - | 3,916,276 | - | 3,287,444 | 3,287,444 | - |
| Total Business-type activities | <u>4,716,236</u> | <u>4,325,814</u> | <u>-</u> | <u>13,431,131</u> | <u>-</u> | <u>13,040,709</u> | <u>13,040,709</u> | <u>-</u> |
| Total primary government | <u>\$ 28,064,235</u> | <u>\$ 8,851,787</u> | <u>\$ 1,886,800</u> | <u>\$ 23,479,531</u> | <u>(6,886,826)</u> | <u>13,040,709</u> | <u>6,153,883</u> | <u>-</u> |
| Component Unit: | | | | | | | | |
| Community Development Authority | <u>\$ 1,205,939</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | | | | <u>(1,205,939)</u> |
| General revenue: | | | | | | | | |
| Property taxes levied for general purposes | | | | | 13,397,596 | - | 13,397,596 | - |
| Property taxes levied for debt service | | | | | 2,410,211 | - | 2,410,211 | - |
| Property taxes levied for TIF | | | | | - | - | - | 2,729,979 |
| Other taxes | | | | | 376,038 | - | 376,038 | - |
| Intergovernmental revenue not restricted to specific programs | | | | | 1,233,790 | - | 1,233,790 | 102,135 |
| Investment earnings | | | | | 495,689 | 18,455 | 514,144 | 20,994 |
| Miscellaneous revenue | | | | | 161,557 | 65,558 | 227,115 | 2,969 |
| Transfers | | | | | (1,633,645) | 1,633,645 | - | - |
| Total general revenue and transfers | | | | | <u>16,441,236</u> | <u>1,717,658</u> | <u>18,158,894</u> | <u>2,856,077</u> |
| Change in net assets | | | | | 9,554,410 | 14,758,367 | 24,312,777 | 1,650,138 |
| Net assets (liabilities) - beginning | | | | | 17,261,302 | 68,796,596 | 86,057,898 | (21,490,470) |
| Net assets (liabilities) - ending | | | | | <u>\$ 26,815,712</u> | <u>\$ 83,554,963</u> | <u>\$ 110,370,675</u> | <u>\$ (19,840,332)</u> |

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Balance Sheet
Governmental Funds
December 31, 2004

| | General | Debt Service | Non Major Governmental Funds | Total Governmental Funds |
|---|----------------------|---------------------|------------------------------|--------------------------|
| ASSETS | | | | |
| Cash and investments | \$ 6,586,549 | \$ 83,448 | \$ 8,526,381 | \$ 15,196,378 |
| Receivables | | | | |
| Accounts receivable | 781,361 | 43,118 | 73,826 | 898,305 |
| Taxes receivable | 12,329,203 | 2,823,520 | 2,340,882 | 17,493,605 |
| Special assessments receivable | - | 2,191,269 | 1,048,216 | 3,239,485 |
| Due from other funds | 17,113 | - | 102,000 | 119,113 |
| Due from other governments | 129,305 | - | 53,914 | 183,219 |
| Prepaid items | 17,647 | - | 9,067 | 26,714 |
| Inventories | 11,281 | - | - | 11,281 |
| TOTAL ASSETS | \$ 19,872,459 | \$ 5,141,355 | \$ 12,154,286 | \$ 37,168,100 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 585,441 | \$ - | \$ 997,401 | \$ 1,582,842 |
| Accrued liabilities | 511,617 | - | 22,731 | 534,348 |
| Due to other funds | 63,053 | - | - | 63,053 |
| Due to other governments | 59,844 | - | - | 59,844 |
| Special deposits | 26,180 | - | - | 26,180 |
| Deferred revenue | 12,343,486 | 5,014,789 | 3,389,098 | 20,747,373 |
| Total Liabilities | 13,589,621 | 5,014,789 | 4,409,230 | 23,013,640 |
| FUND BALANCES | | | | |
| Reserved for: | | | | |
| Inventories and prepaid items | 28,928 | - | - | 28,928 |
| Encumbrances | 103,000 | - | 16,000 | 119,000 |
| Subsequent years expenditures | - | - | 208,274 | 208,274 |
| Subsequent years debt service | - | 126,566 | - | 126,566 |
| Emergency medical services | - | - | 11,261 | 11,261 |
| Utility improvements | - | - | 765,805 | 765,805 |
| Development | - | - | 2,743,066 | 2,743,066 |
| Donations & grants | - | - | 136,283 | 136,283 |
| Unreserved reported in: | | | | |
| General Fund | 6,150,910 | - | - | 6,150,910 |
| Special Revenue Funds | - | - | 184,079 | 184,079 |
| Capital Project Funds | - | - | 3,680,288 | 3,680,288 |
| Total fund balances | 6,282,838 | 126,566 | 7,745,056 | 14,154,460 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 19,872,459 | \$ 5,141,355 | \$ 12,154,286 | \$ 37,168,100 |
| Total fund balances of governmental funds | | | | \$ 14,154,460 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | |
| Capital assets used in government funds are not financial resources and are not reported in the funds. | | | | 35,200,666 |
| Internal service fund balance | | | | (52,290) |
| Other long-term assets that are not available to pay for current period expenditures and are deferred in the funds. | | | | 3,804,886 |
| Long-term liabilities, including long-term debt, are not due and payable in the current period and are not reported in the funds. | | | | (26,292,010) |
| Not assets of governmental activities | | | | \$ 26,815,712 |

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See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2004

| | General | Debt Service | Non Major Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------|------------------------------------|--------------------------------|
| REVENUE | | | | |
| Taxes | \$ 11,711,134 | \$ 2,410,211 | \$ 2,062,500 | \$ 16,183,845 |
| Intergovernmental revenue | 2,641,983 | - | 423,526 | 3,065,509 |
| Licenses and permits | 1,258,457 | - | - | 1,258,457 |
| Fines, forfeitures and penalties | 397,169 | - | - | 397,169 |
| Public charges for services | 1,607,075 | 456,909 | - | 2,063,984 |
| Special assessments | - | 500,409 | 3,287,518 | 3,787,927 |
| Intergovernmental charges for services | 575,009 | - | - | 575,009 |
| Investment earnings | 177,420 | 183,037 | 134,733 | 495,190 |
| Miscellaneous revenue | 136,127 | - | 311,865 | 447,992 |
| Total Revenue | <u>18,504,374</u> | <u>3,550,566</u> | <u>6,220,142</u> | <u>28,275,082</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 2,262,025 | - | - | 2,262,025 |
| Public safety | 12,102,357 | - | 6,750 | 12,109,107 |
| Public works | 3,580,392 | - | - | 3,580,392 |
| Health and human services | 468,087 | - | 63,335 | 531,422 |
| Culture, recreation and education | 134,440 | - | 1,001,382 | 1,135,822 |
| Conservation and development | 374,864 | - | 3,352 | 378,216 |
| Capital outlay | - | - | 2,248,893 | 2,248,893 |
| Debt service | | | | |
| Principal | - | 4,000,000 | - | 4,000,000 |
| Interest | - | 1,311,211 | - | 1,311,211 |
| Total Expenditures | <u>18,922,165</u> | <u>5,311,211</u> | <u>3,323,712</u> | <u>27,557,088</u> |
| Excess (Deficiency) of Revenue Over (Under) Expenditures | (417,791) | (1,760,645) | 2,896,430 | 717,994 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 634,462 | 337,199 | 2,301,978 | 3,273,639 |
| Transfers out | (40,073) | (22,026) | (4,845,185) | (4,907,284) |
| Net change in fund balances | 176,598 | (1,445,472) | 353,223 | (915,651) |
| Fund balances - beginning | 6,106,240 | 1,572,038 | 7,391,833 | 15,070,111 |
| Fund balances - ending | <u>\$ 6,282,838</u> | <u>\$ 126,566</u> | <u>\$ 7,745,056</u> | <u>\$ 14,154,460</u> |

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Reconciliation of the Statement of Revenue
Expenditures and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Year Ended December 31, 2004

| | |
|--|---------------------|
| Net change in fund balances - total governmental funds | \$ (915,651) |
| Amounts reported for governmental activities in the statement of activities (page 25) are different because: | |
| Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,709,556) exceeded depreciation (\$1,404,394) in the current period, plus gain on disposal (\$5,808) | 310,970 |
| Contributed capital assets are reported as revenues in the statement of activities | 6,371,199 |
| The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes current financial resources of government funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of differences in the treatment of long term debt. | 4,000,000 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the government funds | 307 |
| Revenue in the statement of activities not providing current financial resources are not reported as revenue in the funds | 1,060,383 |
| Revenue in the government funds that provides current financial resources but has been previously reported as revenue in the statement of activities | (1,175,364) |
| Internal service fund change in net assets | (97,434) |
| Net change in net assets of governmental activities | <u>\$ 9,554,410</u> |

See accompanying notes to the financial statements.

CITY OF FRANKLIN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balances -
Budget and Actual (on a Budgetary basis)
Year Ended December 31, 2004

| | Original Budget | Final Budget | Actual | Variance with final budget - Favorable (Unfavorable) |
|--|---------------------|---------------------|---------------------|---|
| REVENUE | | | | |
| Taxes | \$ 12,341,900 | \$ 12,341,900 | \$ 12,345,596 | \$ 3,696 |
| Intergovernmental revenue | 2,658,900 | 2,658,900 | 2,641,983 | (16,917) |
| Licenses and permits | 943,150 | 943,150 | 1,258,457 | 315,307 |
| Fines, forfeitures and penalties | 450,000 | 450,000 | 397,169 | (52,831) |
| Public charges for services | 1,440,650 | 1,441,650 | 1,607,075 | 165,425 |
| Intergovernmental charges for services | 623,000 | 623,000 | 575,009 | (47,991) |
| Investment earnings | 342,500 | 342,500 | 177,420 | (165,080) |
| Miscellaneous revenue | 134,200 | 134,200 | 136,127 | 1,927 |
| Total Revenue | <u>18,934,300</u> | <u>18,935,300</u> | <u>19,138,836</u> | <u>203,536</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 2,945,257 | 2,918,057 | 2,266,525 | 651,532 |
| Public safety | 11,989,474 | 12,016,474 | 12,102,357 | (85,883) |
| Public works | 3,579,911 | 3,579,911 | 3,580,392 | (481) |
| Health and human services | 499,368 | 499,368 | 468,087 | 31,281 |
| Culture and recreation | 142,952 | 144,152 | 134,440 | 9,712 |
| Conservation and development | 497,338 | 497,338 | 473,364 | 23,974 |
| Total Expenditures | <u>19,654,300</u> | <u>19,655,300</u> | <u>19,025,165</u> | <u>630,135</u> |
| Excess (Deficiency) of Revenue Over (Under) Expenditures | (720,000) | (720,000) | 113,671 | 833,671 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | (60,000) | (60,000) | (40,073) | 19,927 |
| Net change in fund balance - budgetary basis | (780,000) | (780,000) | 73,598 | 853,598 |
| Adjustments to generally accepted accounting principles basis | | | | |
| 2004 encumbrances | 103,000 | 103,000 | 103,000 | - |
| Net change in fund balance - generally accepted accounting principles basis | (677,000) | (677,000) | 176,598 | 853,598 |
| Fund Balances - beginning | <u>6,106,240</u> | <u>6,106,240</u> | <u>6,106,240</u> | <u>-</u> |
| Fund Balances - ending | <u>\$ 5,429,240</u> | <u>\$ 5,429,240</u> | <u>\$ 6,282,838</u> | <u>\$ 853,598</u> |

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See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Net Assets
Proprietary Funds
December 31, 2004

(with comparative information for the year ended December 31, 2003)

| | <u>Business-type Activities - Enterprise Funds</u> | | | | <u>Current Year Totals</u> | <u>Governmental Activities - Internal Service Funds</u> |
|--|--|---|--|--|------------------------------------|---|
| | <u>Water Utility Current Year</u> | <u>Water Utility Prior Year</u> | <u>Sanitary Sewer Current Year</u> | <u>Sanitary Sewer Prior Year</u> | | |
| | ASSETS | | | | | |
| Current assets: | | | | | | |
| Cash and investments | \$ 746,633 | \$ 761,009 | \$ 845,286 | \$ 954,083 | \$ 1,591,919 | \$ 209,172 |
| Receivables: | | | | | | |
| Accounts receivable | 892,644 | 623,547 | 449,069 | 434,928 | 1,341,713 | 133,505 |
| Taxes receivable | 95,448 | 68,895 | 54,903 | 34,366 | 150,351 | - |
| Due from other funds | 113,905 | 163,865 | 53,977 | 51,901 | 167,882 | - |
| Total current assets | <u>1,848,630</u> | <u>1,617,316</u> | <u>1,403,235</u> | <u>1,475,278</u> | <u>3,251,865</u> | <u>342,677</u> |
| Noncurrent assets: | | | | | | |
| Restricted cash and investments | - | - | 132,035 | 118,986 | 132,035 | - |
| Total restricted assets | <u>-</u> | <u>-</u> | <u>132,035</u> | <u>118,986</u> | <u>132,035</u> | <u>-</u> |
| Capital assets: | | | | | | |
| Land | 115,465 | 115,465 | 310,919 | 310,919 | 426,384 | - |
| Buildings and improvements | 724,880 | 724,880 | 1,621,073 | 524,030 | 2,345,953 | - |
| Improvements other than buildings | 43,335,501 | 32,124,982 | 47,805,220 | 42,884,545 | 91,140,721 | - |
| Machinery and equipment | 1,360,057 | 1,262,467 | 513,776 | 467,279 | 1,873,833 | - |
| Less accumulated depreciation | <u>(6,856,617)</u> | <u>(4,961,978)</u> | <u>(7,528,144)</u> | <u>(7,028,200)</u> | <u>(14,384,761)</u> | <u>-</u> |
| Total capital assets (net of accumulated depreciation) | <u>38,679,286</u> | <u>29,265,816</u> | <u>42,722,844</u> | <u>37,158,573</u> | <u>81,402,130</u> | <u>-</u> |
| Total noncurrent assets | <u>38,679,286</u> | <u>29,265,816</u> | <u>42,854,879</u> | <u>37,277,559</u> | <u>81,534,165</u> | <u>-</u> |
| Total assets | <u>\$ 40,527,916</u> | <u>\$ 30,883,132</u> | <u>\$ 44,258,114</u> | <u>\$ 38,752,837</u> | <u>\$ 84,786,030</u> | <u>\$ 342,677</u> |

Continued

CITY OF FRANKLIN
Statement of Net Assets
Proprietary Funds
December 31, 2004
(with comparative information for the year ended December 31, 2003)

| | <u>Business-type Activities - Enterprise Funds</u> | | | | <u>Current Year Totals</u> | <u>Governmental Activities - Internal Service Funds</u> |
|---|--|---|--|--|------------------------------------|---|
| | <u>Water Utility Current Year</u> | <u>Water Utility Prior Year</u> | <u>Sanitary Sewer Current Year</u> | <u>Sanitary Sewer Prior Year</u> | | |
| | LIABILITIES | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ 483,034 | \$ 351,701 | \$ 317,850 | \$ 259,411 | \$ 800,884 | \$ 32,223 |
| Accrued liabilities | 391 | 11,237 | 23,400 | 24,624 | 23,791 | 359,500 |
| Due to other governments | 102,368 | - | - | - | 102,368 | - |
| Due to other funds | 173,089 | 79,338 | 50,853 | 40,609 | 223,942 | - |
| Special deposits | 500 | 200 | - | - | 500 | 3,244 |
| Current portion of compensated absences | 17,238 | 13,500 | 17,238 | 13,500 | 34,476 | - |
| Total current liabilities | <u>776,620</u> | <u>455,976</u> | <u>409,341</u> | <u>338,144</u> | <u>1,185,961</u> | <u>394,967</u> |
| Non-current liabilities: | | | | | | |
| Accrued compensated absences | 22,553 | 22,627 | 22,553 | 22,626 | 45,106 | - |
| Total non-current liabilities | <u>22,553</u> | <u>22,627</u> | <u>22,553</u> | <u>22,626</u> | <u>45,106</u> | <u>-</u> |
| Total liabilities | <u>799,173</u> | <u>478,603</u> | <u>431,894</u> | <u>360,770</u> | <u>1,231,067</u> | <u>394,967</u> |
| NET ASSETS | | | | | | |
| Invested in capital assets | 38,679,286 | 29,265,816 | 42,722,844 | 37,158,573 | 81,402,130 | - |
| Restricted for: | | | | | | |
| Sewer equipment replacement | - | - | 132,035 | 118,986 | 132,035 | - |
| Unrestricted (deficit) | 1,049,457 | 1,138,713 | 971,341 | 1,114,508 | 2,020,798 | (52,290) |
| Total net assets | <u>\$ 39,728,743</u> | <u>\$ 30,404,529</u> | <u>\$ 43,826,220</u> | <u>\$ 38,392,067</u> | <u>\$ 83,554,963</u> | <u>\$ (52,290)</u> |

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Revenue, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended December 31, 2004
(with comparative information for the year ended December 31, 2003)

| | Business-type Activities - Enterprise Funds | | | | Current Year Totals | Governmental Activities - Internal Service Funds |
|---|---|--------------------------------|-----------------------------------|---------------------------------|---------------------------|---|
| | Water Utility Current Year | Water Utility Prior Year | Sanitary Sewer Current Year | Sanitary Sewer Prior Year | | |
| OPERATING REVENUE | | | | | | |
| Metered sales | | | | | | |
| Residential | \$ 1,251,511 | \$ 1,421,365 | \$ 909,607 | \$ 900,788 | \$ 2,161,118 | \$ - |
| Commercial | 619,272 | 664,720 | 351,574 | 355,806 | 970,846 | - |
| Public authority | 195,966 | 224,901 | 96,502 | 104,696 | 292,468 | - |
| Industrial | 195,477 | 177,859 | 143,149 | 138,067 | 338,626 | - |
| Total Metered Sales | 2,262,226 | 2,488,845 | 1,500,832 | 1,499,357 | 3,763,058 | - |
| Group health & dental charges | - | - | - | - | - | 2,365,903 |
| Public fire protection service | 451,488 | 510,247 | - | - | 451,488 | - |
| Private fire protection service | 65,975 | 79,030 | - | - | 65,975 | - |
| Forfeited discounts, penalties and other | 31,041 | 20,002 | 14,252 | 9,630 | 45,293 | - |
| Total Operating revenue | 2,810,730 | 3,098,124 | 1,515,084 | 1,508,987 | 4,325,814 | 2,365,903 |
| OPERATING EXPENSES | | | | | | |
| Cost of sales and services | 1,589,789 | 1,617,113 | 1,439,584 | 1,385,069 | 3,029,373 | 2,468,091 |
| Depreciation | 578,708 | 569,940 | 541,105 | 478,593 | 1,119,813 | - |
| Administration | 403,823 | 323,815 | 163,227 | 168,674 | 567,050 | - |
| Total operating expenses | 2,572,320 | 2,510,868 | 2,143,916 | 2,032,336 | 4,716,236 | 2,468,091 |
| Operating income (loss) | 238,410 | 587,256 | (628,832) | (523,349) | (390,422) | (102,188) |
| NON-OPERATING REVENUE (EXPENSES) | | | | | | |
| Investment earnings | 8,892 | 6,949 | 9,563 | 11,450 | 18,455 | 4,754 |
| Sundry | 60,203 | 43,108 | 5,355 | 10,666 | 65,558 | - |
| Interest expense | - | (13,024) | - | - | - | - |
| Amortization of debt discount | - | (4,817) | - | - | - | - |
| Total non-operating revenue (expenses) | 69,095 | 32,216 | 14,918 | 22,116 | 84,013 | 4,754 |
| Income (loss) before capital contributions and transfers | 307,505 | 619,472 | (613,914) | (501,233) | (306,409) | (97,434) |
| Capital Contributions | 9,514,855 | 1,454,149 | 3,916,276 | 1,838,654 | 13,431,131 | - |
| Transfers In | 131,665 | 1,328,759 | 2,136,442 | 717,612 | 2,268,107 | - |
| Transfers out | (629,811) | (455,715) | (4,651) | (6,785) | (634,462) | - |
| Change in net assets | 9,324,214 | 2,946,665 | 5,434,153 | 2,048,248 | 14,758,367 | (97,434) |
| Net assets - beginning | 30,404,529 | 27,457,864 | 38,392,067 | 36,343,819 | 68,796,596 | 45,144 |
| Net assets - ending | \$ 39,728,743 | \$ 30,404,529 | \$ 43,826,220 | \$ 38,392,067 | \$ 83,554,963 | \$ (52,290) |

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2004
(with comparative information for the year ended December 31, 2003)

| | Business-type Activities - Enterprise Funds | | | | Current Year Totals | Governmental Activities - Internal Service Funds |
|---|---|--------------------------------|-----------------------------------|---------------------------------|---------------------------|---|
| | Water Utility Current Year | Water Utility Prior Year | Sanitary Sewer Current Year | Sanitary Sewer Prior Year | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Receipts from customers and users | \$ 2,366,816 | \$ 2,980,870 | \$ 1,485,761 | \$ 1,443,010 | \$ 3,852,577 | \$ 2,309,508 |
| Receipts for interfund services provided | 217,856 | 232,866 | - | - | 217,856 | - |
| Payments to suppliers | (1,181,532) | (1,726,328) | (1,116,238) | (1,134,981) | (2,297,770) | (2,405,783) |
| Payments to employees | (362,251) | (330,965) | (347,615) | (298,815) | (709,866) | - |
| Payments for interfund services used | (79,300) | (77,400) | (79,300) | (77,400) | (158,600) | - |
| Net cash flows provided by operating activities | <u>961,589</u> | <u>1,079,043</u> | <u>(57,392)</u> | <u>(68,186)</u> | <u>904,197</u> | <u>(96,275)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Transfer out - paid for tax equivalent | <u>(633,039)</u> | <u>(460,475)</u> | <u>(1,423)</u> | <u>(2,025)</u> | <u>(634,462)</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Acquisition of capital assets | (351,818) | (174,186) | (46,497) | (43,724) | (398,315) | - |
| Interest paid | - | (26,048) | - | - | - | - |
| Principal paid on long-term debt | <u>-</u> | <u>(940,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net cash flows used in capital and related financing activities | <u>(351,818)</u> | <u>(1,140,234)</u> | <u>(46,497)</u> | <u>(43,724)</u> | <u>(398,315)</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Investment earnings | <u>8,892</u> | <u>6,951</u> | <u>9,564</u> | <u>11,450</u> | <u>18,456</u> | <u>4,754</u> |
| Net increase (decrease) in cash and cash equivalents | (14,376) | (514,715) | (95,748) | (102,485) | (110,124) | (91,521) |
| Cash and cash equivalents - Beginning | <u>761,009</u> | <u>1,275,724</u> | <u>1,073,069</u> | <u>1,175,554</u> | <u>1,834,078</u> | <u>300,693</u> |
| Cash and cash equivalents - Ending | <u>\$ 746,633</u> | <u>\$ 761,009</u> | <u>\$ 977,321</u> | <u>\$ 1,073,069</u> | <u>\$ 1,723,954</u> | <u>\$ 209,172</u> |
| Cash and Investments - Unrestricted | \$ 746,633 | \$ 761,009 | \$ 845,286 | \$ 954,083 | \$ 1,591,919 | \$ 209,172 |
| Cash and Investments - Restricted | - | - | 132,035 | 118,986 | 132,035 | - |
| | <u>\$ 746,633</u> | <u>\$ 761,009</u> | <u>\$ 977,321</u> | <u>\$ 1,073,069</u> | <u>\$ 1,723,954</u> | <u>\$ 209,172</u> |

Continued

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2004
(with comparative information for the year ended December 31, 2003)

| | Business-type Activities - Enterprise Funds | | | | Current Year Totals | Governmental Activities - Internal Service Funds |
|---|---|--------------------------------|-----------------------------------|---------------------------------|---------------------------|---|
| | Water Utility Current Year | Water Utility Prior Year | Sanitary Sewer Current Year | Sanitary Sewer Prior Year | | |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | | | | | |
| Operating income (loss) | \$ 238,410 | \$ 587,256 | \$ (628,832) | \$ (523,349) | \$ (390,422) | \$ (102,188) |
| Adjustments to reconcile operating income (loss) to net cash flows provided by (used in) operating activities | | | | | | |
| Depreciation | 578,708 | 569,940 | 541,105 | 478,593 | 1,119,813 | - |
| Depreciation allocated to other accounts | 6,161 | 6,241 | (6,161) | - | - | - |
| Other non operating income | 63,431 | 47,868 | 2,127 | 5,906 | 65,558 | - |
| (Increase) decrease in assets | | | | | | |
| Accounts receivable | (269,097) | 61,504 | (14,141) | (98,182) | (283,238) | (56,395) |
| Taxes receivable | (26,553) | - | (20,537) | 26,299 | (47,090) | - |
| Prepaid expense | - | 2,448 | - | - | - | - |
| Due from other funds | 49,960 | (75,644) | (2,076) | 32,310 | 47,884 | - |
| Increase (decrease) in liabilities | | | | | | |
| Accounts payable | 131,333 | (118,758) | 58,439 | (22,921) | 189,772 | (2,692) |
| Accrued liabilities | (10,846) | 10,845 | (1,224) | 11,863 | (12,070) | 65,000 |
| Due to other governments | 102,368 | - | - | - | 102,368 | - |
| Due to other funds | 94,051 | (15,037) | 10,244 | 18,916 | 104,295 | - |
| Customer Deposits | - | - | - | - | - | - |
| Compensated Absences | 3,663 | 2,380 | 3,664 | 2,379 | 7,327 | - |
| Total Adjustments | <u>723,179</u> | <u>491,787</u> | <u>571,440</u> | <u>455,163</u> | <u>1,294,619</u> | <u>5,913</u> |
| Net cash flows provided by (used in) operating activities | <u>\$ 961,589</u> | <u>\$ 1,079,043</u> | <u>\$ (57,392)</u> | <u>\$ (68,186)</u> | <u>\$ 904,197</u> | <u>\$ (96,275)</u> |
| Noncash Capital Activities: | | | | | | |
| Cost of Utility plant installed and/or financed by external parties | <u>\$ 9,514,855</u> | <u>\$ 1,413,303</u> | <u>\$ 3,916,276</u> | <u>\$ 1,836,946</u> | <u>\$ 13,431,131</u> | <u>\$ -</u> |

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2004

Exhibit J

| ASSETS | <u>Agency Funds</u> |
|--|-------------------------|
| Cash, cash equivalents and investments | \$ 39,590,355 |
| Receivables | |
| Taxes receivable | 13,057,893 |
| Accounts receivable | <u>41,168</u> |
| Total assets | <u>52,689,416</u> |
| | |
| LIABILITIES | |
| Accounts payable | 131,036 |
| Due to component unit | 2,925,386 |
| Due other governments | 49,622,044 |
| Special deposits | <u>10,950</u> |
| Total liabilities | <u>52,689,416</u> |
| | |
| Total net assets | <u>\$ -</u> |

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See accompanying notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the City of Franklin's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be reviewed as an integral part of the accompanying financial statements. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of the significant accounting policies follows:

A. REPORTING ENTITY

This report includes all of the funds of the City of Franklin. The reporting entity for the City consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Discretely Presented Component Unit

The Community Development Authority of the City of Franklin (Authority) is included in the government-wide financial statements as a component unit. The Authority is a legally separate organization. The Authority is governed by a seven member board appointed by the Mayor and confirmed by the Common Council. As a component unit, the Authority's financial statements are presented as a discrete column in the City's financial statements. The City is financially accountable for the Authority due to the municipal lease revenue obligation of the City that 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business type activities. Governmental activities generally are financed through taxes, intergovernmental revenue and other nonexchange revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services provided. The primary government is reported separately from a legally separate component unit that the primary government is financially accountable.

The statement of activities demonstrates the degree that direct expenses of a given segment or function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the statement of activities.

Program revenue includes 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenue are reported as general revenue. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds with a fund considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net assets/fund equity, revenue and expenditures/expenses.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds even though the latter is excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Funds are organized as major funds or non-major funds within the governmental and proprietary fund statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the city or meets the following criteria:

- a. Total assets, liabilities, revenue, or expenditures of that individual governmental or propriety fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. The same element of the individual governmental fund or propriety fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and propriety funds combined.
- c. In addition, any other governmental or propriety fund that the city believes is important to financial statement users may be reported as a major fund.

Major Governmental Funds

General Fund – accounts for the City’s primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – accounts for resource accumulation from taxes, special assessments and other revenue along with payments made for principal and interest on long-term debt other than CDA or proprietary fund debt.

Major Enterprise Funds

Water Utility Fund – accounts for operations of providing water services to City residents and bills for those services.

Sanitary Sewer Fund – accounts for the operations of providing sanitary sewer services for City residents and bills for those services.

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

In addition the City reports:

Non-Major Governmental Funds

Special Revenue Funds – account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The funds include Library, Economic Development, Donations, Civic Celebrations and Grants.

Capital Projects Funds – account for resources accumulated to be used for the purchase of equipment, street replacement, acquisition of land and the construction of capital improvement projects. The funds include Capital Outlay, Equipment Replacement, Capital Improvement, Street Improvement, Utility Improvement and Development.

Other Fund Types

Internal Service funds – to account for the payment of group health and dental charges for services and stop loss insurance charges by the City and the billing of departments or agencies of the City on a cost-reimbursement basis for the services received.

Agency funds – to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and /or governmental units. The agency funds include a property tax fund and other agency funds.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING
AND FINANCIAL STATEMENT PRESENTATION**

Government-Wide Financial Statements

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned and expenditures are recorded when the liability is incurred or economic asset used. Revenue, expenditures, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenue in the year that they are levied.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING
AND FINANCIAL STATEMENT PRESENTATION (continued)

Government-Wide Financial Statements (Continued)

Taxes receivable for the following year are recorded as receivables and deferred revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenue when services are performed.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water utility and sanitary sewer fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Fund Financial Statements

Governmental fund financial statements are reported using the current resources measurement focus and 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. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgements, compensated absences and pension expenditures which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivable and deferred revenue and are recognized as revenue in the succeeding year when services financed by the levy are provided.

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.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING
AND FINANCIAL STATEMENT PRESENTATION (continued)

FUND FINANCIAL STATEMENTS (continued)

Special assessments levied for benefits to property owners for installation of sanitary sewers, water mains, roads, and other improvements are recorded as revenue when they become measurable and available. Annual installments due in future years are recorded as receivables and deferred revenue.

Revenue susceptible to accrual include property taxes, room taxes, public charges for services, permits and interest. Other general revenue such as fines and forfeitures, licenses and miscellaneous revenue are recognized when received or when measurable and available under the criteria mentioned above.

Deferred revenue is reported on the governmental funds balance sheet. Deferred revenue arises from taxes levied in the current year that are for subsequent year's operations. For governmental funds financial statements deferred revenue arises where potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received before the city has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the city has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency fund financial statements are reported using the accrual basis of accounting.

The Enterprise funds follow all pronouncements of the Governmental Accounting Standards Board and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal operations. The principal operating revenue of the water and sanitary sewer funds are charges to customers for sales and services provided. The rates billed in the water utility are approved by the Public Service Commission. Sanitary sewer charges are billed at rates established by City policy based on the charges received from the Milwaukee Metropolitan Sewage District.

Operating expenses for Proprietary funds include the cost of sales and services, administration and depreciation on capital assets. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

CITY OF FRANKLIN
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING
 AND FINANCIAL STATEMENT PRESENTATION (continued)**

All Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures/ expenses during the reporting period. Actual results could vary from those estimates.

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

1. Deposits and Investments

For purposes of the statement of cash flows, the city considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investment of city funds are restricted by state statutes. Investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities issued or guaranteed as to principal and interest by the federal government, or by a commission, board or other instrumentality of the federal government.
3. Bonds or securities of any county, city, drainage district, technical college district, local exposition district, local professional baseball park district, local professional football stadium district, cultural arts district, village, town or school district of the State of Wisconsin and University of Wisconsin Hospitals and Clinics Authority.
4. The Local Government Investment Pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category assigned of a nationally recognized rating agency.
6. Securities of an open-ended management investment company or investment trust subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

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. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average investment balances.

CITY OF FRANKLIN
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

1. Deposits and Investments (continued)

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw funds in total on one day's notice. At December 31, 2004, the fair value of the City's share of LGIP's assets was substantially equal to the amount reported in these statements.

2. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the municipality, taxes are collected for and remitted to the State government, County government, local school districts, technical college district and metropolitan sewerage district. Taxes for all State and other local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying agency fund balance sheet.

Property tax calendar – 2004 tax roll:

| | |
|----------------------------------|------------------|
| Lien date and levy date | December 2004 |
| Tax bills mailed | December 2004 |
| Payment in full, or | January 31, 2005 |
| First installment due | January 31, 2005 |
| Second installment due | March 31, 2005 |
| Third installment due | May 31, 2005 |
| Personal property taxes in full | January 31, 2005 |
| Final tax settlement with County | August 15, 2005 |
| Tax deed by County – 2004 | |
| Delinquent real estate taxes | October 2007 |

Accounts receivable have been shown net of an allowance for uncollectible accounts. Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made for the city and utility because of their right by law to place delinquent bills on the tax roll.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds". Long term interfund loans (non-current portion) are reported as "advances from and to other funds". Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and the proprietary activities are reported in the government-wide financial statements as "internal balances".

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

2. Receivables (continued)

In the governmental fund financial statements, advances to other funds are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

3. Inventories and Prepaid Items

Governmental fund inventory items, except fuel inventory, are charged to expenditures when purchased. The fuel inventory is recorded at cost on a first in first out basis using the consumption method of accounting. Year end inventory was not significant. Proprietary fund inventories are generally used for construction and for operation and maintenance work. They are not for sale. Material and supplies on hand at year end are considered immaterial.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Mandatory segregation of assets are presented as restricted assets. Such segregation is required by bond agreements and other external parties. Current liabilities payable from restricted assets are so classified. The excess of restricted assets over current liabilities will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

5. Capital Assets

Government-Wide Statements

In the government-wide financial statements, capital assets are accounted for as assets. Capital assets are defined by the government as assets with an initial cost of more than \$1,000 for general capital assets and \$10,000 for infrastructure assets and an estimated useful life of three years or more. All capital assets are recorded at historical cost or at estimated historical cost if actual amounts are not available.

Donated capital assets are recorded at their estimated fair value at the date of donation.

Prior to January 2003, infrastructure assets of governmental funds were not capitalized. Upon implementing GASB 34 governmental units are required to account for all capital assets, including infrastructure, in the government-wide statements prospectively from the date of implementation.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

5. Capital Assets (continued)

Government-Wide Statements (continued)

Retroactive reporting of all major general infrastructure assets is encouraged but not required until January 1, 2007 when GASB 34 requires the City to retroactively report all major general infrastructure assets acquired since January 1, 1980. For the year ended December 31, 2004, the City has not retroactively reported all network infrastructure acquired by its governmental fund types.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by asset type of follows:

| | |
|----------------------------|--------------|
| Buildings and improvements | 20-50 Years |
| Machinery and Equipment | 5-30 Years |
| Water and sewer systems | 20-100 Years |
| Infrastructure | 30-90 Years |

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same in the government-wide statements.

6. Other Assets

In governmental funds, debt issuance costs are recognized as expenditures in the current period. For the government-wide and proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

7. Compensated Absences

Under terms of employment, employees may earn compensatory time and are granted sick leave, severance pay and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested compensatory time, sick leave, severance pay and vacation pay are accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements and are payable with expendable available resources.

Payments for vested compensatory time, sick leave, severance pay and vacation pay will be made at rates in effect when the benefits are used. Accumulated vested compensatory time, sick leave, severance pay and vacation pay liabilities are determined on the basis of current salary rates and include salary related payments.

The city also provides postemployment health and dental care benefits for all eligible employees. Eligibility and benefit levels are based on contractual agreements with employee groups, City ordinances and employee benefit policies. Some employees may leave their accumulated severance to pay for their portion of health care premiums. The City contribution to postretirement health care is 75% of the year of retirement premium cost with the employee paying any balance due plus the cost of any dental benefit selected. The City's portion of health care cost is recognized as expenditure in the period premiums are paid. Funding for those costs is provided out of the current operating budget of the city. The contributions are financed on a pay as you go basis.

8. Long-term Obligations/Conduit Debt

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable and accrued compensated absences.

Long-term Obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debt (plus any premium) is reported as other financing sources and payments of principal and interest are reported as expenditures. The proprietary fund accounting is the same as it is in the government-wide statements.

The City has approved issuance of industrial development revenue bonds (IDRB) for the benefit of private business enterprises. IDRB's are secured by mortgages or revenue agreements on associated projects and do not constitute indebtedness of the city. Accordingly, bonds are not reported as liabilities in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

9. 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. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

10. Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources, as they are needed.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled "designated". The balance of unreserved fund balance is labeled "undesignated", which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

11. Comparative data/reclassifications

The basic financial statements include comparative data for the prior year for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in financial position and operations of these funds. This comparative data is not at the level of detail required for a presentation in conformity with general accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2003, from which the data was derived.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "other long term assets that are not available to pay for current period expenditures and therefore are deferred in the funds". The details of this difference are as follows:

| | |
|---------------------|--------------------|
| Special Assessments | <u>\$3,804,886</u> |
|---------------------|--------------------|

Capital Assets used in government funds are not financial resources and, therefore, are not reported in the funds.

| | |
|--------------------------------|---------------------|
| Land | \$4,777,991 |
| Buildings | 21,190,277 |
| Machinery and Equipment | 11,482,674 |
| Infrastructure | 8,323,261 |
| Less: Accumulated depreciation | <u>(10,573,537)</u> |
| Adjustment for Capital assets | <u>\$35,200,666</u> |

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term-are reported in the statement of net assets.

| | |
|---|---------------------|
| Bonds and notes payable | \$24,800,000 |
| Compensated absences | 1,145,679 |
| Accrued Interest | 346,331 |
| Combined Adjustment for long-term liabilities | <u>\$26,292,010</u> |

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

B. Explanation of Certain differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government wide statement of activities. One element of that reconciliation explains that "revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds". The details of this difference are as follows:

| | |
|---------------------------|--------------------|
| Special assessment levies | <u>\$1,060,383</u> |
|---------------------------|--------------------|

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets". The details of this difference are as follows:

| | |
|--|------------------|
| Debt issued or incurred: | |
| Issuance of general obligation bonds and notes | \$ - |
| Principal repayments: | |
| General obligation debt | <u>4,000,000</u> |

| | |
|---|--------------------|
| Net adjustment to decrease net changes In fund balances – total governmental Funds to arrive at changes in net Assets of governmental activities | <u>\$4,000,000</u> |
|---|--------------------|

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds". The details of this difference are as follows:

| | |
|----------------------|-----------------|
| Compensated absences | \$57,839 |
| Accrued interest | <u>(58,146)</u> |

| | |
|--|----------------|
| Net adjustments to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities | <u>\$(307)</u> |
|--|----------------|

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

B. Explanation of Certain differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (continued)

Another element of that reconciliation states that "revenue in the governmental funds that provides current financial resources but have been previously recorded as revenue in the statement of activities". The details of this difference are as follows:

| | |
|--------------------------------|--------------------|
| Special assessment collections | <u>\$1,175,364</u> |
|--------------------------------|--------------------|

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1 C with the exception of encumbrances and tax equivalent from the water utility. Actual (Budgetary basis) expenditures presented reflect actual (GAAP) expenditures adjusted for expenditures liquidated under the prior period budget and encumbrances expected to be liquidated under the current period budget. Actual (budgetary basis) revenue present the tax equivalent from the water utility as tax revenue while the GAAP basis statements present this item as a transfer in.

A budget has been adopted for the general, debt service, library, capital outlay, equipment replacement, capital improvement, street improvement, sanitary sewer and water utility funds. Budgets have not been formally adopted for other funds.

The budgeted amounts presented include any amendments made during the year. The City may authorize transfers of budgeted amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds vote of the common council. Supplemental appropriations during the year were not significant. Appropriations lapse at the end of the year unless specifically carried over. Carryovers to the following year were not material. Budgets are adopted at the function level of expenditure.

B. EXCESS EXPENDITURES OVER APPROPRIATIONS

The City controls expenditures at the function level (e.g. public safety). Some departments within functions experienced expenditures that exceeded departmental appropriations. Details of those items can be found in the budget to actual report on Schedule 4.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

Cash and investment balances as disclosed on the accompanying financial statements are comprised of the following:

| | |
|--------------------------------|----------------------|
| Petty cash | \$ 2,400 |
| Carrying amount of deposits | 46,002,100 |
| Carrying amount of investments | <u>11,086,045</u> |
| | <u>\$ 57,090,545</u> |

Cash and investment balances disclosed herein include those of the Authority, which are an integral part of the pooled cash and investments of the City. Reconciliation to the financial statements:

| | |
|---------------------------------------|----------------------|
| Primary Government: | |
| Unrestricted cash and investments | \$ 16,997,469 |
| Restricted cash and investments | 132,035 |
| Component Unit | |
| Unrestricted cash and investments | 370,686 |
| Per Statement of Fiduciary Net Assets | <u>39,590,355</u> |
| | <u>\$ 57,090,545</u> |

At year-end, the carrying amount of the City's deposits was \$46,002,100 and the bank balance was \$35,365,979. Deposits in each bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts. The bank balance covered by federal depository insurance was \$430,384.

Of the remaining balance, \$29,996,775 was collateralized with securities held by the pledging financial institution's trust department or agent in the city's name and \$4,938,820 was uninsured and uncollateralized. The City's deposits are also insured in the amount of \$400,000 by the State of Wisconsin Deposit Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to the City. This coverage has not been considered in computing the insured or collateralized amounts above.

The city's investments are categorized to give an indication of the level of custodial credit risk assumed by the city at year end. Category 1 includes investments that are insured or registered or which are collateralized by or evidenced by securities held by the City or its agent in the City's name.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, or uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the City's name. Category 3 includes uncollateralized deposits, and uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent but not in the City's name.

| | Category | | | Carrying Amount/ Fair Value |
|--|-------------|-------------|----------------------|--------------------------------|
| | 1 | 2 | 3 | |
| U.S. Treasury securities | \$ - | \$ - | \$ 494,186 | \$ 494,186 |
| U.S. Agency securities | - | - | 6,631,732 | 6,631,732 |
| Corporate notes | - | - | 968,150 | 968,150 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,094,068</u> | <u>8,094,068</u> |
| Investment in Wisconsin Local Government Investment Pool | | | 2,169,235 | |
| U.S. Government Money Market Funds | | | <u>822,742</u> | |
| | | | <u>\$ 11,086,045</u> | |

Investments in the local government investment pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by any FDIC and State of Wisconsin Guarantee Fund insurance.

The City is exposed to market risk through its participation in the Wisconsin Local Government Investment Pool and both market and credit risk through ownership of U.S. Treasury and Agency securities and corporate notes. There were no violations of legal provisions regarding deposits and investments.

Fluctuating cash flows during the year due to the timing of receipt of tax collections, other revenue, and/or proceeds from borrowing sources may result in uninsured balances varying from the amounts reported at year end.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

B. RECEIVABLES

Receivables consist of accounts, taxes and special assessments from citizens and others. Receivables are reported net of uncollectible amounts. The reserve for bad debts, principally for personal property taxes and a general valuation allowance, was \$37,130 at December 31, 2004. Other than special assessment receivables all other receivables are expected to be collected within one year.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and can not be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred and unearned revenue reported in the financial statements were as follows:

| | Unavailable | Unearned | Total |
|--|---------------------|----------------------|----------------------|
| Governmental Funds: | | | |
| Property taxes receivable | \$ - | \$ 16,942,487 | \$ 16,942,487 |
| Special assessments not yet due | <u>3,804,886</u> | - | <u>3,804,886</u> |
| Total deferred/unearned revenue for governmental funds | <u>\$ 3,804,886</u> | <u>\$ 16,942,487</u> | <u>\$ 20,747,373</u> |
| Component Unit: | | | |
| Tax increment receivable | <u>\$ -</u> | <u>\$ 2,925,386</u> | <u>\$ 2,925,386</u> |

C. RESTRICTED ASSETS

Sewer Equipment Replacement Account

In accordance with the City's ordinance enacting a sewer user charge system and regulations of the Department of Natural Resources, the Sanitary Sewer Fund -- an Enterprise Fund, incorporated an equipment replacement charge as a component of the rate structure to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources. Revenue generated from this charge are accumulated and used for replacement of certain equipment. The balance in this account at December 31, 2004 is \$132,035.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

| | Beginning Balance | Additions | Dispositions | Ending Balance |
|--|----------------------|---------------------|-----------------|----------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,482,996 | \$ 1,294,995 | \$ - | \$ 4,777,991 |
| Capital assets being depreciated: | | | | |
| Buildings & improvements | 20,730,209 | 460,068 | - | 21,190,277 |
| Machinery & equipment | 11,108,414 | 597,154 | (222,894) | 11,482,674 |
| Infrastructure | 2,594,723 | 5,728,538 | - | 8,323,261 |
| Total capital assets being depreciated | 34,433,346 | 6,785,760 | (222,894) | 40,996,212 |
| Less: Accumulated depreciation for: | | | | |
| Buildings & improvements | 3,352,177 | 474,599 | - | 3,826,776 |
| Machinery & equipment | 6,021,809 | 843,941 | (228,702) | 6,637,048 |
| Infrastructure | 23,859 | 85,854 | - | 109,713 |
| Total accumulated depreciation | 9,397,845 | 1,404,394 | (228,702) | 10,573,537 |
| Net capital assets being depreciated | 25,035,501 | 5,381,366 | 5,808 | 30,422,675 |
| Governmental Activities Capital Assets, Net of Accumulated Depreciation | <u>\$ 28,518,497</u> | <u>\$ 6,676,361</u> | <u>\$ 5,808</u> | <u>\$ 35,200,666</u> |

Under provisions of GASB 34 implementation of infrastructure assets prior to 2003 may be deferred until 2007, if necessary. The City of Franklin has elected to defer until, at least 2005, the inclusion of prior infrastructure assets. The implication of this decision is capital assets and investment in capital assets net of indebtedness are lower than what could otherwise be expected.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

| | | | |
|--|--|-----------|------------------|
| Governmental Activities | | | |
| General government | | \$ | 231,870 |
| Public safety | | | 677,307 |
| Public works | | | 328,666 |
| Health & human services | | | 3,488 |
| Culture & recreation | | | 157,096 |
| Conservation & development | | | 5,967 |
| Total governmental activities depreciation expense | | <u>\$</u> | <u>1,404,394</u> |

| | Beginning Balance | Additions | Dispositions | Ending Balance |
|---|----------------------|----------------------|--------------|----------------------|
| Business-type Activities | | | | |
| Capital Assets not being depreciated: | | | | |
| Land | \$ 426,384 | \$ - | \$ - | \$ 426,384 |
| Capital assets being depreciated: | | | | |
| Buildings & improvements | 1,248,910 | 1,132,043 | (35,000) | 2,345,953 |
| Machinery & equipment | 1,729,746 | 144,087 | - | 1,873,833 |
| Infrastructure | 75,009,527 | 16,132,737 | (1,543) | 91,140,721 |
| Total capital assets being depreciated | 77,988,183 | 17,408,867 | (36,543) | 95,360,507 |
| Less: Accumulated depreciation for: | | | | |
| Buildings & improvements | 527,781 | 56,520 | (35,000) | 549,301 |
| Machinery & equipment | 910,342 | 111,271 | - | 1,021,613 |
| Infrastructure | 10,552,055 | 2,263,335 | (1,543) | 12,813,847 |
| Total accumulated depreciation | 11,990,178 | 2,431,126 | (36,543) | 14,384,761 |
| Net capital assets being depreciated | 65,998,005 | 14,977,741 | - | 80,975,746 |
| Business-type Activities Capital Assets, Net of Accumulated Depreciation | <u>\$ 66,424,389</u> | <u>\$ 14,977,741</u> | <u>\$ -</u> | <u>\$ 81,402,130</u> |

Depreciation expense was charged to functions as follows.

| | | | |
|----------------------------------|--|-----------|------------------|
| Business-Type Activities: | | | |
| Water | | \$ | 578,708 |
| Sewer | | | 541,105 |
| | | <u>\$</u> | <u>1,119,813</u> |

CITY OF FRANKLIN
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS (continued)

During 2004 the City reacquired Water Utility infrastructure assets at the expiration of a 30 year water service agreement. The capital assets were recorded at the original historical cost and accumulated depreciation was recorded for all periods prior to the current year.

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund receivables and payables at December 31, 2004 are as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--|---------------------|------------------|
| Governmental funds: | | |
| General | Water Utility | \$ 17,113 |
| Capital Improvement | Water Utility | 102,000 |
| | | <u>119,113</u> |
| Enterprise funds: | | |
| Water Utility | General | 63,053 |
| | Sanitary Sewer | 50,852 |
| Sanitary Sewer | Water Utility | 53,977 |
| | | <u>167,882</u> |
| Subtotal - Fund financial statements | | 286,995 |
| Less: Government-wide eliminations | | <u>230,935</u> |
| Total internal balances - Government-Wide Statement of Net Assets | | <u>\$ 56,060</u> |

The principal purpose of these interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. In all cases amounts are repaid within one year.

For the statement of net assets, interfund balances owed within the governmental activities or business - type activities are netted and eliminated.

INTERFUND TRANSFERS

Generally, transfers are used to (1) move revenue from the funds that collect them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund and (3) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF FRANKLIN
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

Transfers during the year ended December 31, 2004 were as follows:

| <u>Transfer In</u> | <u>Transfer Out</u> | <u>Amount</u> |
|---|--|---------------------|
| General | Enterprise - Water Utility | \$ 634,462 |
| Debt Service | Capital Projects - Development | 337,199 |
| Special Revenue - Library | General | 40,073 |
| Capital Projects Funds: | | |
| Utility Improvement | Debt Service | 22,026 |
| Equipment Replacement | Special Revenue - Grants | 3,341 |
| | Special Revenue - Donations | 2,025 |
| Capital Improvements | Capital Projects - Street Improvement | 328,000 |
| | Capital Projects - Development | 28,524 |
| | Capital Projects - Utility Improvement | 1,877,989 |
| Enterprise - Water Utility | Capital Projects - Capital Improvement | 18,548 |
| | Capital Projects - Development | 113,117 |
| Enterprise - Sanitary Sewer | Capital Projects - Capital Improvement | 2,136,442 |
| Subtotal - Fund financial statements | | 5,541,746 |
| Less: Government-wide eliminations | | <u>3,908,101</u> |
| Total transfers - Government-wide Statement of Activities | | <u>\$ 1,633,645</u> |

Component Unit Interfund Transactions

Due to/from the primary government at December 31, 2004 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|---|----------------------------|---------------------|
| Community Development Authority TIF II Business Park | | |
| Capital Projects Fund | Agency Fund - Property Tax | <u>\$ 2,925,386</u> |

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM OBLIGATIONS

Long-term liabilities for the year ended December 31, 2004 were as follows:

| | Balance 12/31/03 | Additions | Deletions | Balance 12/31/04 | Amounts due within one year |
|---------------------------------|---------------------|------------|--------------|---------------------|-----------------------------------|
| Governmental Activities | | | | | |
| General obligation debt | \$ 28,800,000 | \$ - | \$ 4,000,000 | \$ 24,800,000 | \$ 1,350,000 |
| Compensated absences | | | | | |
| Accrued vacation pay | 255,375 | 599,124 | 589,861 | 264,638 | 264,638 |
| Accrued severance pay | 745,849 | 101,820 | 40,213 | 807,456 | 31,870 |
| Accrued compensatory time | 86,616 | 156,447 | 169,478 | 73,585 | 56,215 |
| Total compensated absences | 1,087,840 | 857,391 | 799,552 | 1,145,679 | 352,723 |
| Government activities | | | | | |
| Long-term liabilities | \$ 29,887,840 | \$ 857,391 | \$ 4,799,552 | \$ 25,945,679 | \$ 1,702,723 |
| Business-type Activities | | | | | |
| General obligation debt | \$ - | \$ - | \$ - | \$ - | \$ - |
| Compensated absences | | | | | |
| Accrued vacation pay | 29,715 | 33,965 | 30,283 | 33,397 | 33,397 |
| Accrued severance pay | 42,052 | 3,054 | - | 45,106 | - |
| Accrued compensatory time | 486 | 5,881 | 5,288 | 1,079 | 1,079 |
| Total compensated absences | 72,253 | 42,900 | 35,571 | 79,582 | 34,476 |
| Business-type activities | | | | | |
| Long-term liabilities | \$ 72,253 | \$ 42,900 | \$ 35,571 | \$ 79,582 | \$ 34,476 |

General Obligation Debt

All general obligation notes and bonds payable are backed by the full faith and credit of the city. The notes and bonds will be retired by future property tax levies, special assessment collections and designated landfill revenue.

The City used available funds, to repay the remaining \$1,750,000 in maturities of the \$5,475,000 General Obligation Promissory Notes issued in 1996 at interest rates ranging from 4.0% to 5.0% on September 1, 2004, an early redemption call date.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM OBLIGATIONS (continued)

Details of general obligation notes and bonds payable are as follows:

| Type | Date of Issue | Interest Rate | Principal Payable | Interest Payable | Original Amount | Balance Outstanding 12/31 |
|-------------------------------------|------------------|------------------|----------------------|---------------------|--------------------|---------------------------------|
| General obligation promissory notes | | | | | | |
| | 5/ 1/99 | 3.5-4.3 | 5/1/00-09 | 5/1&11/1 | \$ 7,850,000 | \$ 5,050,000 |
| | 5/15/01 | 4.25-4.60 | 3/ 1/02-11 | 3/1& 9/1 | 10,000,000 | 9,025,000 |
| General obligation refunding bonds | | | | | | |
| | 9/ 1/96 | 4.0-5.1 | 9/1/97-07 | 3/1& 9/1 | 3,250,000 | 850,000 |
| | 4/15/01 | 4.3-5.40 | 3/ 1/02-21 | 3/1& 9/1 | 10,000,000 | 9,875,000 |
| | | | | | | \$ 24,800,000 |

Annual principal and interest payments to maturity on general obligation notes and bonds payable are as follows:

| Year | Principal | Interest | Total | Balance Outstanding 12/31 |
|-------------|---------------|--------------|---------------|---------------------------------|
| 2004 | | | | \$ 24,800,000 |
| 2005 | \$ 1,350,000 | \$ 1,123,504 | \$ 2,473,504 | 23,450,000 |
| 2006 | 1,600,000 | 1,031,885 | 2,631,885 | 21,850,000 |
| 2007 | 2,550,000 | 955,198 | 3,505,198 | 19,300,000 |
| 2008 | 2,625,000 | 848,141 | 3,473,141 | 16,675,000 |
| 2009 | 2,650,000 | 732,085 | 3,382,085 | 14,025,000 |
| 2010 - 2014 | 6,055,000 | 2,438,851 | 8,493,851 | 7,970,000 |
| 2015 - 2019 | 4,930,000 | 1,412,238 | 6,342,238 | 3,040,000 |
| 2020 - 2021 | 3,040,000 | 153,260 | 3,193,260 | - |
| | \$ 24,800,000 | \$ 8,695,162 | \$ 33,495,162 | |

The City's statutory debt limit and margin of indebtedness at December 31, 2004 are \$134,097,275 and \$109,297,275, respectively.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM OBLIGATIONS (continued)

CONDUIT DEBT OBLIGATIONS

Twelve series of Industrial Revenue Bonds originally issued with an aggregate principal amount of \$109,485,000 are outstanding with a December 31, 2004 balance of \$103,750,946. During the year one issue of \$4,500,000 was retired.

COMPONENT UNIT DEBT

Summary of Component Unit Long-Term Liabilities

General Long-Term liabilities for the Authority for the year ended December 31, 2004 are summarized below:

| | Balance 12/31/03 | Additions | Reductions | Balance 12/31/04 | Amounts Due within one year |
|---------------|---------------------|-----------|--------------|---------------------|-----------------------------------|
| Lease revenue | | | | | |
| bonds payable | \$ 22,270,000 | \$ - | \$ 2,240,000 | \$ 20,030,000 | \$ 2,315,000 |

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 II. 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.

| Type | Date of Issue | Interest Rate | Principal Payable | Interest Payable | Original Amount | Balance 12/31 |
|-----------------------------------|------------------|------------------|----------------------|---------------------|--------------------|------------------|
| Redevelopment Lease Revenue Bonds | | | | | | |
| | 7/1/98 | 6.65-6.95 | 4/1/04-08 | 4/1&10/1 | \$ 5,275,000 | \$ 4,355,000 |
| | 7/1/98 | 3.90-5.20 | 4/1/99-13 | 4/1&10/1 | 18,145,000 | 15,675,000 |
| | | | | | | \$ 20,030,000 |

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM OBLIGATIONS (continued)

COMPONENT UNIT DEBT (Continued)

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

| Year | Principal | Interest | Total | Balance 12/31 |
|-------------|---------------|--------------|---------------|------------------|
| 2004 | | | | \$ 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 | 544,433 | 3,454,433 | 9,235,000 |
| 2009 | 1,715,000 | 420,960 | 2,135,960 | 7,520,000 |
| 2010 - 2013 | 7,520,000 | 771,030 | 8,291,030 | . |
| | \$ 20,030,000 | \$ 4,297,374 | \$ 24,327,374 | |

G. NET ASSETS/FUND BALANCES

Governmental Activities

Government activities net assets reported on the government-wide statement of net assets at December 31, 2004 include the following:

| | |
|---|---------------|
| Invested in capital assets, net of related debt | |
| Land | \$ 4,777,991 |
| Other capital assets, net of accumulated depreciation | 30,422,675 |
| Less: related long term debt outstanding | (20,995,114) |
| Total invested in capital assets | 14,205,552 |
| Restricted for: | |
| Emergency medical services | 11,261 |
| Utility improvement | 765,805 |
| Development | 2,743,066 |
| Donations | 77,629 |
| Grants | 58,654 |
| Total restricted | 3,656,415 |
| Unrestricted | 8,953,745 |
| Total governmental activities net assets | \$ 26,815,712 |

CITY OF FRANKLIN
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

G. NET ASSETS/FUND BALANCES (continued)

Governmental Fund Balances

Governmental fund balances reported on the fund financial statements at December 31, 2004 include the following:

| | |
|--|----------------------|
| Reserved | |
| Major funds: | |
| General Fund - Inventories and prepaid items | \$ 28,928 |
| General Fund - Encumbrances | 103,000 |
| Debt Service Fund - subsequent year debt service | 126,566 |
| Non Major funds: | |
| Special Revenue Funds: | |
| Library services | 127,274 |
| Emergency medical services | 11,261 |
| Donations | 77,629 |
| Grants | 58,654 |
| Capital Project Funds: | |
| Encumbrances | 16,000 |
| Capital Improvement | 81,000 |
| Development | 2,743,066 |
| Utility improvement | 765,805 |
| Total reserved | <u>\$ 4,139,183</u> |
| Unreserved: | |
| Major Fund - General Fund | |
| Designated for working capital | \$ 3,236,000 |
| Designated for future expenditures | 740,000 |
| Undesignated | 2,174,910 |
| Total General Fund | <u>6,150,910</u> |
| Non Major funds: | |
| Special Revenue funds | |
| Designated for library services | 108,621 |
| Designated for economic development activities | 59,727 |
| Designated for civic celebration activities | 15,731 |
| Total Special Revenue funds | <u>184,079</u> |
| Capital project funds | |
| Designated for Capital Outlay | 97,459 |
| Designated for Equipment Replacement | 1,884,151 |
| Designated for Capital Improvement | 1,408,637 |
| Designated for Street Improvement | 290,041 |
| Total Capital Project Funds | <u>3,680,288</u> |
| Total Unreserved Funds | <u>\$ 10,015,277</u> |

CITY OF FRANKLIN
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

H. DEFINED BENEFIT PENSION PLANS

Wisconsin Retirement System

All eligible protective City of Franklin employees participate in the Wisconsin Retirement System ("System"), a cost-sharing multiple-employer defined benefit public employee retirement system ("PERS"). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the general category are required by statute to contribute 5.6% of their salary (4.5% for protective occupations with social security, and 3.2% for protective occupations without social security) to the plan. Employers may make these contributions to the plan on behalf of the employees.

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for employees covered by the System for the year ended December 31, 2004 was \$6,224,222; the employer's total payroll was \$11,287,256. The total required contribution paid entirely by the employer for the year ended December 31, 2004 was \$1,089,239 or 17.5% of covered payroll. Of the total required contribution, 100 percent was contributed for the current year. Total contributions for the years ended December 31, 2003 and 2002 were \$947,469 and \$898,351, respectively, equal to the required contributions for each year.

Protective employees who retire at or after age 53 with 25 years or more of service or age 54 with less than 25 years of service are entitled to receive retirement benefits. Protective employees may retire at age 50 and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service and (3) a formula factor. Final Average Earnings is the average of the protective employee's three highest years earnings. Protective employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefits. For employees beginning participation after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of the Wisconsin Statutes. The System issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

H. DEFINED BENEFIT PENSION PLANS (continued)

Public Works Employees Pension Plan

PLAN DESCRIPTION

The City is also a participant in the City of Franklin Public Works Employees' Pension Plan, a non-contributory single employer defined benefit pension plan covering eligible public works employees. The assets of this Plan are administered by Principal Life Insurance Company. An annual financial report may be obtained by writing to the plan administrator at Principal Financial Group, P.O. Box 9693, Des Moines, IA 50306-9396.

Employees attaining the age of 60 are entitled to annual benefits of 1.98% of average compensation multiplied by the number of complete years of service subsequent to January 1, 1956. Average compensation is defined as the monthly total pay plus salary deferrals, compensation and overtime received for the three consecutive years out of the ten latest years which gives the highest average. Employees may retire early and receive reduced benefits at age 55 with at least ten years of service.

Disability benefits equivalent to expected benefits at normal retirement date are paid until normal retirement date, death or recovery. If an active employee dies, his or her beneficiary receives a lump-sum cash payment equal to the participant's accumulation at date of death or an annuity benefit deferred until participant's earliest retirement date.

If an employee terminates his or her employment with the City, the employee has the option of accepting either normal retirement benefits at normal retirement date, or a lump-sum cash payment of participant's vested accumulations. An employee becomes 50% vested after five years of service and 100% vested after ten years.

Employees do not make pension contributions. The City contributes all amounts necessary to fund the pension plan, using the aggregate actuarial cost method.

Funding Policy

The City's funding policy is to provide yearly contributions at actuarially determined rates that, expressed as a percentage of covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

During the year ended December 31, 2004, contributions totaling \$204,665 were made in accordance with contribution requirements determined by an actuarial valuation of the pension plan as of January 1, 2004. Employer contributions represented 19.2% of current year covered payroll.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

H. DEFINED BENEFIT PENSION PLANS (continued)

ANNUAL PENSION COST

For 2004, the City's annual pension cost of \$204,665 for the pension plan was equal to the City's required and actual contributions. The required contribution was determined during the January 1, 2004 actuarial valuation using the aggregate actuarial cost method. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions include: (a) a rate of return on the investment of present and future assets ranging from 5.0% to 7.0% compounded annually, (b) projected salary increases of 2.00% per year compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 1.88% to 5.10% per year, depending on age, attributable to seniority/merit. The assumptions did not include post retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period.

Three Year Trend Information

| Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------|---------------------------|-------------------------------|------------------------|
| 12/31/2004 | \$ 204,665 | 100% | \$ - |
| 12/31/2003 | 191,468 | 100% | - |
| 12/31/2002 | 191,364 | 100% | - |

| Actual Valuation Date | Actuarial Asset Value | Accrued Liability (AAL) - Aggregate | Unfunded AAL (UAAL) [(B)-(A)] | Funded Ratio [(A)/(B)] | Covered Payroll | Percentage of Covered Payroll [(C)/(E)] |
|-----------------------|-----------------------|-------------------------------------|-------------------------------|------------------------|-----------------|---|
| 1/1/2004 | \$ 2,563,079 | \$ 2,563,079 | - | 100% | \$ 1,064,464 | -% |
| 1/1/2003 | 2,501,700 | 2,501,700 | - | 100% | 990,311 | -% |
| 1/1/2002 | 2,157,178 | 2,157,178 | - | 100% | 979,294 | -% |

There were no significant changes in actuarial assumptions during the valuation year ended January 1, 2004.

I. DEFINED CONTRIBUTION PLAN

Based on City ordinances all eligible City of Franklin non-protective employees (except public works employees) participate in the City of Franklin Defined Contribution Plan (the "Plan"). The Plan assets are administered by the Principal Life Insurance Company.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

H. DEFINED CONTRIBUTION PLAN (continued)

Employees after completing six months of service with the City are eligible to participate. The Plan requires the City to make periodic contributions to each participant's account equal to 10% of such participant's annual compensation. Employees may but are not required to make contributions. A participant's accrued benefit for City contributions is 100% vested and nonforfeitable upon death, normal retirement, early retirement or permanent and total disability as defined in the Plan. If employment is terminated for any other reason, each participant's accrued benefit vests at various percentages, based on years of service. During 2004, the City made the required contribution amounting to \$310,282, or 10% of covered payroll and employees made \$4,551 in additional voluntary contributions to the plan. The City may make amendments to the Plan.

I. POST RETIREMENT HEALTH CARE BENEFITS

The City provides to longer term employees certain health care benefits at a reduced cost during the period from their normal retirement date until they reach age 65. The cost of this retiree health care benefit is recognized as expenditures when premiums are due. For 2004, 19 retired employees and their dependents received this benefit at a cost to the City of approximately \$101,379.

J. CONTINGENCIES AND COMMITMENTS

From time to time the City is party to various claims and legal proceedings. Although the outcome of such matters is not presently determinable, it is the opinion of City management and the City attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position or results of operations.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

The City receives impact fees for new development projects. The fees are to be used to fund specific projects within a specific period of time. In the event the projects are not completed or the time period elapses, the City will be required to refund the impact fees to owners of property that the fees were originally charged.

The City has no material outstanding contractual commitments relating to various Public Works projects and equipment purchases at December 31, 2004.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

J. CONTINGENCIES AND COMMITMENTS (continued)

Funding for the operating budget of the City comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits and other miscellaneous revenue. The State of Wisconsin provides a variety of aid and grant programs that benefit the City. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget process. The State of Wisconsin is currently experiencing budget problems and is considering numerous alternatives including reducing aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the City.

K. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, natural disasters, and workers' compensation claims that the City carries commercial insurance. No significant reductions in insurance coverage occurred for any risk of loss in the past year, and settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The City also offers a group medical and dental insurance plan to employees for which the City is self-insured. This activity is accounted for in the City's Self Insurance Internal Service Fund. Group medical and dental costs are charged to City departments and retirees participating in the program. A third party administrator handles claims payments. The City carries stop loss insurance for losses in excess of \$50,000 per year per individual. Liabilities are reported when it is probable that loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported ("IBNR"). Changes in the balance of claims payable for the three years ended December 31, 2004 are as follows:

| | Balance Beginning of Year | Current Claims and Changes in Estimates | Claims Payments | Balance End of Year |
|------|---------------------------------|--|--------------------|---------------------------|
| 2004 | \$ 294,500 | \$ 2,248,233 | \$ 2,183,233 | \$ 359,500 |
| 2003 | 214,500 | 2,247,593 | 2,167,593 | 294,500 |
| 2002 | 204,500 | 1,503,914 | 1,493,914 | 214,500 |

APPENDIX B

FORM OF

CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Franklin, Milwaukee County, Wisconsin (the "Issuer") in connection with the issuance of \$10,000,000 General Obligation Promissory Notes, dated January 1, 2006 (the "Securities"). The Securities are being issued pursuant to an Authorizing Resolution adopted by the Governing Body of the Issuer on December 6, 2005 (the "Resolution") and delivered to Robert W. Baird & Co. Incorporated, Milwaukee, Wisconsin (the "Purchaser") on the date hereof. Pursuant to the Resolution, the Issuer has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. In addition, the Issuer hereby specifically covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders of the Securities in order to assist the Participating Underwriters within the meaning of the Rule (defined herein) in complying with SEC Rule 15c2-12(b)(5). References in this Disclosure Certificate to holders of the Securities shall include the beneficial owners of the Securities. This Disclosure Certificate constitutes the written Undertaking required by the Rule. Any filing under this Disclosure Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 2. Definitions. In addition to the defined terms set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any annual report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" means the Issuer's annual financial statements, which are currently prepared in accordance with generally accepted accounting principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and which the Issuer intends to continue to prepare in substantially the same form.

"Final Official Statement" means the Final Official Statement dated December 6, 2005 delivered in connection with the Securities, which is available from the MSRB.

"Fiscal Year" means the fiscal year of the Issuer.

"Governing Body" means the Common Council of the Issuer or such other body as may hereafter be the chief legislative body of the Issuer.

"Issuer" means the City of Franklin, Wisconsin which is the obligated person with respect to the Securities.

"Issuer Contact" means the City Clerk of the Issuer who can be contacted at 9229 West Loomis Road, Franklin, Wisconsin 53132, phone (414) 425-7500, fax (414) 425-6428.

"Material Event" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board located at 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

"NRMSIR" means any nationally recognized municipal securities information repository as recognized from time to time by the SEC for purposes of the Rule.

"Participating Underwriter" means any of the original underwriter(s) of the Securities (including the Purchaser) required to comply with the Rule in connection with the offering of the Securities.

"Repository" means each NRMSIR and each SID, if any.

"Rule" means SEC Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and official interpretations thereof.

"SEC" means the Securities and Exchange Commission.

"SID" means any public or private repository or entity designated by the State of Wisconsin as a state information depository for the purpose of the Rule. As of the date of this Certificate, there is no SID.

Section 3. Provision of Annual Report and Audited Financial Statements.

(a) The Issuer shall, not later than 270 days after the end of the Fiscal Year, commencing with the year that ended December 31, 2005, provide each Repository with an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audited Financial Statements of the Issuer may be submitted separately from the balance of the Annual Report and that, if Audited Financial Statements are not available within 270 days after the end of the Fiscal Year, unaudited financial information will be provided, and Audited Financial Statements will be submitted to each Repository when and if available.

(b) If the Issuer is unable or fails to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send in a timely manner a notice of that fact to the NRMSIRs, the MSRB and any SID.

(c) The Issuer shall determine each year prior to the date for providing the Annual Report the name and address of each NRMSIR and each SID, if any.

Section 4. Content of Annual Report. The Issuer's Annual Report shall contain or incorporate by reference the Audited Financial Statements, current general fund budget summary and updates of the following sections of the Final Official Statement to the extent such financial information and operating data are not included in the Audited Financial Statements:

1. Tax Levies, Rates and Collections
2. Equalized Valuations
3. Indebtedness of the City — Direct Indebtedness

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Material Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events if material with respect to the Securities:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Securities;
7. Modification to rights of holders of the Securities;
8. Securities calls;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Securities; and
11. Rating changes.

(b) Whenever a Material Event occurs, the Issuer shall as soon as possible determine under applicable legal standards if such event would constitute material information for holders

of Securities, provided, that any event under subsection (a) (8), (9) or (11) will always be deemed to be material.

(c) If the Issuer determines that knowledge of the occurrence of a Material Event would be material, the Issuer shall promptly file a notice of such occurrence with either all NRMSIRs or with the MSRB and with any SID. Notwithstanding the foregoing, notice of Material Events described in subsections (a) (8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Securities pursuant to the Resolution.

(d) Unless otherwise required by law and subject to technical and economic feasibility, the Issuer shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Issuer's information.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under the Resolution and this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all the Securities.

Section 7. Issuer Contact; Agent. Information may be obtained from the Issuer Contact. Additionally, the Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Resolution and this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of the Resolution or this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause the undertakings to violate the Rule. The provisions of this Disclosure Certificate constituting the Undertaking or any provision hereof, shall be null and void in the event that the Issuer delivers to each then existing NRMSIR and the SID, if any, an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Disclosure Certificate are invalid, have been repealed retroactively or otherwise do not apply to the Securities. The provisions of this Disclosure Certificate constituting the Undertaking may be amended without the consent of the holders of the Securities, but only upon the delivery by the Issuer to each then existing NRMSIR and the SID, if any, of the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of this Disclosure Certificate and by the Issuer with the Rule.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have

no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 10. Default. (a) The Issuer has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events.

(b) In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any holder of the Securities may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under the Resolution and this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default with respect to the Securities and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Participating Underwriters and holders from time to time of the Securities, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, we have executed this Certificate in our official capacities effective the 5th day of January, 2006.

Thomas M. Taylor
Mayor

(SEAL)

Sandra L. Wesolowski
City Clerk