

April 15, 2011

**Honorable Mayor, Common Council members
and Citizens of Franklin:**

Introduction

The Comprehensive Annual Financial Report of the City of Franklin, Wisconsin for the fiscal year ended December 31, 2010, is hereby submitted. State law requires that all general purpose local governments with a population over 25,000 publish, within six months of the end of the fiscal year, a complete set of financial statements be presented in conformity with general accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Franklin (City). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh the benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included in this report.

The City's financial statements have been audited by Clifton Gunderson LLP, a firm of certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2010, are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended December 31, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

City Profile

The City of Franklin, incorporated in 1956, is located in the southwestern corner of Milwaukee County. The City is 34.5 square miles in size and has a population of 35,451. Over the last ten years the City has experienced an average annual population increase of 1.9% per year. The city is a residential community (72.2%) with a growing commercial and industrial base (27.8%). It is considered to be one of the more desirable communities in the Milwaukee metropolitan area in which to live and work. The City provides a typical range of municipal services for a suburban community including police and fire protection, emergency medical/paramedic, maintenance of streets and other infrastructure, library, public health services, recreational and cultural activities, building inspection and zoning control, refuse and recycling collection, sanitary sewer, storm sewer and water services including construction and maintenance. The City is authorized to levy property tax on real and personal property located within its boundaries to support the services provided.

The City operates under the mayor/council form of government. Policy making and legislative authority are vested in a governing council consisting of a mayor and six council members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring a city attorney. The City's Mayor is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government and for appointing the heads of the various departments. The Council is elected, by district, on a non-partisan basis. The Mayor and Council members serve staggered three-year terms. The City is organized into departments, headed by fourteen officials appointed by the Mayor or Director of Administration and confirmed by the Common Council. Numerous boards, commissions and committees allow for citizen involvement in government by providing a forum for policy input to the Council and guidance to the departments. Library service is provided through a separate Library Board that functions like a department of the City and engages the Library Director. Water service is provided through a separate Water Utility that functions like a department of the City. These two areas therefore have been included as an integral part of the City's financial statements. The City also is financially accountable for a legally separate Community Development Authority (Authority). The Authority was established to finance and construct a City Business Park located within the City of Franklin Tax Incremental Financing District No. 2. The Authority's activities are reported within the City's financial statements. Additional information on the Authority can be found in Note 1 in the notes to the financial statements.

The budgetary process serves as the foundation of the City's financial planning and control system. The objective of the budgetary process is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Common Council. The preparation of a forecast for the existing programs for the following year is prepared during June and July. Departmental requests for personnel changes and new capital outlay expenditures are made by the middle of August. The Mayor then reviews the forecast including recommended personnel and capital outlay expenditures and determines by mid August the personnel and capital outlay expenditures that will be included in the initial departmental requested budgets. The departments take this information and submit their requested budgets by the end of August. The budgets are reviewed and the Mayor submits his recommended budget by the end of September. The Council through its Finance Committee reviews the recommended budget and submits a proposed budget to the Council by mid October. The Council is required to hold a public hearing on the proposed budget in early November, and then adopts a final budget in mid November. The adopted budget is prepared by fund, function (e.g. Public Safety), and department (e.g. Police).

Transfers of appropriations between funds, functions or department require the approval of the governing council. Budget-to-actual comparisons are provided in this report for each governmental fund with an adopted budget. The General Fund comparison is presented in Exhibit F as part of the basic financial statements for the government funds and in Schedules 3 & 4 of the supplementary information. For governmental funds other than the General Fund with adopted budgets, this comparison is presented in the supplementary information section of this report.

The information presented in the financial statements is perhaps best understood when considered from the broader perspective of the environment that the City operates.

Economic Condition and Outlook

The economic activity in Franklin stabilized in 2010 in both the residential and the non-residential sectors. The 27 units of new residential construction was up 8.0% from 2009 but 90.6% below the 288 units per year averaged during the previous ten years. The value of non-residential construction increased 58.8% from 2009 but was 49.1% below the average value realized per year during the previous ten years. Prospects in 2011 for residential, commercial and industrial development are anticipated to exceed 2010 levels.

Estimated actual property values have grown at an average annual rate of 7.0% since 2000. The new growth net of TIF Districts was \$21.4 million in 2010, \$38.2 million in 2009 and \$49.8 million in 2008. The growth in 2011 is expected to be in the \$10 million dollar range reflecting the slowdowns during the last three years. Growth after 2011 is expected to trend to levels higher than the past few years. The history of higher growth has allowed the City to maintain a relatively low municipal tax rate while still funding the increased cost of services required as a result of the City's growth.

Residential Growth

Over the past ten years, residential valuation has grown at an average annual rate of 6.8%. In 2010, permits for 27 new equivalent residential units were issued. The increase from the prior year reflects the continued slow housing market in residential construction. Lingering effects of the slowdown will keep growth from new construction in 2011 at about the same level as 2010. Longer range the City remains attractive to builders and potential residents.

Commercial and Industrial Growth

Over the past ten years, commercial and industrial valuation has increased at an average annual rate of 7.9%. In 2010, 40 building permits were issued for commercial and industrial projects. The value of those projects increased by 58.8% from the 2009 level.

TIF District #2, the City's Business Park, will be complete in 2011, closed and the \$167.5 million in assessed value at January 1, 2010 will be returned to the tax rolls. During its final year, the remaining debt will be paid off and the final projects completed.

In 2005, two new TIF Districts (#3 & #4) were established on the eastern side of the City. The two districts have equalized value tax increments of \$61 and \$36 Million, respectively.

Anticipated residential growth will continue to place demands on the commercial sector for goods and services that, in turn, is expected to continue the trend of commercial growth. Expansion of the commercial and industrial tax base is a goal of the City with respect to the overall tax rate, as 72.2% of the City's property value is currently residential down from

73.8% the prior year. Future tax relief will need to come from industrial and commercial tax base expansion.

Organizational and Service Growth

The 2010 year was a year where overall revenue stabilized for the City. Some revenue sources remained at the same level as 2009, others actually increased. The one notable exception was investment earnings which continued to be adversely affected by the exceptionally low available interest rates. The growth in fund balance was achieved due to the underspending in approved budgets by departments.

2010 was a City-wide property re-assessment year with overall assessments declining by 3.5%. The last reassessment was done in 2006. Performing revaluations on a regular basis is in line with the Common Council policy to schedule a revaluation every three years to keep property values in line with current market values. The State determined that the local assessments after reassessments were 99.0% of fair value. The estimated actual value of City properties was approximately \$3.6 billion.

The challenge for the operating departments in 2010 was to maintain the service levels at a time of flat revenues to the City and a growth of 0.6% in new properties. Limited tax growth did provide resources to maintain existing service levels.

Internal Controls

The City's internal control structure is subject to ongoing evaluation by management. The City is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with laws, regulations and good financial policies. The results of the City's audit for the fiscal year ended December 31, 2010 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws or regulations. As a recipient of federal and state financial assistance, if the level of grant expenditures exceeds an established level, currently \$500,000, a single audit of grants is required. The City was not required to have a single audit of grants for 2010 although the State required limited audit review of their grants received.

Financial Planning

Long range financial planning is in place, especially for the capital funds and debt service funds, to ensure that resources are in place to meet committed projects and ensure that there is adequate funding for projects prior to their approval and that adequate funding is in place for debt that has been or will be incurred, with an appropriate plan for repayment.

Financial Policies

The City maintains policies on fund balance level, debt policy, investment policies, budget forecasting policy and a capitalization policy. These policies together with conservative management has resulted in a number of actions that have served the City well. The existence of a fund balance enabled the fund balance to be utilized in 2009 during the revenue decline and to be replenished in 2010 when revenue stabilized. Another example was due to the investment policies in place, funds were safely reallocated to provide some additional investment return that somewhat muted the decline in investment return that would have otherwise been incurred.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2009. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the 17th consecutive year that the City has received this award.

In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements. We will be submitting the CAFR to the GFOA to determine its eligibility for a 2010 Certificate.

Acknowledgments

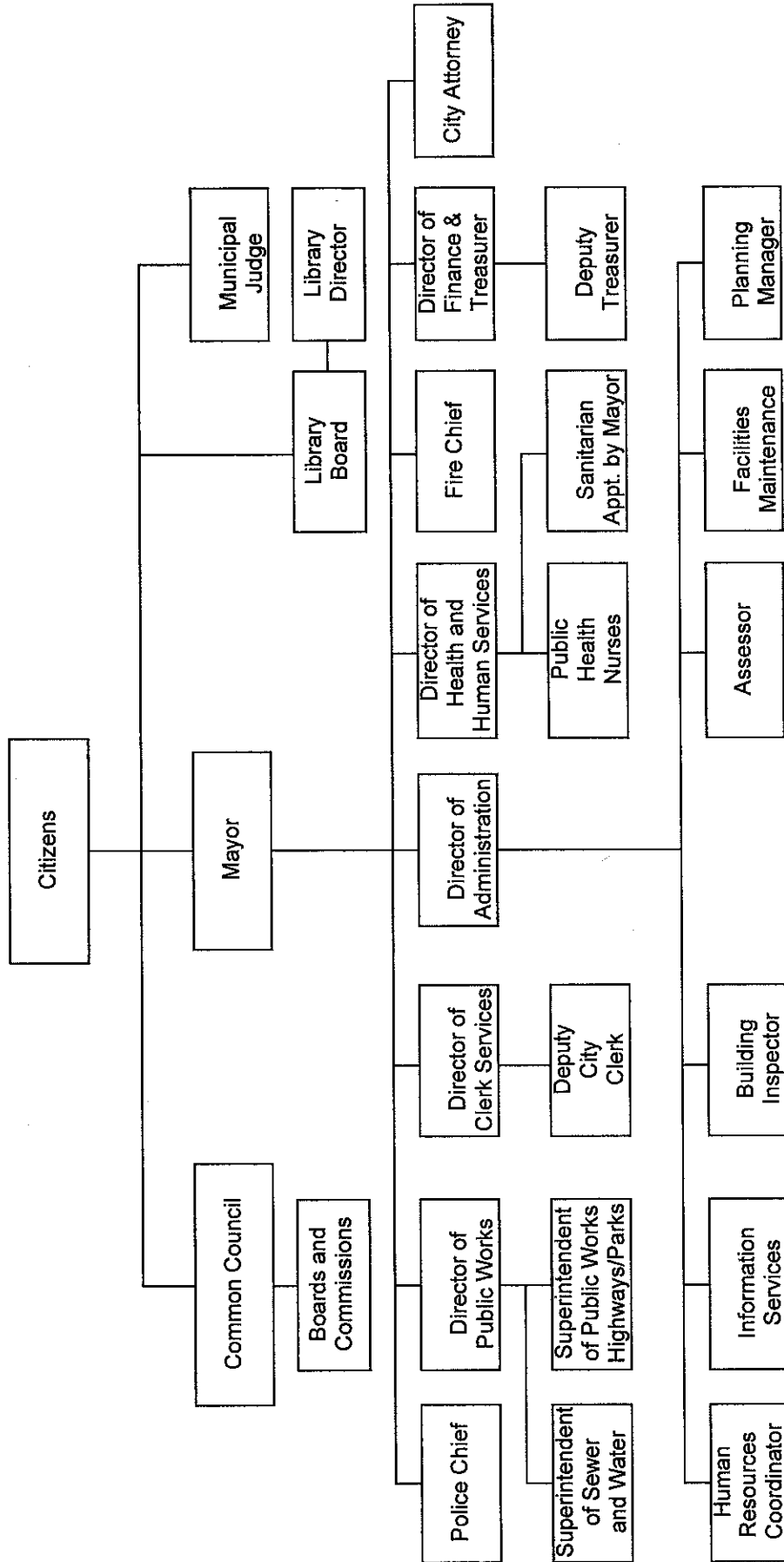
Preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the Finance Department staff. Appreciation is also extended to all other City employees who contributed to its preparation. We also thank the Mayor, Common Council, and Finance Committee for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,



Calvin A. Patterson
Director of Finance & Treasurer

**City of Franklin
Organization Chart
Chart 1**



**CITY OF FRANKLIN
LIST OF PRINCIPAL OFFICIALS**

Elected Officials

<u>Title</u>	<u>Name</u>
Mayor	Tom Taylor
Aldermen:	
District No. 1	Steve Olson
District No. 2	Tim Solomon
District No. 3	Kristen Wilhelm
District No. 4	Steve F. Taylor
District No. 5	Doug Schmidt
District No. 6	Ken Skowronski
Municipal Judge	Fred Klimetz

Non-elected Officials

Assessor	Mark Link
Building Inspector	Fred Baumgart
City Attorney	Jesse Wesolowski
City Clerk	Sandi Wesolowski
City Engineer/Public Works Director	John Bennett
Director of Administration	Mark Luberda
Director of Finance & Treasurer	Cal Patterson
Director of Health & Human Services	Bill Wucherer
Fire Chief	Jim Martins
Human Resources Coordinator	Dana Zahn
Library Director	Barbara Roark
Planning Manager	Joel Dietl
Police Chief	Rick Oliva
Superintendent of Public Works	Jerry Schaefer
Superintendent of Sewer & Water	Roy Kainz