

**City of Franklin, Wisconsin
Management's Discussion and Analysis
(Unaudited)**

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, 2013. 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 1-5 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2013, by \$210,391,056 (**net position**). Of this amount, \$7,907,546 (**unrestricted net position**) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by a net amount of \$4,697,574. Net investment in capital assets increased by \$321,658, while unrestricted net position increased by \$3,901,587 and restricted net position increased by \$474,229. The increase in investment in capital assets was related to reduction in debt. The unrestricted increase was mainly due the General Fund. The restricted increase was due to generation of development revenues.
- The City's governmental funds reported, as of December 31, 2013, had combined ending fund balances of \$18,779,667, an increase of \$1,956,954 from the prior year.
- The Nonspendable fund balances were \$553,381 an increase of \$468,645 due to interfund advances from the General Fund to the Sewer Utility.
- The restricted fund balances in total was \$13,385,323 a decrease of \$154,591, including a decrease in restricted for debt service of \$621,788 and an increase in Development Funds of \$437,437.
- The assigned fund balances in total of \$2,791,111 had an increase of \$66,347 resulted from an increase in capital outlay and equipment replacement fund balances.
- The unassigned fund balance as of December 31, 2013 for the general fund was \$7,230,661 or approximately 29 percent of total anticipated 2014 general fund expenditures.
- The City's Governmental activities debt decreased by \$3,790,000 during 2013 from scheduled repayments. The total general obligation debt that has to be repaid by the general taxpayer is less than one quarter of one percent of the City's equalized valuation. See table 11 for complete details.
- The City's Business-type activities, through its Sewer Fund, substantially completed an interceptor sewer on behalf of another government. At December 31, 2013 \$24,565,425 of costs were incurred. A Wisconsin Clean Water Fund Loan has been obtained to finance this project. The amount received on this loan at December 31, 2013 was \$24,565,425. An Intergovernmental Cooperation Agreement requires the other governmental unit to pay for substantially all of the costs incurred in this project.

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 position presents information on all of the City's assets, deferred outflows, liabilities and deferred inflows, with the difference between the categories reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

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 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 blended component unit is reported as part of the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A and 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 16 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, Debt Service and TIF Districts Funds, that are considered to be major funds. Data from the remaining 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor 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 and F of this report. These statements include a budgetary comparison of the General Fund.

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund, Library Operating Fund, Solid Waste Fund, Capital Outlay Fund, Equipment Replacement Fund, Street Improvement Fund, Capital Improvement Fund, Development Fund, Sanitary Sewer 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 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, an other agency fund to record that activity and a post employment benefits trust to hold funds until needed to pay designated health benefits for eligible current and future retirees.

The basic fiduciary fund financial statements can be found on Exhibit J & K 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 are found on pages 39 – 73 of this report.

Other information

In addition to the basic financial statements, notes and accompanying notes, this report also presents certain **required supplementary information** concerning the City of Franklin's progress in funding its pension obligations to its public works employees and its retiree health obligations to eligible full time employees. Required supplementary information can be found on page 74 of this report.

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 required supplementary information. Schedules 1 to 12.2 can be found on pages 75 – 93 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$210,391,056 and \$205,693,482 at the end of 2013 and 2012, respectively.

CITY OF FRANKLIN NET POSITION December 31, 2013 and 2012

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 49,495,662	\$ 47,521,676	\$ 29,922,226	\$ 27,973,087	\$ 79,417,888	\$ 75,494,763
Capital assets	114,469,508	115,676,557	89,095,184	89,398,082	203,564,692	205,074,639
Total assets	<u>163,965,170</u>	<u>163,198,233</u>	<u>119,017,410</u>	<u>117,371,169</u>	<u>282,982,580</u>	<u>280,569,402</u>
Deferred Outflows	<u>187,474</u>	<u>225,869</u>	-	-	<u>187,474</u>	<u>225,869</u>
Current liabilities	2,190,414	6,917,209	1,441,237	2,999,997	3,631,651	9,917,206
Long-term liabilities	19,738,576	18,989,116	25,185,917	22,119,748	44,924,493	41,108,864
Total liabilities	<u>21,928,990</u>	<u>25,906,325</u>	<u>26,627,154</u>	<u>25,119,745</u>	<u>48,556,144</u>	<u>51,026,070</u>
Deferred Inflows	<u>24,222,854</u>	<u>24,075,719</u>	-	-	<u>24,222,854</u>	<u>24,075,719</u>
Net position:						
Net Investment in capital assets	104,721,982	104,097,426	89,095,184	89,398,083	193,817,166	193,495,509
Restricted	8,389,114	7,857,607	277,230	334,508	8,666,344	8,192,115
Unrestricted	<u>4,889,704</u>	<u>1,487,025</u>	<u>3,017,842</u>	<u>2,518,833</u>	<u>7,907,546</u>	<u>4,005,858</u>
Total net position	<u>\$ 118,000,800</u>	<u>\$ 113,442,058</u>	<u>\$ 92,390,256</u>	<u>\$ 92,251,424</u>	<u>\$ 210,391,056</u>	<u>\$ 205,693,482</u>

The largest portion of the City's net position (approximately 89 and 92 percent, in 2013 and 2012, 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 position 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 capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets accounted for \$193,817,164 and \$193,495,508 in 2013 and 2012, respectively of the year end net position. The changes in capital assets were as follows:

	Net Capital Asset		Change in Capital	Net
	Additions	Depreciation	Related Debt	Increase
2013	\$ 3,188,328	\$ (4,698,277)	\$ 1,831,605	\$ 321,656
2012	\$ 4,833,307	\$ (4,620,056)	\$ 9,094,441	\$ 9,307,692

The major 2013 City projects were an ambulance, snow plow, street improvements and the 76th Street sewer & water mains from Faith to Puetz. The major 2012 City projects contributing to the increase was the reconstruction of 112th Street from Oakwood Rd south to County Line Rd, 51st Street from Rawson north to College, the Puetz Rd pumping station and Drexel Water Tower repainting. Debt repayments each year have resulted in a significant decrease in capital related debt.

Infrastructure by developers and others contributed to the capitalized infrastructure of the governmental activities of approximately \$122,295 in 2013 and \$222,529 in 2012.

Capital assets contributed to the business-type activities by the municipality were \$1,197,101 in 2013 and \$51,912 in 2012.

An additional portion of the City's net position (3.6% and 3.6% in 2013 and 2012, respectively) represent resources that are subject to external restrictions on how they may be used. There were \$7,638,155 and \$7,213,023 respectively in those net positions that were restricted to specific purposes.

The 2013 increase of \$425,132 in restricted net position reported is due principally to development activities.

There was a 2012 decrease of \$3,338,484 in restricted net position reported in connection with government-wide activities. The decrease was primarily due to the repayment of the 2005 debt offering and smaller changes in other restricted funds.

The remaining balance in unrestricted net position of \$8,935,735 and \$4,984,951, in 2013 and 2012, respectively 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 reported positive balances in the unrestricted net position for both the governmental and for its business-type activities.

There was a 2013 increase of \$3,950,784 in unrestricted net position reported in connection with government-wide activities. The major component was the increase in funds that were used for debt retirement purposes.

There was a 2012 decrease of \$1,261,109 in unrestricted net position reported in connection with government-wide activities. The major component was the decrease in funds that were temporarily used for debt retirement purposes reduced by increases in the general fund, development fund, equipment replacement fund, internal service fund.

Government-wide activities

The details of changes in net position follow:

**City of Franklin Changes in Net Position
For the Years Ending December 31, 2013 and 2012**

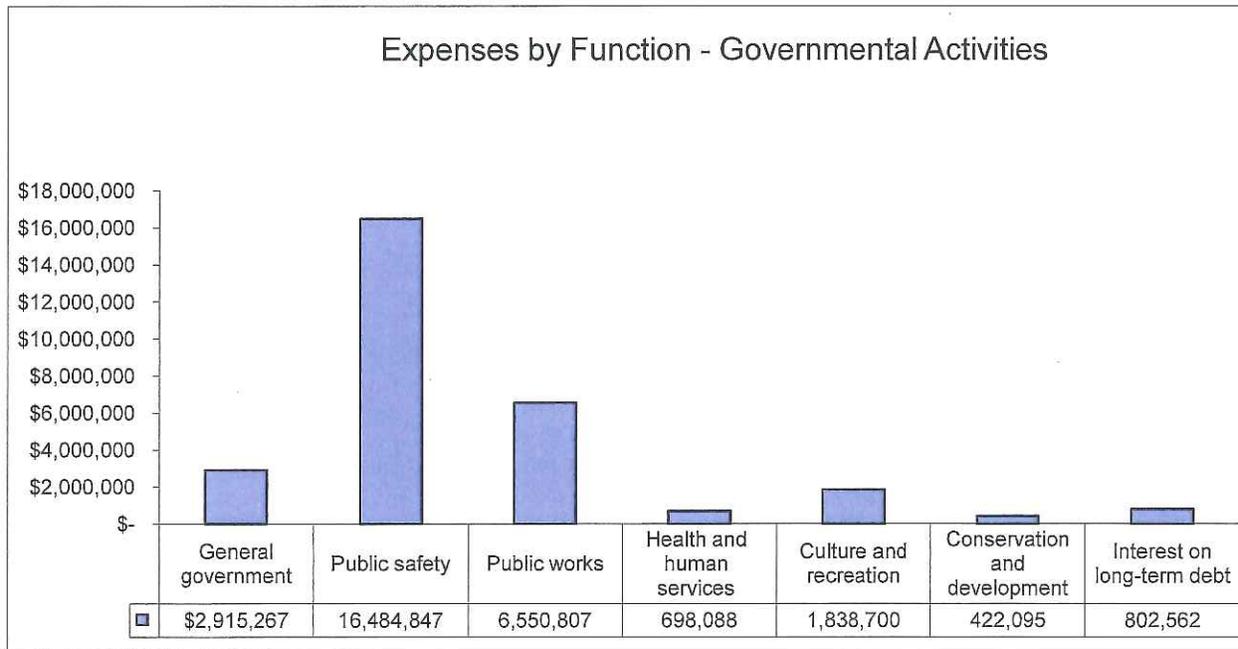
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue						
Program revenue:						
Charges for services	\$ 4,241,404	\$ 3,907,327	\$ 8,647,731	\$ 8,503,708	\$ 12,889,135	\$ 12,411,035
Operating grants & contributions	1,838,950	2,144,164	-	-	1,838,950	2,144,164
Capital grants & contributions	1,659,859	1,240,439	-	-	1,659,859	1,240,439
General revenue:						
Property taxes	24,097,812	24,152,207	-	-	24,097,812	24,152,207
Other taxes	723,985	708,832	-	-	723,985	708,832
Intergovernmental	1,620,331	1,590,209	-	-	1,620,331	1,590,209
Investment earnings	87,278	784,932	569,444	318,669	656,722	1,103,601
Other	68,215	426,161	40,398	126,867	108,613	553,028
Total revenue	<u>34,337,834</u>	<u>34,954,271</u>	<u>9,257,573</u>	<u>8,949,244</u>	<u>43,595,407</u>	<u>43,903,515</u>
Expenses:						
General government	2,915,267	2,794,497	-	-	2,915,267	2,794,497
Public safety	16,484,847	17,228,769	-	-	16,484,847	17,228,769
Public works	6,550,807	6,182,036	-	-	6,550,807	6,182,036
Health & human services	698,088	730,499	-	-	698,088	730,499
Culture & recreation	1,838,700	1,870,573	-	-	1,838,700	1,870,573
Conservation & development	422,095	412,066	-	-	422,095	412,066
Interest on long-term debt	802,562	1,272,721	-	-	802,562	1,272,721
Water	-	-	5,051,835	5,064,149	5,051,835	5,064,149
Sewer	-	-	4,133,632	3,640,106	4,133,632	3,640,106
Total expenses	<u>29,712,366</u>	<u>30,491,161</u>	<u>9,185,467</u>	<u>8,704,255</u>	<u>38,897,833</u>	<u>39,195,416</u>
Increase in net position before transfers	4,625,468	4,463,110	72,106	244,989	4,697,574	4,708,091
Transfers	(66,726)	1,009,126	66,726	(1,009,126)	-	-
Change in net position	4,558,742	5,472,236	138,832	(764,137)	4,697,574	4,708,091
Net position - beginning	113,442,058	107,969,822	92,251,424	93,015,561	205,693,482	200,985,383
Net position - ending	<u>\$ 118,000,800</u>	<u>\$ 113,442,058</u>	<u>\$ 92,390,256</u>	<u>\$ 92,251,424</u>	<u>\$ 210,391,056</u>	<u>\$ 205,693,482</u>

Governmental activities in 2013 increased the City's net position by \$4,558,742 or 97% of the total growth in the net position. Elements of this increase are:

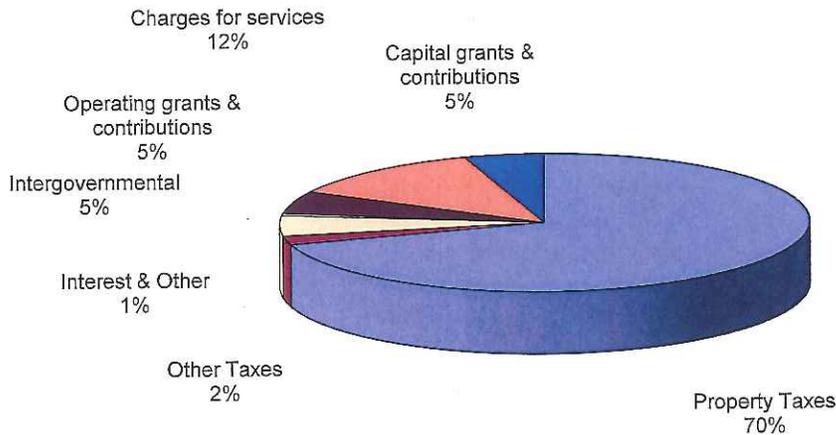
- A \$1,407,150 surplus in General Government activity
- Increase due to the decrease in Long term Debt of \$1,649,959
- Decrease in governmental activities capital assets net of depreciation of \$1,040,447
- Net increase in TIF District activities of \$2,307,794
- Net increase from internal service activities of \$77,500
- Net decrease from special assessment activities of \$51,651
- Net increase from development activities of \$437,437
- Net increase from non major funds activities of \$76,824

Governmental activities in 2012 increased the City's net position by \$5,472,236 or 116% of the total growth in the net position. Elements of this increase are:

- A \$427,160 surplus in General Government activity
- Increase due to the decrease in Long term Debt of \$1,551,741
- Increase in governmental activities capital assets net of depreciation of \$365,762
- Net increase in TIF District activities of \$2,285,384
- Net increase from internal service activities of \$170,856
- Net decrease from special assessment activities of \$407,137
- Net increase from development activities of \$719,691
- Net increase from non major funds activities of \$358,780



Revenue by Source - Governmental Activities



Business-type activities

In 2013, business-type activities increased the City's net position by \$138,832 or 3 percent from the prior year. The key elements of this increase follow:

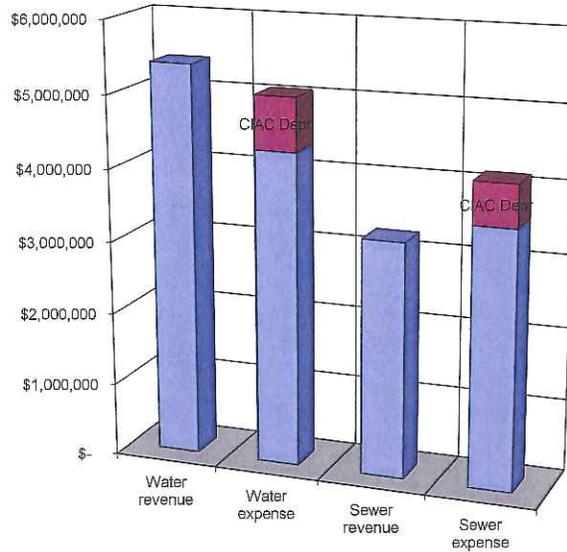
- The increase from operating activities (the change in net position excluding capital contributions and its related depreciation expense) was \$257,522. The goal of the business activities is to provide these services at least a break even basis to minimize the cost to the users. Both the water and sewer activities are currently meeting this goal.
- Depreciation expense related to contributed assets - \$1,315,791

In 2012, business-type activities decreased the City's net position by \$764,137 or .2 percent from the prior year. The key elements of this decrease follow:

- The increase from operating activities (the change in net position excluding capital contributions and its related depreciation expense) was \$492,182. The goal of the business activities is to provide these services at least a break even basis to minimize the cost to the users. Both the water and sewer activities are currently meeting this goal.
- Contributions of water infrastructure - \$51,912 consisting of one City project
- Depreciation expense related to contributed assets - \$1,308,231
- During 2012, the PSC granted a significant water rate increase to our water supplier. The result of this rate case was to raise both the Water Utility revenue and cost of water purchased.

The following graph compares the 2013 charges for services to the operating expenses for water and sewer activities.

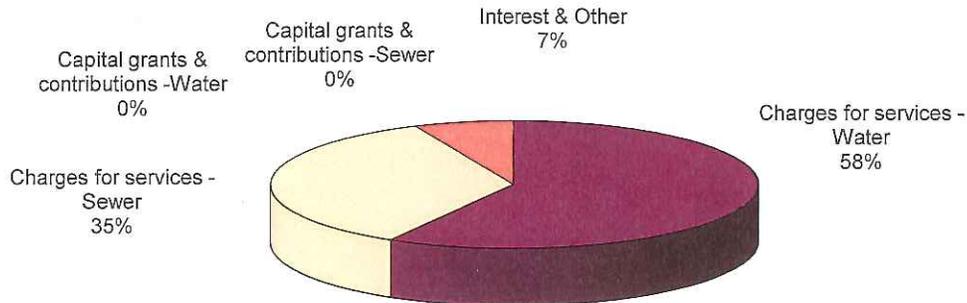
Operating Revenue and Expense - Business-type Activities



Water and Sewer expenses can exceed revenue due to the current policy of including only depreciation from City spending on capital assets in the rate formula. The large amount of new infrastructure that has been installed in recent years is the reason for this policy. When maintenance and replacement costs 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).

Revenue by Source - Business-type Activities



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, unassigned 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 \$18,779,677, a increase of \$1,956,954 from the prior year. At year end the unassigned fund balance was \$2,049,862. Of this total \$7,230,661 was for general fund activities. This amount was offset by deficits in the Debt Service, TIF Districts and Nonmajor Governmental Funds. The Debt Service fund has an interfund loan with favorable financing and the deficit will diminish as revenue is received from future year property taxes to repay the financing. The TIF Districts deficit is due to the favorable type of interim financing selected and will diminish as revenue is received and used to repay the financing.

The City has assigned fund balances for activities of the Capital Projects of \$2,791,111.

Outside party restrictions have resulted in restricted fund balances 1) to pay debt service - \$6,801,945, 2) for utility improvements - \$443,438 3) for development purposes - \$5,052,168, 4) for library services \$582,292 and 5) for donations, grant funds, solid waste and recreational activities - \$507,955.

The City also has nonspendable fund balances to indicate that it is not available for new spending because it has already been committed for prepaid expenses and inventories - \$48,341 and for advances to other funds - \$505,040.

The **General Fund** is the chief operating fund of the City. As of December 31, 2013, the total fund balance of the general fund was \$7,781,567 of which \$7,230,661 was unassigned. This unassigned fund balance represents approximately 29% of 2014 general fund budgeted expenditures.

The total fund balance of the General Fund increased by \$1,279,432 during fiscal year 2013. Actual revenue was more than budget revenue by \$326,042 or 1.3 percent. Changes in employee benefits reduced Public Safety costs significantly. Employees are paying a larger share of health benefit premiums and retirement costs. Also, an actuarial assumption change reduced the retiree health cost.

The **Debt Service Fund** has a total deficit fund balance of \$1,492,767, \$606,945 is restricted for the payment of debt service and a deficit of \$2,099,712 is related to advances made from the Internal Services fund. The fund balance increase of \$1,060,500 related to the repayment of interfund advances.

The **TIF Districts Fund** has restricted fund balance of \$6,195,000 and an unassigned fund deficit of \$3,080,379 for a net fund balance of \$3,114,621. The unassigned fund deficit is due to internal borrowing and investing those funds in infrastructure. The restricted fund balance is due to a \$6.195 million note receivable issued under a development agreement.

The **Nonmajor Governmental Funds** have a total fund balance of \$9,376,256. The fund balance increase of \$514,261 came principally from special assessments (impact fees).

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

Unrestricted net position of the Water Utility at the end of the year amounted to \$634,224, a increase of \$230,843 from the prior year. Total net position increase was a result of operations.

Unrestricted net position of the Sanitary Sewer Fund at the end of the year amounted to \$2,383,618, an increase of \$295,165 from the prior year. Total net position increased due the capital contributions on contributed assets.

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

General Fund Budgetary Highlights

Revenue exceeded the budget by \$326,042 with small increases and decreases from budget in various categories. Investment earnings declined to a loss of \$11,514 - \$153,514 less than budget as market rates declined further. Licenses and Permits increased on a bigger than expected increase in Building Permits. Ambulance fees drove the increase Public Charges for Services. In addition, a transfer was recorded, principally related to capitalized Highway Department projects.

Actual expenditures were less than budgeted expenditures by \$2,152,545. The largest favorable variance was in General Government. The City established a \$950,000 restricted contingency reserve to preserve shared revenue from the State. That contingency was not needed. Within Public Safety, employees began to pay a larger share of health premiums and retirement costs. In addition, a change in actuarial assumptions reduced the retiree health costs from what had been in the budget. The combined impact was a significant reduction in expenditures compared to the prior year.

Revenue was favorable to budgeted on increased activity levels. Expenditures came in below budget as the contingency reserve was not needed resulting in the general fund balance increasing by \$1,287,450.

Capital assets.

The City's investment in capital assets for its governmental and business type activities as of December 31, 2013, amounts to \$203,564,692 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings and machinery and equipment.

	City's Investment in Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 24,958,327	\$ 25,012,541	\$ 521,225	\$ 521,225	\$ 25,479,552	\$ 25,533,766
Buildings and Improvements	24,225,492	24,180,167	3,438,927	3,438,927	27,664,419	27,619,094
Improvements other than buildings	92,173,188	90,925,168	109,764,750	108,555,571	201,937,938	199,480,739
Machinery and and equipment	17,571,157	16,953,185	2,799,107	2,794,982	20,370,264	19,748,167
Construction in process	<u>152,923</u>	<u>487,587</u>	<u>57,942</u>	<u>113,269</u>	<u>210,865</u>	<u>600,856</u>
Total capital assets	159,081,087	157,558,648	116,581,951	115,423,974	275,663,038	272,982,622
Less Accumulated depreciation	<u>(44,611,579)</u>	<u>(41,882,091)</u>	<u>(27,486,767)</u>	<u>(26,025,892)</u>	<u>(72,098,346)</u>	<u>(67,907,983)</u>
Capital assets net of depreciation	<u>\$ 114,469,508</u>	<u>\$ 115,676,557</u>	<u>\$ 89,095,184</u>	<u>\$ 89,398,082</u>	<u>\$ 203,564,692</u>	<u>\$ 205,074,639</u>

The total decrease in the City's net investment in capital assets net of depreciation for the current fiscal year was \$1,509,947 or 0.7%.

For further details on capital asset activity, refer to Note 1(D)5 and Note 4(D) of the Notes to Financial Statements and Schedules 12 – 12.2.

Long-term debt

State statutes limit the amount of general obligation debt a governmental entity may issue up to 5 percent of its total equalized valuation. At December 31, 2013, the City had general obligation note and bond issues outstanding totaling \$42,445,423. The current debt limitation for the City is \$170,713,830. The City's current outstanding general obligation debt is 25% of the statutory debt limit. In the last 15 years the City has not exceeded 34% of the statutory debt limit.

The City's present rating from Moody's for its general obligation debt is "Aa1". In January, 2012, the Franklin Sewer Fund signed a Clean Water Fund Note with a notional amount of \$27,562,754 to fund the construction of a sewer interceptor in the City. At December 31, 2013 \$24,565,423 had been drawn down on the Notes. The Notes have a 20 year repayment schedule to May, 2031. The City has an intergovernmental agreement with the Metropolitan Milwaukee Sewer District to pay the City the required interest and principal with payments on the Clean Water Fund loan beginning in 2015.

The Franklin Water Utility has borrowed \$60,000 from the City's General Fund. Recent capital expenditures have resulted in this borrowing. The advance is to be repaid from the Water Utility cash flow. 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.

City of Franklin's Outstanding Debt (All purposes)						
	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
General obligation						
Notes	\$ 9,695,000	\$ 12,865,000	\$ 24,565,423	\$ 22,064,833	\$ 34,260,423	\$ 34,929,833
Bonds	8,185,000	8,805,000	-	-	8,185,000	8,805,000
Total	<u>\$ 17,880,000</u>	<u>\$ 21,670,000</u>	<u>\$ 24,565,423</u>	<u>\$ 22,064,833</u>	<u>\$ 42,445,423</u>	<u>\$ 43,734,833</u>

Additional information of the City's long-term debt can be found in note 4(F), Schedule 5 and Tables 11 – 13 in the statistical section of the report.

Other Changes of Significance

Post Employment Health Care Benefits

The City of Franklin provides retiree health care benefits to certain retiree groups from the date of retirement until age 65. Prior to 2008 the City's portion of health care cost was recognized as an expenditure in the period premiums were paid. Funding for those costs was provided out of the current operating budget of the City. This was referred to as financing on a pay as you go basis.

The Government Accounting Standards Board (GASB) issued Statement #45 effective for the City of Franklin on January 1, 2008 that said that the expense of these benefits has to be recognized over the working lives of the employees. The Common Council concluded that the City of Franklin should not only recognize the expense on its financial statements but should fund those amounts out of its general revenue starting in 2008 with the establishment of a section 115 trust. The actuarial computed annual required contribution under GASB #45 for 2013 was \$523,342 and for 2012 was \$837,575. This reduction was the result of removing a Affordable Care Act tax from the projected expenses in the Actuarial Assumptions.

More detailed information can be found in footnote 5C.

Economic Factors, Tax Rates and Next Year's Budgets

- The unemployment rate as of December 31, 2013 for the City was 4.8%, Milwaukee County which includes the City, is 7.2%. This compares with an unemployment rate of 6.2% for the State of Wisconsin.
- The local tax rate change for operations for the current and prior two years were (0.30)%, (7.04)%, and 1.99%, respectively.
- The tax levy change for the current and prior two years were, \$42,000, (\$498,000), and \$539,000, respectively.
- The 2014 budgets require a local tax rate that increases 8.8%% which together with growth will result in no change in tax levy. A revaluation of the City in 2013 drove the rate increase.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for 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, City of Franklin 9229 West Loomis Road, Franklin, WI 53132.

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