

FINAL OFFICIAL STATEMENT DATED DECEMBER 5, 2006

NEW ISSUES Bonds – Bank Qualified

Moody's Ratings:
Notes: "Aa2"
Bonds (MBIA insured): "Aaa"

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

CITY OF FRANKLIN Milwaukee County, Wisconsin

\$10,000,000 Taxable General Obligation Promissory Notes				\$9,925,000 General Obligation Refunding Bonds			
(March 1)	Amount	Rate	Yield	(March 1)	Amount	Rate	Yield
2014	\$10,000,000	4.95%	4.96%	2008	\$100,000	3.80%	3.50%
(Term Bonds)				2009	100,000	3.80	3.52
				2010	100,000	3.80	3.57
				2011	100,000	3.80	3.57
				2012	720,000	3.80	3.58
				2013	620,000	3.80	3.60
				2014	570,000	3.80	3.63
				2015	\$520,000	3.80%	3.66%
				2016	1,200,000	3.80	3.70
				2017	1,190,000	3.80	3.70
				2018	1,180,000	3.80	3.75
				2019	1,200,000	3.80	3.80
				2020	1,140,000	3.80	3.82
				2021	1,185,000	3.80	3.85

The \$10,000,000 Taxable General Obligation Promissory Notes (the "Notes") and the \$9,925,000 General Obligation Refunding Bonds (the "Bonds") (collectively the "Securities") will be dated January 3, 2007, 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 shown above. The Notes are term bonds maturing April 1, 2014. Interest on the Securities shall be payable commencing on September 1, 2007 and semi-annually thereafter on March 1 and September 1 of each year. Associated Trust Company, National Association, Green Bay, Wisconsin will serve as fiscal agent for the Notes and escrow agent for the refunded obligations.

The Securities are being issued pursuant to Chapter 67 of the Wisconsin Statutes. The Securities will be general obligations of the City for which its full faith and credit and taxing powers are pledged which taxes may, under current law, be levied without limitation as to rate or amount. The Notes will be issued for the purpose of paying the cost of projects included in the Project Plan for Tax Incremental District No. 3, including providing developer incentives in the form of a subsidized loan and related expenses. The Bonds will be issued for the purpose of advance refunding certain outstanding obligations of the City. (See "THE FINANCING PLAN" herein.)

The Notes are not subject to optional redemption prior to maturity. The Notes are term bonds that mature on March 1, 2014 (referred to herein as the "Term Bonds" or the "Notes") and are subject to mandatory redemption as described herein. The Bonds maturing March 1, 2017 and thereafter are subject to call and prior redemption on March 1, 2016 or any date thereafter, in whole or in part, from maturities selected by the City, and by lot within each maturity at par plus accrued interest to the date of redemption. (See "REDEMPTION PROVISIONS" herein.)

The Securities will be issued only as fully registered Securities 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 Securities. 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 Securities will not receive certificates representing their interest in the Securities purchased. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by the MBIA Insurance Corporation simultaneously with the delivery of the Bonds.



The City of Franklin Securities 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 these issues is on or about January 3, 2007.

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

Mark W. Luberd, Director of Administration
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, City Development Director
Joel E. Dietl, Planning Manager
Marty Kuehn, Assessor
Frederick M. Baumgart, Building Inspector
Frederick F. Klimetz, Municipal Judge⁽¹⁾
Richard Oliva, Chief of Police
James Martins, Fire Chief
Barbara Roark, Library Director

⁽¹⁾ Mr. Klimetz is an elected official, whose term expires April, 2009.

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 Securities, nor shall there be any sale of the Securities, 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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SUMMARY – THE NOTES

Issuer:	City of Franklin, Milwaukee County, Wisconsin.
Issue:	\$10,000,000 Taxable General Obligation Promissory Notes.
Dated Date:	January 3, 2007.
Interest Due:	Commencing on September 1, 2007 and on each March 1 and September 1 thereafter. Interest on the Notes will be computed on the basis of a 30-day month and a 360-day year.
Principal Due:	Term bonds due March 1, 2014.
Redemption Provision:	The Notes are not subject to call and prior redemption. The Notes are subject to mandatory redemption as described herein. (See " REDEMPTION PROVISIONS " herein.)
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 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. Under current law, such taxes may be levied without limitation as to rate or amount.
Purpose:	The Notes will be issued for the purpose of paying the cost of projects included in the Project Plan for Tax Incremental District No. 3, including providing developer incentives in the form of a subsidized loan and related expenses. (See "THE FINANCING PLAN" herein.)
Tax Status:	Interest on the Notes is <u>included</u> in gross income for federal income tax purposes. (See "TAX STATUS" herein.)
Credit Rating:	Moody's Investors Service, Inc. has assigned its municipal bond rating of "Aa2" to this issue of Notes. (See "RATING" herein.)
Paying Agent:	Associated Trust Company, National Association, Green Bay, Wisconsin.
Record Date:	The 15th day of the calendar month next preceding each interest payment date.
Bond Years:	58,536.11 years.
Average Life:	5.854 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.

SUMMARY – THE BONDS

Issuer:	City of Franklin, Milwaukee County, Wisconsin.
Issue:	\$9,925,000 General Obligation Refunding Bonds.
Dated Date:	January 3, 2007.
Interest Due:	Commencing on September 1, 2007 and on each March 1 and September 1 thereafter. Interest on the Bonds will be computed on the basis of a 30-day month and a 360-day year.
Principal Due:	March 1 of the years 2008 through 2021.
Redemption Provision:	The Bonds maturing on and after March 1, 2017 shall be subject to call and prior payment on March 1, 2016 or on any date thereafter at par plus accrued interest. The amounts and maturities of the Bonds to be redeemed shall be selected by the City. If less than the entire principal amount of any maturity is to be redeemed, the Bonds of that maturity which are to be redeemed shall be selected by lot. Notice of such call shall be given by sending a notice thereof by registered or certified mail, facsimile or electronic transmission or overnight express delivery at least thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.
Security:	The full faith, credit and resources of the City are pledged to the payment of the principal of and the interest on the Bonds as the same become due and, for said purposes, there are levied on all the taxable property in the City, direct, annual irrepealable taxes in each year and in such amounts which will be sufficient to meet such principal and interest payments when due. Under current law, such taxes may be levied without limitation as to rate or amount.
Purpose:	The Bonds will be issued for the purpose of advance refunding certain outstanding obligations of the City. (See "THE FINANCING PLAN" herein.)
Tax Status:	Interest on the Bonds is excludable from gross income for federal income tax purposes. (See "TAX STATUS" herein.)
Credit Rating:	Moody's Investors Service, Inc. has assigned its municipal bond rating of "Aaa" (MBIA insurance) to this issue of Bonds. An underlying rating of "Aa2" has been affirmed for the City's outstanding long-term debt by Moody's Investors Service, Inc. (See "RATINGS" herein.)
Bank Qualification:	The Bonds will be designated as "qualified tax-exempt obligations."
Paying Agent:	Treasurer, City of Franklin, Wisconsin.
Escrow Agent:	Associated Trust Company, National Association, Green Bay, Wisconsin.
Mathematical Verification:	Grant Thornton LLP, Minneapolis, Minnesota.
Record Date:	The 15th day of the calendar month next preceding each interest payment date.
Bond Years:	99,559.03 years.
Average Life:	10.031 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 Taxable General Obligation Promissory Notes (the "Notes") and the \$9,925,000 General Obligation Refunding Bonds (the "Bonds") (collectively the "Securities"). The Securities are issued pursuant to the Constitution and laws of the State and the resolutions adopted by the City (the "Resolutions") and other proceedings and determinations related thereto.

All summaries of statutes, documents and the Resolutions 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 Resolutions, and references herein to the Securities are qualified in their entirety by reference to the form thereof included in the Resolutions. Copies of the Resolutions may be obtained from the Financial Advisor upon request.

THE FINANCING PLAN

Proceeds of the Notes will be used for the purpose of paying the cost of projects included in the Project Plan for Tax Incremental District No. 3, including providing developer incentives in the form of a subsidized loan and related expenses.

Proceeds from the Bonds will be used to advance refund the following issue ("Prior Issue"):

\$10,000,000 General Obligation Refunding Bonds⁽¹⁾
Dated April 15, 2001

<u>Call Price</u>	<u>Call Date</u>	<u>Maturities to be Refunded In Full</u>	<u>Amount of Principal Refunded</u>	<u>Balance after Refunding (1/03/2007)</u>
100%	3/1/2011	2012-2021	\$9,470,000	\$305,000

⁽¹⁾Proceeds from the Prior Issue were used to current refund obligations of the City.

Proceeds of the Bonds will be irrevocably deposited in an escrow account, invested in U.S. Government Securities and used to advance refund in full, the above maturities of the Prior Issue.

REDEMPTION PROVISIONS

Optional Redemption

The Notes are not subject to optional redemption prior to maturity.

The Bonds maturing March 1, 2017 and thereafter are subject to call and prior redemption on March 1, 2016 or any date thereafter, in whole or in part, from maturities selected by the City, and by lot within each maturity at par plus accrued interest to the date of redemption.

Mandatory Redemption

The Notes are term bonds that mature on March 1, 2014 (referred to herein as the "Term Bonds" or the "Notes") and are subject to mandatory sinking fund redemption on March 1 of each of the years and in the amounts set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. As and for a sinking fund for the redemption of the Term Bonds, the City shall cause to be deposited in the Debt Service Fund Account a sum which is sufficient to redeem the following principal amounts of such Term Bonds plus accrued interest to the redemption date:

<u>2014 Term Bonds</u>	
<u>Year</u>	<u>Amount</u>
2008	\$600,000
2009	615,000
2010	625,000
2011	640,000
2012	655,000
2013	670,000
2014 (maturity)	6,195,000

The City will call the Term Bonds for redemption on the dates and in the amounts set forth above and direct its officers and agents to take the necessary steps to select the Term Bonds to be redeemed on the dates and amounts set forth above and give appropriate notice of said redemption to the registered holders of the Notes so redeemed.

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 Securities 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 RESOLUTIONS

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

Award Resolutions

By way of the resolutions to be adopted on December 5, 2006 (the "Award Resolutions"), the Common Council will authorize the issuance of the Securities and accept the bid (or reject all bids) of the Underwriters for the purchase of the Securities, in accordance with bid specifications, provide the details and form of the Securities, and set out certain covenants with respect thereto. The Award Resolutions pledge the full faith, credit and resources of the City to payments of the principal of and interest on the Securities.

Pursuant to the Award Resolutions, the amount of direct, annual, irrevocable taxes levied for collection in the years 2007 through 2014 for the Notes and 2007 through 2021 for the Bonds which will be sufficient to meet the principal and interest payments on the Securities when due will be specified (or monies to pay such debt service will otherwise be appropriated). The Award Resolutions establish separate and distinct from all other funds of the City debt service funds with respect to payment of principal of and interest on the Notes and the Bonds.

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.

Thomas M. Taylor, Mayor (April, 2008)		
Common Council	Aldermanic District	Expiration of Term
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 as of December 1, 2006 are listed below.

Name	Title	Years of Service
Mark W. Luberd	Director of Administration	0.42 ⁽¹⁾
Sandra L. Wesolowski	Director of Clerk Services	21
Calvin A. Patterson	Director of Finance & Treasurer	6
John Bennett	Director of Public Works/City Engineer	37
Bill Wucherer	Director of Health & Human Services	14
Dana Zahn	Human Resources Coordinator	1 ⁽²⁾
Roy Kainz	Superintendent of Sewer/Water	35
Jerry Schaefer	Superintendent of Public Works	31
Douglas B. Wheaton	City Development Director	1 ⁽³⁾
Joel E. Dietl	Planning Manager	0.67 ⁽⁴⁾
Marty Kuehn	Assessor	4.
Frederick M. Baumgart	Building Inspector	33
Frederick F. Klimetz	Municipal Judge ⁽⁵⁾	0.58
Richard Oliva	Chief of Police	1 ⁽⁶⁾
James Martins	Fire Chief	4
Barbara Roark	Library Director	8

⁽¹⁾ Prior to joining the City, Mr. Luberd served as the Administrator for the Town of Caledonia, Wisconsin.

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

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

⁽⁴⁾ Prior to joining the City, Mr. Dietl served as a Planner for the Brown County Planning Commission.

⁽⁵⁾ Mr. Klimetz is an elected official, whose term expires April, 2009.

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

Employment Relations

<u>Department</u>	<u>Number of Employees</u>
Administration	4
Assessor	1
Building Inspection	10
Clerk	4
City Development	7
Engineering	11
Finance	9
Fire	46
Health	10
Highways	22
Library	29
Mayor/Alderpersons	8
Municipal Buildings Maintenance	6
Municipal Court	4
Police	73
Sewer/Water	12
TOTAL	256

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, 2006
Franklin Police and Fire Department Clerical Association	Dispatchers	December 31, 2005*
Franklin Professional Firefighters Association Local 2760 (I.A.F.F.)	Firefighters	December 31, 2009
Teamsters General Union Local 200	Clerical employees	December 31, 2009
Franklin Inspection Employees Local 2 (AFSCME) (AFL-CIO)	Inspection employees, Engineering Technicians and Police Clerical	December 31, 2008
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, 2004 and 2005 were \$1,089,239 and \$1,156,827, 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, 2004 and 2005 were \$204,665 and \$288,381, respectively. The amounts of such contributions are determined by an actuarial valuation dated January 1, 2005.

All other eligible City of Franklin employees participate in a defined contribution plan. The City contributes 10% of covered payroll that amounted to \$310,082 and \$339,899 for the years ended December 31, 2004 and 2005, 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, 2006	936,892	33,000
Estimate, 2005	938,995	32,548
Estimate, 2004	939,358	31,804
Estimate, 2003	941,301	31,467
Estimate, 2002	941,091	30,749
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
2005	\$45,357	\$40,244	\$60,000
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

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

Unemployment Rate

	State of Wisconsin	Milwaukee County	City of Franklin
October, 2006	3.9%	5.3%	3.2%
October, 2005	3.8	5.3	3.2
Average, 2005	4.7%	5.9%	3.8%
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

Source: Wisconsin Department of Workforce Development.

Building Permits

	Valuation	Number of Permits
2006 as of 8/31	\$79,671,677	316
2005	135,160,596	507
2004	88,938,852	558
2003	96,189,402	365
2002	145,807,004*	374

* Valuation includes large commercial building.

Source: City of Franklin.

Largest Employers

Employer	Type of Business	Number of Employees
Northwestern Mutual	Insurance/investment firm	1,100
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
City of Franklin	Government	256
Conway Transport	General Freight Trucking	250
Harley Davidson Motor Company	Distribution Center	250

Source: *Wisconsin Department of Workforce Development – WORKnet Large Employer Database and 2006 Wisconsin Manufacturers and Business Service Directories.*

Largest Taxpayers

Name	Type of Business	2006 Assessed Valuation	2006 Equalized Valuation
Northwestern Mutual	Insurance/investment firm	\$81,698,400	\$82,224,800
Whitnall Pointe Apartments	Apartments	20,329,800	20,460,800
Waste Management of Wisconsin	Solid waste/landfill services	19,920,000	19,041,900
Manchester Oaks	Apartments	19,249,100	19,373,100
Wal-Mart	Retail	19,187,400	19,311,000
Harley Davidson Motor Company	Mfr. - Motorcycles	15,870,500	15,972,800
TP Mission Hills Apartments	Apartments	15,820,200	15,922,100
Menard's	Retail - Home Improvement	15,366,500	15,465,500
Lowe's	Retail - Home Improvement	13,183,600	13,268,500
All-Glass Aquarium Company Inc.	Manufacturer/Distributor of glass aquariums/wooden stands/lights	13,080,300	13,164,600

Source: *City of Franklin.*

TAX LEVIES, RATES AND 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 2003 through 2007:

Levy Year	Collection Year	City Tax Rate	City Levy	Uncollected Personal Property Taxes as of August 20 of Each Year	Percent of Levy Collected
2006	2007	\$5.57	\$18,501,000	- To Be Collected -	
2005	2006	6.83	17,566,000	\$22,450	99.87%
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

* 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 general obligations authorized on or after July 1, 2005.

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

In formulating its tax levy for 2007, the growth in new construction in the City and allowable debt service increase would have allowed a tax levy increase of 9.8 percent, but the City's tax levy was increased by only 5.3 percent.

ASSESSED TAX RATES

	Levy Years				
	2005	2004	2003*	2002	2001
City of Franklin	\$6.83	\$6.95	\$6.80	\$8.17	\$8.06
School Districts:					
Franklin	12.01	12.61	12.74	13.86	14.50
Oak Creek	8.90	7.93	8.42	10.19	9.95
Whitnall	10.32	11.30	10.80	12.71	12.52
Milwaukee Area Technical College	2.13	2.05	1.95	2.24	2.13
Milwaukee County	4.81	4.81	4.72	5.67	5.65
Milwaukee Metropolitan Sewerage District	1.60	1.62	1.57	1.89	1.78
State	0.21	0.21	0.20	0.22	0.21
Gross Tax Rate:					
Franklin Public School District	27.59	28.25	27.98	32.05	32.33
Oak Creek-Franklin Joint School District	24.48	23.57	23.66	28.38	27.78
Whitnall School District	25.90	26.94	26.04	30.90	30.35
Less: State Credit	(1.40)	(1.50)	(1.55)	(1.92)	(1.99)
Net Tax Rate:					
Franklin Public School District	26.19	26.75	26.43	30.13	30.34
Oak Creek-Franklin Joint School District	23.08	22.07	22.11	26.46	25.79
Whitnall School District	24.50	25.44	24.49	28.98	28.36
Ratio of Assessed to Equalized Valuation	88.71%	94.74%	101.13%	89.77%	95.28%
Equalized Tax Rate:					
Franklin Public School District	<u>\$23.23</u>	<u>\$25.34</u>	<u>\$26.73</u>	<u>\$27.05</u>	<u>\$28.91</u>
Oak Creek-Franklin Joint School District	<u>\$20.47</u>	<u>\$20.91</u>	<u>\$22.36</u>	<u>\$23.75</u>	<u>\$24.57</u>
Whitnall School District	<u>\$21.73</u>	<u>\$24.10</u>	<u>\$24.77</u>	<u>\$26.02</u>	<u>\$27.02</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 2002 through 2006. The City equalized valuation has increased by 56.62 percent since 2002 with an average annual increase of 11.87 percent.

Year	Assessed Valuation	Equalized Valuation (TID IN)	Equalized Valuation (TID OUT)
2006	\$3,459,469,540	\$3,481,759,700	\$3,335,807,600
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

* Reflects City-wide reassessment.

The equalized valuation by class in the City for 2006 is as follows:

	Amount	Percent of Total
Real Estate		
Residential	\$2,611,111,600	74.99%
Commercial	667,271,200	19.16
Manufacturing	102,662,000	2.95
Agricultural, Undeveloped, Forest, Other	25,208,000	0.72
Total Real Estate	3,406,252,800	97.83
Total Personal Property	75,506,900	2.17
Total	\$3,481,759,700	100.00%

Tax Increment Districts

The City has Tax Incremental Districts created under Wisconsin Statutes Section 66.1105 (formerly Section 66.46). TID valuations totaling \$145,952,100 have been excluded from the City's tax base for 2006.

City of Franklin	Creation Date	Base Value	2005 Value	Increment
02	1993	\$2,229,400	\$134,350,200	\$132,120,800
03	2005	117,768,200	130,689,300	12,921,100
04	2005	19,817,900	20,728,100	910,200
				<u>\$145,952,100</u>

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 (excluding maturities being refunded) as well as debt service on the new issues. The interest on the Notes has been calculated using an average rate of 4.95 percent. Average life of the Notes is 5.854 years and bond years are 58,536.11 years. The interest on the Bonds has been calculated using an average rate of 3.80 percent. Average life of the Bonds is 10.031 years and bond years are 99,559.03 years.

Year	Outstanding Bonds & Notes		New Issue - Notes		New Issue – Bonds		Total Debt Service Requirements	Less: Projected Offsetting Revenues*	Total Projected Net Debt Service Requirements
	Principal	Interest	Principal	Interest	Principal	Interest			
2007	\$2,350,000	\$1,260,550		\$327,250		\$249,338	\$4,187,138	(\$2,071,739)	\$2,115,399
2008	2,925,000	1,146,931	\$600,000	480,150	\$100,000	375,250	5,627,331	(3,609,324)	2,018,008
2009	5,600,000	972,813	615,000	450,079	100,000	371,450	8,109,341	(6,191,655)	1,917,686
2010	5,925,000	738,738	625,000	419,389	100,000	367,650	8,175,776	(6,358,400)	1,817,377
2011	7,880,000	452,075	640,000	388,080	100,000	363,850	9,824,005	(8,066,913)	1,757,092
2012	1,300,000	264,225	655,000	356,029	720,000	348,270	3,643,524	(2,683,929)	959,595
2013	1,850,000	203,775	670,000	323,235	620,000	322,810	3,989,820	(3,027,735)	962,085
2014	2,100,000	126,750	6,195,000	153,326	570,000	300,200	9,445,276	(8,532,126)	913,150
2015	2,200,000	42,900	-	--	520,000	279,490	3,042,390	(2,082,250)	960,140
2016	--	--	-	--	1,200,000	246,810	1,446,810	(498,000)	948,810
2017	--	--	-	--	1,190,000	201,400	1,391,400	(498,000)	893,400
2018	--	--	-	--	1,180,000	156,370	1,336,370	(498,000)	838,370
2019	--	--	-	--	1,200,000	111,150	1,311,150	(348,000)	963,150
2020	--	--	-	--	1,140,000	66,690	1,206,690	(348,000)	858,690
2021	--	--	-	--	1,185,000	22,515	1,207,515	(348,000)	859,515
Total	<u>\$32,130,000</u>	<u>\$5,208,756</u>	<u>\$10,000,000</u>	<u>\$2,897,538</u>	<u>\$9,925,000</u>	<u>\$3,783,243</u>	<u>\$63,944,537</u>	<u>(\$45,162,071)</u>	<u>\$18,782,466</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 \$2,320,000 in principal maturing 2007 and 2008.
- One Community Development Authority Redevelopment Lease Revenue Refunding Bond issue, Series 1998-B dated July 1, 1998, totaling \$2,875,000 in principal maturing 2007 and 2008.

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.

Name of Entity	Amount of Debt (Net of 2006 Principal Amounts)	Percent Chargeable to City	Outstanding Debt Chargeable to City
Milwaukee County	\$462,057,472	5.50%	\$25,413,161
Milwaukee Area Technical College District	64,035,000	4.50	2,881,575
Franklin Public School District	19,550,000	100.00	19,550,000
Oak Creek-Franklin Joint School District	32,970,338	16.20	5,341,195
Whitnall School District	7,139,000	15.00	1,070,850
Milwaukee Metropolitan Sewerage District	728,192,031	5.40	39,322,370
TOTAL	<u>\$1,313,943,841</u>		<u>\$93,579,150</u>

Statistical Summary

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

2006 Equalized Valuation	\$3,481,759,700
Direct Bonded Indebtedness Including the New Issues but Excluding the Maturities to be Refunded (Less 2006 Principal Amounts)	\$52,055,000
Direct, Overlapping and Underlying Bonded Indebtedness Including the New Issues but Excluding the Maturities to be Refunded (Less 2006 Principal Amounts)	\$145,634,150
Direct Bonded Indebtedness as a Percentage of Equalized Valuation	1.50%
Direct, Overlapping and Underlying Bonded Indebtedness as a Percentage of Equalized Valuation	4.18%
Population of City (2006 Estimate)	33,000
Direct Bonded Indebtedness Per Capita	\$1,577.42
Direct, Overlapping and Underlying Bonded Indebtedness Per Capita	\$4,413.16

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 (2006) as certified by Wisconsin Department of Revenue	\$3,481,759,700
Legal Debt Percentage Allowed	<u>5.00%</u>
Legal Debt Limit	\$174,087,985
Direct Bonded Indebtedness Including the New Issues but Excluding the Maturities to be Refunded (Less 2006 Principal Amounts)	<u>\$52,055,000</u>
Unused Margin of Indebtedness	\$122,032,985
Percent of Legal Debt Incurred	29.90%
Percentage of Legal Debt Available	70.10%

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, 2005, 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**

	2007 ADOPTED BUDGET	2006 ESTIMATED	2005 ACTUAL	2004 ACTUAL	2003 ACTUAL
Revenues					
Taxes	\$14,808,000	\$14,005,000	\$12,668,469	\$11,711,134	\$11,051,639
Intergovernmental revenue	2,554,000	2,698,109	2,581,477	2,641,983	2,930,916
Licenses and permits	1,284,500	1,362,045	1,486,966	1,258,457	1,030,984
Fines, forfeitures and penalties	400,000	325,000	361,656	397,169	362,638
Public charges for services	1,435,600	1,487,471	1,398,810	1,607,075	1,682,030
Intergovernmental charges for services	572,000	572,000	591,834	575,009	628,953
Interdepartmental charges for services	--	--	--	--	--
Investment earnings	654,500	604,500	425,444	177,420	276,385
Miscellaneous revenue	110,400	114,750	149,013	136,127	118,663
Total revenues	<u>21,819,000</u>	<u>21,168,875</u>	<u>19,663,669</u>	<u>18,504,374</u>	<u>18,082,208</u>
Expenditures					
General government	3,081,167	2,488,230	2,314,862	2,262,025	2,293,560
Public safety	14,249,902	13,350,919	12,668,899	12,102,357	11,237,842
Public works	4,218,372	4,062,661	3,746,773	3,580,392	3,395,468
Health and human services	583,115	552,125	455,963	468,087	494,215
Culture, recreation and education	201,520	176,533	152,797	134,440	130,067
Conservation and development	534,924	485,945	491,582	374,864	428,151
Total Expenditures	<u>22,869,000</u>	<u>21,116,413</u>	<u>19,830,876</u>	<u>18,922,165</u>	<u>17,979,303</u>
Excess (deficiency) of revenues over expenditures	(1,050,000)	52,462	(167,207)	(417,791)	102,905
Other financing sources (uses)					
Operating transfers in	--	--	777,829	634,462	462,500
Operating transfers (out)	--	--	(424,400)	(40,073)	(6,982)
Net other financing sources (uses)	<u>0</u>	<u>0</u>	<u>353,429</u>	<u>594,389</u>	<u>455,518</u>
Revenues and other sources over (under) expenditures and other uses	(\$1,050,000)	52,462	186,222	176,598	558,423
Fund balances - beginning of year	<u>6,521,522</u>	<u>6,469,060</u>	<u>6,282,838</u>	<u>6,106,240</u>	<u>5,547,817</u>
Fund balances - end of year	<u>\$5,471,522</u>	<u>\$6,521,522</u>	<u>\$6,469,060</u>	<u>\$6,282,838</u>	<u>\$6,106,240</u>

The amounts shown for the years ended December 31, 2003 through 2005 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, 2006 and 2007 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 Morgan Keegan & Company, Inc., Memphis, Tennessee (the "Underwriter for the Notes"). The Bonds have been purchased at a public sale by Stifel Nicolaus & Co. Incorporated, Minneapolis, Minnesota (the "Underwriter for the Bonds") (collectively the "Underwriters").

The Underwriters intend to offer the Securities 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 3, 2007, if any, which prices may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other underwriters in offering the Securities to the public. The Underwriters may offer and sell the Securities to certain dealers (including dealers depositing the Securities into investment trusts) at prices lower than the public offering prices. In connection with this offering, the Underwriters may over allocate or effect transactions which stabilize or maintain the market price of the Securities 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 yields shown on the cover of this Official Statement have been provided by the Underwriters, and not by the Issuer.

THE MBIA INSURANCE CORPORATION INSURANCE POLICY

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix C for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading **"THE MBIA INSURANCE CORPORATION INSURANCE POLICY"**. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying

Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006, MBIA had admitted assets of \$11.5 billion (unaudited), total liabilities of \$6.9 billion (unaudited), and total capital and surplus of \$4.4 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine month periods ended September 30, 2006 and September 30,

2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington, D.C. (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

RATINGS

Moody's Investors Service, Inc. has assigned its municipal bond rating of "Aa2" to the Notes.

Moody's Investors Service, Inc. has assigned its municipal bond rating of "Aaa" to the Bonds with the understanding that upon delivery of the Bonds, a policy insuring the payment when due of the principal of and interest on the Bonds will be issued by MBIA Insurance Corporation.

Such ratings reflect only the views of such organization and explanations of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they 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 Securities.

TAX STATUS

The Notes

Interest on the Notes is included in gross income for federal income tax purposes.

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

The Bonds

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 Bonds under existing law substantially in the following form:

"The interest on the Bonds is excludable for federal income tax purposes from the gross income of the owners of the Bonds. The interest on the Bonds 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 Bonds is included in adjusted current earnings. The Code contains requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds 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 Bonds to be included in gross income retroactively to the date of issuance of the Bonds. 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 Bonds."

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

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers. Bond Counsel will not express any opinion as to such collateral tax consequences. Prospective purchasers of the Bonds 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 Bonds. 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 Bonds) issued prior to enactment.

Original Issue Discount

For federal income tax purposes, the Bonds maturing March 1, 2020 through March 1, 2021, inclusive (the "Discount Bonds") have "original issue discount" equal to the difference between the respective "issue price" of each such maturity and the principal amount payable upon the maturity date of each such maturity. With respect to each maturity of the Discount Bonds, the issue price for such Discount Bonds will be the initial public offering price as set forth on, or derived from the yield set forth on, the cover page of this Official Statement (assuming it is the first price to the public at which a substantial amount of such Discount Bonds are sold) and the issue date will be the date on which such Discount Bonds are first issued to the public.

Under existing law, the original issue discount on a Discount Bond accrued in the hands of an owner is treated for federal income tax purposes as interest which is excludable from gross income under Section 103 of the Code, assuming compliance with the terms of the Bond Resolution.

The original issue discount on each of the Discount Bonds is treated as accruing daily from the issue date of such Discount Bonds until its stated maturity date on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) ending September 1 and March 1 (with straight line interpolation between the compounding dates).

The owner's basis for determining gain or loss on a sale, maturity or other disposition of a Discount Bond generally will equal the owner's cost, increased by an original issue discount that accrues during the period that the Discount Bond is held by such owner. Generally, any gain or loss recognized by an owner on a sale, exchange or payment at maturity of a Discount Bond (based on the owner's basis) will be taxable as capital gain or loss (assuming the Discount Bond is held as a capital asset). An owner will recognize a taxable gain on a Discount Bond redeemed prior to maturity on the difference between the owner's basis and the call price of the Discount Bonds. Owners of Discount Bonds should consult their own tax advisors with respect to the computation for federal income tax purposes of the amounts of original issue discount which accrue during the period in which such Discount Bonds are held. As described above regarding tax-exempt interest, all or a portion of the original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. In the case of a corporation, such portion of the original issue discount will be included in the calculation of the corporation's alternative minimum tax liability and the environmental tax liability. Corporate owners of any Discount Bonds should be aware that the accrual on original issue

discount in each year may result in an alternative minimum tax liability or an environmental tax liability although the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Designation As Qualified Tax-Exempt Obligations

The Issuer will designate the Bonds 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 Award Resolutions adopted by the Governing Body to enter into an undertaking (the "Undertaking") for the benefit of holders including beneficial holders of the Securities 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 Certificates to be executed and delivered by the Issuer at the time the Securities are delivered. Such Certificates 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 Securities (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 Securities in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Securities and their market price.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Securities. The Securities 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 Securities, 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 Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities 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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities 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 Securities 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 Securities, or in any way contesting or affecting the validity of the Securities or any proceedings of the City taken with respect to the issuance or sale thereof.

MATHEMATICAL VERIFICATION

Grant Thornton LLP, Minneapolis, Minnesota, a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the City of Franklin its attestation report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of computations prepared by Robert W. Baird & Co. Incorporated relating to (a) the sufficiency of the anticipated receipts from the U.S. Treasury Obligations, together with the initial cash deposit, if any, to pay, when due, the principal, interest and early redemption premium requirements, if any, of the refunded bonds, and (b) the "yield" on the U.S. Treasury Obligations and on the Bonds.

The report of Grant Thornton LLP will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Securities are subject to the unqualified approving legal opinions of Quarles & Brady LLP, Bond Counsel. Such opinions will be issued on the basis of the law existing at the time of the issuance of the Securities. A copy of such opinions will accompany the Securities and will be available at the time of the delivery of the Securities. In compliance with the provisions of Treasury Circular 230, the opinion of Quarles & Brady LLP, with respect to the Notes, will provide that it is not intended to be used, and cannot be used, to avoid federal tax penalties.

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 Securities.

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 assumed responsibility for this Official Statement or participated in its preparation (except with respect to the section entitled "Tax Status" and the information in Appendix B) and has not performed any investigation as to its accuracy, completeness or sufficiency. The execution and delivery of this Official Statement by its City 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 Taxable General Obligation Promissory Notes and \$9,925,000 General Obligation Refunding Bonds dated January 3, 2007.

The City, acting through its City Clerk, will provide to the Underwriter of the above Securities at the time of delivery of the Securities, a certificate confirming to the Underwriter that, to the best of its knowledge and belief, the Official Statement with respect to the Securities, 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 Securities, 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**

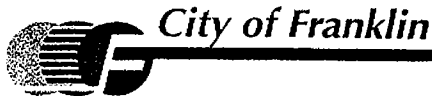
CITY OF FRANKLIN

MILWAUKEE COUNTY, WISCONSIN

For year ended December 31, 2005

**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.**



March 18, 2006

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, 2005, 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 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.

The City's financial statements have been audited by Virchow, Krause & Company, LLP, a firm of licensed public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2005, are free of material misstatement. The independent audit involved 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, 2005, 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.

Mayor, Common Council and Citizens
March 18, 2006

City Profile

The City, 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 32,548. Over the last ten years the City has experienced an average annual population increase of 2.4% per year. It is a residential community with a growing commercial and industrial base. It is generally 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, health and sanitary services; building inspection and zoning control; and street, sanitary and storm sewer, and water construction and maintenance. The City is empowered to levy a property tax on both real and personal property located within its boundaries.

The City operates under the mayor/council form of government. Policy making and legislative authority are vested in a governing council consisting of the mayor and six other 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 thirteen 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.

The City provides a full range of services, including police, fire protection and emergency medical services; street construction, maintenance of highways, streets and other infrastructure; recreational and cultural activities and sanitation services. 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. II. 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 preparation of a forecast for the existing programs for the following year is prepared by the end of May. Departmental requests for personnel changes and new capital outlay expenditures are made by the end of June. The Mayor then reviews the forecast including recommended personnel and capital outlay expenditures and determines by mid July 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 mid August. The budgets are reviewed and the Mayor submits his requested budget by mid September. The Council through its Finance Committee reviews the requested budgets and submits a proposed budget to the Council by mid October. The Council is required to hold a public hearing on the proposed budget, usually at the beginning of November, and then adopts a final budget in early November. The adopted budget is prepared by fund, function (e.g. Public Safety), and department (e.g. Police).

Transfers of appropriations require the approval of the governing council. Budget-to-actual comparisons are provided in this report for each 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 within that the City operates.

Economic Condition and Outlook

The pace of growth in Franklin in 2005 continued to be excellent. Both the residential sector and the non-residential sectors contributed. The 458 units of new residential construction was the second largest total in the last ten years. The value of non-residential permits was also the second largest in the last ten years. Future prospects for residential, commercial and industrial development continues to remaining positive.

Estimated Actual property values have grown at an average annual rate of 9.7% since 1995. For the first time the growth in the City was in excess of \$113 million. That 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. The City also benefits from the economy in the Milwaukee metropolitan area.

Difficulty in budgeting at the State level resulted in cutbacks to local and schools budgets. The City was able to adjust its budget to compensate and was able to limit the tax rate increase to 1.89%. Overall tax rates ranged from -0.2% to 3.9% depending upon the school or sewer district of a property.

For the next two years the state budget has imposed levy limits upon local governments. The City of Franklin has been able to meet those limits for 2006 without layoffs to existing staff and hope that layoffs will not be necessary in 2007 the second year of the levy limits.

Residential Growth

Over the past ten years, residential valuation has grown at an average annual rate of 8.9%. In 2005 permits for 458 new equivalent residential units were issued. While there was a decrease from the prior year the value of the related residential construction increased by 15.4%. Increased growth from new construction is expected to continue as new subdivisions open. Overall, the City remains attractive to builders and potential residents.

Commercial and Industrial Growth

Over the past ten years, commercial and industrial valuation has grown at an average annual rate of 13.3%. In 2005, 49 building permits were issued for commercial and industrial projects. The value of those projects decreased by 4.3% from the 2004 activity due to the completion of a large commercial project in 2004.

The City's Business Park sold four parcels of land in 2005 bringing the total acres sold to 91.2% of available land. The total incremental value of the Business Park, which comprises the City's TIF District No. 2, exceeded \$122 million equalized value at January 1, 2005. This value and the projected increases should generate sufficient tax increment to repay the existing TIF District debt two years prior to the last scheduled principal repayment in 2013.

Based on preliminary projections, when the TIF District No. 2 is closed out (currently expected to be in 2011), over \$150 million of additional value is expected to be added to the general tax rolls.

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 75% of the City's property value is currently residential. Future tax relief will need to come from industrial and commercial tax base expansion.

Organizational and Service Growth

The year 2005 was a year of transition for the City. A new Mayor, Police Chief and City Development Director settled into their new roles. The City initiated two new TIF Districts to respond to growth opportunities in the northeast and southeast portions of the City.

The challenge for the operating departments in 2005 was to maintain the service levels at a time of limited revenues to the City and a growth of 4.9% in new properties. Limited tax growth did not provide resources to expand services. However, no employment cutbacks were necessary.

2005 was not a City-wide property re-assessment year. The last re-assessment was done in 2003. Performing revaluations on a regular basis is in line with the Common Council's past policy decision to increase the frequency of assessment re-determinations in order to keep property values more in line with current market values. The State determined that the local assessments were 88.7% of fair value.

With the growth of the community, planning and zoning issues continued to receive much attention. To be sure that new development pays its fair share of the infrastructure costs the impact fees are charged for new development. The expansion and development of parks also continue to receive attention. The Parks Commission is beginning to implement the Comprehensive Outdoor Recreation Plan that has been developed. The Health Department increased its outreach to the local schools and continued offering immunizations at businesses in the Business and Industrial Parks, including Hepatitis B vaccines.

Grant Controls

As a recipient of federal and state financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with laws and regulations applicable to those programs. This internal control structure is subject to periodic evaluation by management. The results of the City's audit for the fiscal year ended December 31, 2005 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws or regulations. 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 2005.

Budgeting Controls

The City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Common Council. Activities of the General Fund, Library Fund, Sanitary Sewer Fund, Debt Service Fund, Capital Outlay Fund, Capital Improvement Fund, Equipment

Mayor, Common Council and Citizens
March 18, 2006

Replacement Fund and Street Improvement Fund are included in the annual appropriated budget. The legal level for budgetary control is at the function level (e.g. public safety) within individual funds. The legal level of control is defined as the level at which expenditures cannot legally exceed the appropriated amount without a resolution approved by Common Council. Any unencumbered appropriations lapse at year end.

Cash Management

Temporary idle cash is pooled and invested in demand deposits, savings deposits and the State of Wisconsin Local Government Investment Pool. Longer term cash reserves are invested by an investment manager in commercial paper, U.S. Treasury notes, Government Agency instruments, corporate notes and U.S. Treasury money market funds. Interest income from these programs are allocated to the various funds based on their respective balances of the pooled investments.

Risk Management

The City is exposed to a wide variety of risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care for its employees. Third-party insurance is maintained for workers' compensation, property, liability and all other potential losses. The City offers full time and some part time employees a group health and dental plan, which is self-insured by the City. The risk of this plan is reduced through the purchase of an excess loss health insurance policy with a 2005 deductible of \$50,000 per covered participant.

Pension and Other Post employment benefits

The City provides pension benefits to its employees. The public works, sewer and water and maintenance employees are covered by a single employer defined benefit pension plan. The Police and Fire employees are covered by the Wisconsin Retirement System pension program and the remainder of eligible employees are covered by a defined contribution pension plan. In addition to pensions, the City also provides postretirement health and dental care benefits for certain retirees and their dependants. As of the end of the current fiscal year there were 18 retired employees receiving some type of postretirement benefits. The benefits are financed on a pay-as-you-go basis. GAAP does not currently require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. In 2004, the Government Accounting Standards Board (GASB) adopted Statement No. 45, Accounting for post employment benefits. The effective date for the implementation of GASB No. 45 for the City is January 1, 2008. This new standard will require the City to account for post retirement health costs over the working lives of the employees.

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, Wisconsin for its Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2004. 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 thirteenth consecutive year that the City has received this award.

Mayor, Common Council and Citizens
March 18, 2006

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 only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we will be submitting it to the GFOA to determine its eligibility for a 2005 Certificate.

Acknowledgments

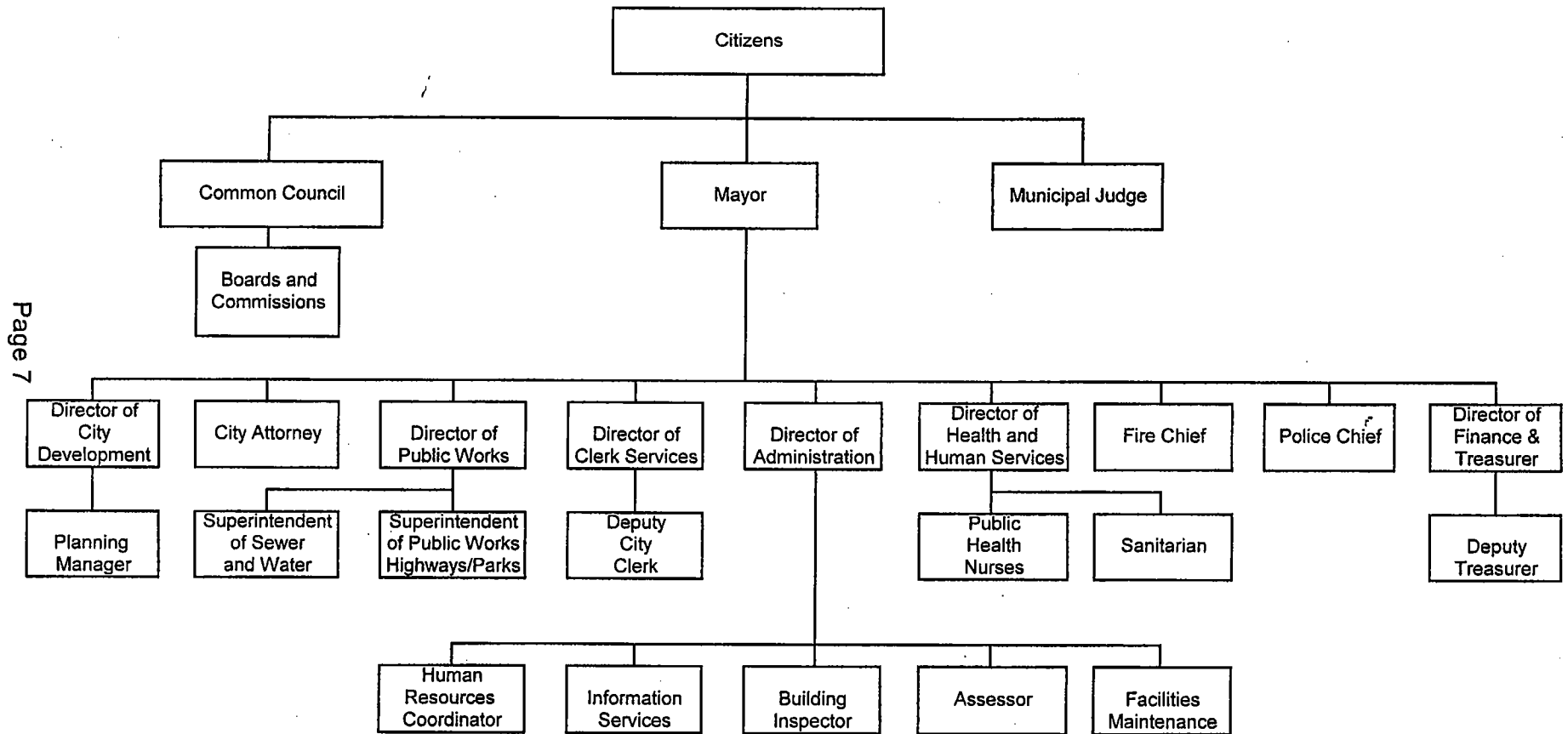
Preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the Finance Department staff. Appreciation is also extended to all other City employees who contributed to its preparation. We also thank the Mayor, Common Council, and Finance 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



**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	Al Hammelman
District No. 4	Pete Kosovich
District No. 5	Lyle Sohns
District No. 6	Ken Skowronski
Municipal Judge	Ron Wambach

Non-elected Officials

Assessor	Marty Kuehn
Building Inspector	Fred Baumgart
City Attorney	Jesse Wesolowski
City Clerk	Sandi Wesolowski
City Engineer/Public Works Director	John Bennett
City Development Director	Doug Wheaton
Director of Administration	Vacant
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	Vacant
Police Chief	Rick Oliva

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Franklin,
Wisconsin

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION



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, each major fund, and the aggregate remaining fund information of the City of Franklin, Wisconsin, as of and for the year ended December 31, 2005, 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 2004 financial statements and, in our report dated March 11, 2005, 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, each major fund, and the aggregate remaining fund information of the City of Franklin, Wisconsin, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows 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 12 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 13, 2006

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, 2005. 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, 2005, by \$104,001,623 (**net assets**). Of this amount, \$12,622,492 (**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, 2004 and 2005. 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 \$13,471,280. Investment in capital assets, net of related debt accounted for a \$11,155,929 increase, unrestricted net assets accounted for a \$1,706,455 increase with restricted net assets accounting for a \$608,896 increase.
- The City's governmental funds reported, as of December 31, 2005, combined ending fund balances of \$25,567,150, an increase of \$11,172,843 from the prior year. Approximately 46 percent of the total fund balance, or \$11,788,661, is available for spending at the government's discretion (**unreserved fund balance**).
- The unreserved fund balance as of December 31, 2005 for the general fund was \$6,411,669 or approximately 30 percent of total anticipated 2006 general fund expenditures.
- The City's Governmental activities debt increased by \$5,785,000 during 2005. The repayments of \$4,215,000 were offset by the issuance of \$10,000,000 in debt to be used for capital projects and TIF Districts purposes.

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 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 & 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 fourteen 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 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.

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund, Library Fund, Capital Outlay Fund, Equipment Replacement Fund, Street Improvement Fund, Capital Improvement 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 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 - 72 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 9 can be found on pages 73 - 87 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 \$104,001,623 and \$90,530,343 (as restated) at the end of 2005 and 2004 respectively.

CITY OF FRANKLIN NET ASSETS December 31, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 54,869,649	\$ 40,984,926	\$ 3,474,370	\$ 3,159,958	\$ 58,344,019	\$ 44,144,884
Capital assets	40,897,119	35,200,666	85,098,937	81,402,130	125,796,056	116,602,796
Total assets	95,566,768	76,185,592	88,573,307	84,562,088	184,140,075	160,747,680
Long-term liabilities	47,602,544	41,957,956	58,807	45,106	47,661,351	42,003,062
Current liabilities	31,620,241	27,252,256	856,880	962,019	32,477,101	28,214,275
Total liabilities	79,222,785	69,210,212	915,687	1,007,125	80,138,452	70,217,337
Net assets:						
Invested in capital assets, net of related debt	1,634,674	(5,824,448)	85,098,937	81,402,130	86,733,611	75,577,682
Restricted	4,467,246	3,656,415	178,274	132,035	4,645,520	3,788,450
Unrestricted	10,242,063	9,143,413	2,380,429	2,020,798	12,622,492	11,164,211
Total net assets	\$ 16,343,983	\$ 6,975,380	\$ 87,657,640	\$ 83,554,963	\$ 104,001,623	\$ 90,530,343

The largest portion of the City's net assets (approximately 83 percent, in both years) 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 capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets accounted for \$86,733,611 and \$75,577,682 in 2005 and 2004 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
2005	\$ 11,919,412	\$ (2,726,152)	\$ 1,962,669	\$ 11,155,929
2004	\$ 24,264,433	\$ (2,604,524)	\$ 6,125,021	27,784,930

The major City project contributing to this increase in 2005 was the right of way acquisition for the extension of 31st Street and in 2004 was the Briarwood Sewer project. Infrastructure contributed by developers as part of developer's agreements contributed approximately \$3,872,000 in 2005 and \$6,210,000 in 2004 to the capitalized infrastructure through capital grants and contributions of governmental activities and \$3,181,000 in 2005 and \$7,352,000 in 2004 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 4.2 percent in both years) represent resources that are subject to external restrictions on how they may be used. There were \$4,645,520 and \$3,788,450, respectively in those net assets that were restricted to specific purposes with the remaining balance of \$12,622,492 and \$11,164,211, in 2005 and 2004 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 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 2005 increase of \$810,831 in restricted net assets reported in connection with the governmental activities. The increase was due to the growth in utility improvement funds (\$364,000), the growth in impact fees (\$110,000) and the growth in other restricted funds (\$337,000).

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 2005 increase of \$1,098,650 in unrestricted net assets reported in connection with the governmental activities. The major reason for the increase was the unused portion of a borrowing in the capital improvement fund (\$2,750,000).

There was a 2004 decrease of \$1,713,849 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 and the TIF Districts utilizing reserves to meet expenses (\$589,000).

Governmental activities. Governmental activities in 2005 increased the City's net assets by \$9,368,603 accounting for 70 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 \$4,022,155
- Increase in governmental activities capital assets net of depreciation of \$5,496,453
- Net increase from general fund activities of \$678,236
- Net decrease from internal service activities of \$26,049
- Net decrease from special assessment activities of \$602,192

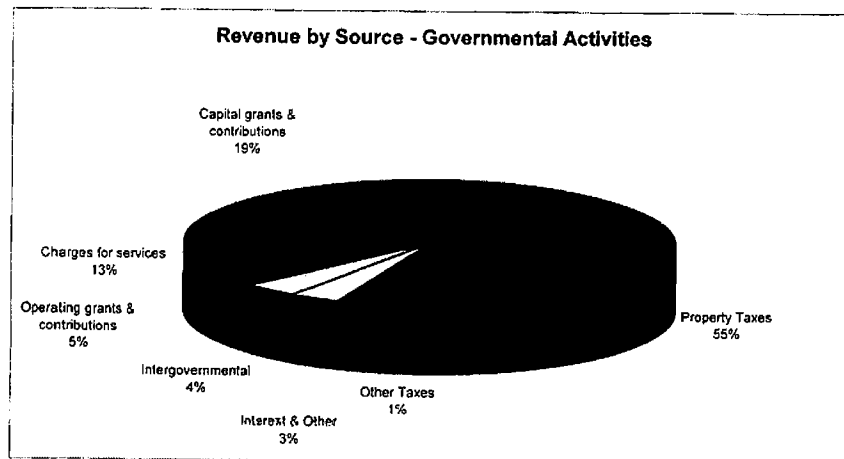
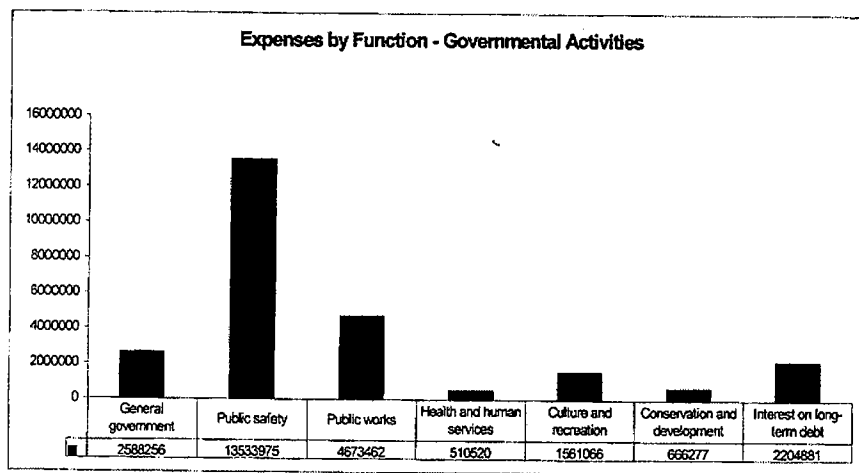
Governmental activities in 2004 increased the City's net assets by \$11,204,548 accounting for 39 percent of the total growth in the net assets of the City. Elements of this increase follow:

- Increase due to the reduction in Long term Debt of \$4,000,307
- Increase from TIF District activities of \$1,650,138
- 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

The details of governmental activities changes in net assets follow:

**City of Franklin Changes in Net Assets
For the Year Ending December 31, 2005 and 2004**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
	Restated				Restated	
Revenue						
Program revenue:						
Charges for services	\$ 4,784,345	\$ 4,525,973	\$ 5,547,932	\$ 4,325,814	\$ 10,332,277	\$ 8,851,787
Operating grants & contributions	1,838,699	1,886,800	-	-	1,838,699	1,886,800
Capital grants & contributions	6,728,526	10,048,400	3,181,334	13,431,131	9,909,860	23,479,531
General revenue:						
Property taxes	19,805,791	18,537,786	-	-	19,805,791	18,537,786
Other taxes	381,116	376,038	-	-	381,116	376,038
Intergovernmental	1,271,794	1,335,925	-	-	1,271,794	1,335,925
Other	1,231,050	681,209	95,606	84,013	1,326,656	765,222
Total revenue	36,041,321	37,392,131	8,824,872	17,840,958	44,866,193	55,233,089
Expenses:						
General government	2,588,256	2,535,943	-	-	2,588,256	2,535,943
Public safety	13,533,975	13,054,488	-	-	13,533,975	13,054,488
Public works	4,673,462	4,233,338	-	-	4,673,462	4,233,338
Health & Human services	510,520	538,850	-	-	510,520	538,850
Culture & Recreation	1,561,066	1,428,499	-	-	1,561,066	1,428,499
Conservation & development	666,277	384,702	-	-	666,277	384,702
Interest on long-term debt	2,204,881	2,378,118	-	-	2,204,881	2,378,118
Water	-	-	3,307,057	2,572,320	3,307,057	2,572,320
Sewer	-	-	2,349,419	2,143,916	2,349,419	2,143,916
Total expenses	25,738,437	24,553,938	5,656,476	4,716,236	31,394,913	29,270,174
Increase in net assets before transfers	10,302,884	12,838,193	3,168,396	13,124,722	13,471,280	25,962,915
Transfers	(934,281)	(1,633,645)	934,281	1,633,645	-	-
Increase in net assets	9,368,603	11,204,548	4,102,677	14,758,367	13,471,280	25,962,915
Net assets - beginning	6,975,380	(4,229,168)	83,554,963	68,796,596	90,530,343	64,567,428
Net assets - ending	\$ 16,343,983	\$ 6,975,380	\$ 87,657,640	\$ 83,554,963	\$ 104,001,623	\$ 90,530,343



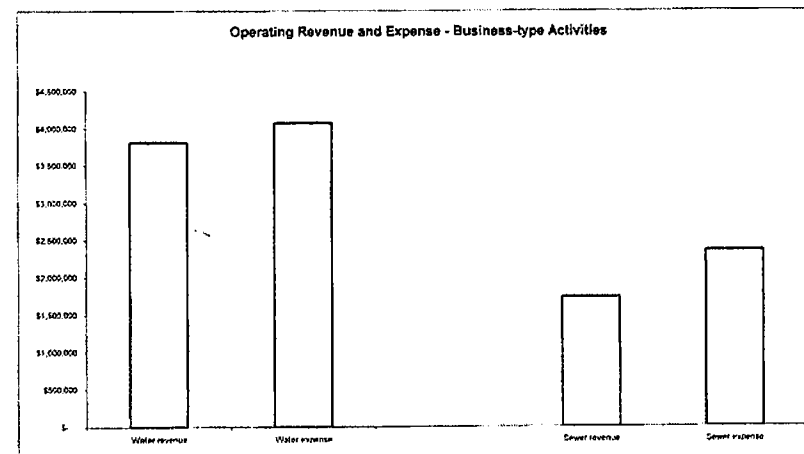
Business-type activities. In 2005, business-type activities increased the City's net assets by \$4,102,677 or 4.9 percent from the prior year. The key elements of this increase follow:

- The income from operations excluding capital contributions and its related depreciation expense - \$189,718. The goal of the business activities is to provide these services at a break even basis to minimize the cost to the users. The year 2005 was a dry year that resulted in greater return from water operations than planned.
- Developer contributions of water infrastructure - \$3,091,294 consisting of thirteen developer projects and two City projects
- Developer contributions of sewer infrastructure - \$1,802,150 consisting of eleven developer projects
- Depreciation expense related to contributed assets - \$980,485

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:

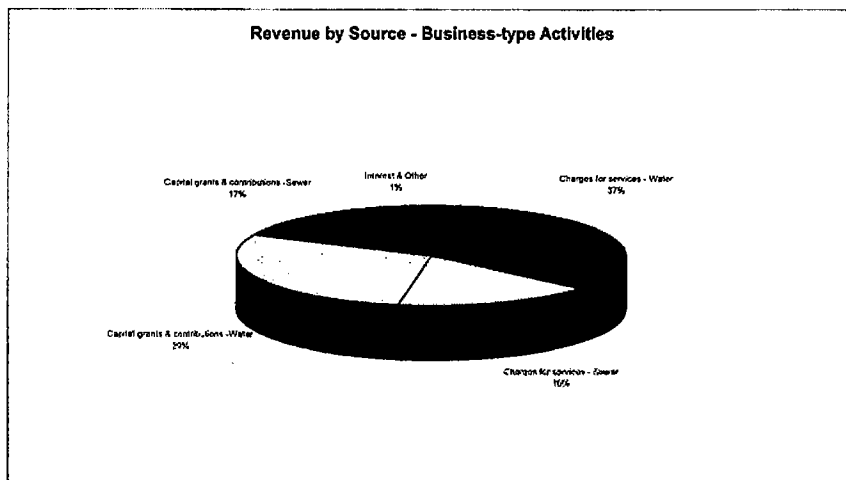
- The (loss) from operations excluding capital contributions and its related depreciation expense - \$(126,885). The goal of the business activities is to provide these services at a break even basis to minimize the cost to the users.
- Developer contributions of water infrastructure - \$3,567,696 consisting 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

The following graph compares the 2005 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 \$25,567,150, an increase of \$11,172,843 in comparison with the prior year. Approximately 46 percent or \$11,788,661 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 (\$2,001,554), 2) for TIF District purposes (\$6,717,987) 3) for utility improvement purposes (\$1,129,596), 4) for development purposes (\$2,853,329), 5) for library purposes (\$248,174), 6) uncompleted contracts (\$385,000) and 7) for emergency medical services, prepaid expenses, inventories, encumbrances, donations and grants (\$442,849).

Of the \$11,788,661 unreserved fund balance, the use of \$5,376,992 or approximately 46 percent was committed to specific types of activities; i.e., \$218,770 for special revenue fund activities, and \$5,158,222 for capital project activities.

The **General Fund** is the chief operating fund of the City. As of December 31, 2005, the total fund balance of the general fund was \$6,469,060 of which \$6,411,669 was unreserved. This unreserved fund balance represents approximately 30 percent of 2006 total general fund expenditures.

The total fund balance of the general fund increased by \$186,222 in fiscal year 2005. The 2005 annual program budget for the City's general fund identified the appropriation of \$740,000 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 4 percent or \$812,124; actual revenue was more than budget revenue in the general fund by \$622,498 or approximately 3 percent and transfers to other funds were made totaling \$424,400. The increase in revenue can be attributed to increased development activity resulting in more permit and development review fees. While the underexpenditures resulted mainly from vacancy in authorized positions.

The **Debt Service Fund** has a total fund balance of \$8,719,541, \$2,001,554 of which is reserved for the payment of debt service and \$6,717,987 is reserved for advances made to TIF Districts fund. The debt service portion of the fund balance reflects an increase of \$1,874,988 due primarily to lower amounts of principal and interest being due during 2005.

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 \$1,485,963, an increase of \$436,506 from December 31, 2004. The growth in total net assets was \$2,902,499.

Unrestricted net assets of the Sanitary Sewer Fund at the end of the year amounted to \$894,466, a decrease of \$76,875 from December 31, 2004. The growth in total net assets was \$1,200,178.

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 \$622,498. Building permits exceeded their budgets due to increased development activity and by increased interest income accounting for most of the revenue increase.

Actual expenditures were less than budgeted expenditures by \$812,124. This amount was across all functions. The Police, Highway, Building Inspection and Community Development departments accounted for the largest portion of the under expenditures. The unused portion of the contingency budget was only \$56,725. The Health and Dispatch budgets provided additional underexpenditures reduced by overexpenditures in the fire, insurance 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 \$186,222.

Capital assets.

The City's investment in capital assets for its governmental and business type activities as of December 31, 2005, amounts to \$125,796,056 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	
	2005	2004	2005	2004	2005	2004
Land	\$ 6,885,868	\$ 4,777,991	\$ 426,384	\$ 426,384	\$ 7,312,252	\$ 5,204,375
Buildings and Improvements	21,288,949	21,190,277	2,342,139	2,345,953	23,631,088	23,536,230
Improvements other than buildings	11,998,351	8,323,261	96,067,431	91,140,721	108,065,782	99,463,982
Machinery and equipment	11,742,433	11,482,674	1,887,905	1,873,833	13,630,338	13,356,507
Construction						
In process	415,821	-	453	-	416,274	-
Total capital assets	52,331,422	45,774,203	100,724,312	95,786,891	153,055,734	141,561,094
Less Accumulated depreciation	(11,634,303)	(10,573,537)	(15,625,375)	(14,384,761)	(27,259,678)	(24,958,298)
Capital assets net of Depreciation	\$ 40,697,119	\$ 35,200,666	\$ 85,098,937	\$ 81,402,130	\$ 125,796,056	\$ 116,602,796

The total increase in the City's net investment in capital assets for the current fiscal year was a total of \$9,193,260 net of depreciation or a 8 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, 2005, the City had general obligation note and bond issues outstanding totaling \$32,900,000. 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 \$151,540,795. The City's current outstanding general obligation debt is 22% of the statutory debt limit. In the last 15 years the City has not exceeded 36 percent of the statutory debt limit. The City issued \$10,000,000 in new debt to support two new TIF Districts and its capital improvement activities. The City paid off the balance of the 1996 refunding bond issue, in addition to making required principal payments on the remaining debt issues that came due. The City's current "Aa2" rating from Moody's for its general obligation debt is an increase from the prior year.

The City also has outstanding \$17,715,000 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 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. In early 2006 the City borrowed \$10,000,000 in general obligation debt to enable the repayment of \$10,000,000 of lease revenue bonds.

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.

	City of Franklin's Outstanding Debt (All purposes)					
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds and notes	\$ 32,900,000	\$ 24,800,000	\$ -	\$ -	\$ 32,900,000	\$ 24,800,000
Revenue bonds	17,715,000	20,030,000	-	-	17,715,000	20,030,000
Total	\$ 50,615,000	\$ 44,830,000	\$ -	\$ -	\$ 50,615,000	\$ 44,830,000

Additional information of the City's long-term debt can be found in note 4(F), Schedule 5 and Tables 10 – 12 in the statistical section of the report.

Economic Factors, Tax Rates and Next Year's Budgets

- The unemployment rate as of December 31, 2005 for the City was 3.4%, Milwaukee County which includes the City, is 5.2 percent. This compares with an unemployment rate of 4.5 percent for the State of Wisconsin.
- The local tax rate change for operations for the current and prior two years were 1.89%, -1.99% and 1.42%, respectively.
- The tax levy increase for operations for the current and prior two years were, \$1,085,689, \$206,760, and \$745,308, respectively.
- The 2006 budgets require a local tax rate that decreased 1.39% which together with growth will result in a tax levy increased of \$666,700 or 3.95 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.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF FRANKLIN
Statement of Net Assets
December 31, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 30,090,925	\$ 2,118,980	\$ 32,209,905
Receivables			
Accounts receivable	774,692	1,254,098	2,028,790
Taxes receivable	20,901,434	177,125	21,078,559
Special assessments receivable	2,559,670	-	2,559,670
Internal balances	254,107	(254,107)	-
Due from other governments	196,461	-	196,461
Prepaid items	27,986	-	27,986
Inventories	20,437	-	20,437
Restricted cash and investments	-	178,274	178,274
Capital assets (net of accumulated depreciation)			
Land	6,885,868	426,364	7,312,252
Buildings and improvements	16,979,866	1,776,300	18,756,166
Machinery and equipment	4,680,039	755,067	5,435,106
Improvements other than buildings	11,735,525	82,140,733	93,876,258
Construction in progress	415,821	453	416,274
Deferred charges	43,937	-	43,937
Total assets	\$ 95,566,768	\$ 88,573,307	\$ 184,140,075
LIABILITIES			
Accounts payable	\$ 4,472,512	\$ 694,337	\$ 5,166,849
Accrued liabilities	1,161,256	21,666	1,182,922
Due to other governments	54,050	102,368	156,418
Accrued interest	700,796	-	700,796
Special deposits	325,800	1,000	326,800
Unearned revenue	20,449,969	-	20,449,969
Noncurrent liabilities:			
Due within one year	4,455,858	37,489	4,493,347
Due in more than one year	47,602,544	58,807	47,661,351
Total liabilities	79,222,785	915,667	80,138,452
NET ASSETS			
Investment in capital assets, net of related debt	1,634,674	85,098,937	86,733,611
Restricted for:			
Library	248,174	-	248,174
Utility improvements	1,129,596	-	1,129,596
Development	2,853,329	-	2,853,329
Other purposes	236,147	178,274	414,421
Unrestricted	10,242,063	2,380,429	12,622,492
Total net assets	\$ 16,343,983	\$ 87,657,640	\$ 104,001,623

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See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Activities
Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Government activities:							
General government	\$ 2,588,256	\$ 148,803	\$ -	\$ -	\$ (2,439,453)	\$ -	\$ (2,439,453)
Public safety	13,533,975	2,715,134	245,839	-	(10,573,002)	-	(10,573,002)
Public works	4,673,462	1,543,476	1,309,100	6,716,620	4,895,734	-	4,895,734
Health and human services	510,520	91,767	245,435	-	(173,318)	-	(173,318)
Culture and recreation	1,561,066	212,301	38,325	11,906	(1,298,534)	-	(1,298,534)
Conservation and development	666,277	72,864	-	-	(593,413)	-	(593,413)
Interest on long term debt	2,204,881	-	-	-	(2,204,881)	-	(2,204,881)
Total governmental activities	<u>25,738,437</u>	<u>4,784,345</u>	<u>1,838,699</u>	<u>6,728,526</u>	<u>(12,386,867)</u>	<u>-</u>	<u>(12,386,867)</u>
Business-type activities:							
Water	3,307,057	3,815,195	-	1,519,889	-	2,028,027	2,028,027
Sewer	2,349,419	1,732,737	-	1,661,445	-	1,044,763	1,044,763
Total business-type activities	<u>5,656,476</u>	<u>5,547,932</u>	<u>-</u>	<u>3,181,334</u>	<u>-</u>	<u>3,072,790</u>	<u>3,072,790</u>
Total	<u>\$ 31,394,913</u>	<u>\$ 10,332,277</u>	<u>\$ 1,838,699</u>	<u>\$ 9,909,860</u>	<u>(12,386,867)</u>	<u>3,072,790</u>	<u>(9,314,077)</u>
General revenue:							
Property taxes levied for general purposes					14,576,353	-	14,576,353
Property taxes levied for debt service					2,310,000	-	2,310,000
Property taxes levied for TIF Districts					2,919,438	-	2,919,438
Other taxes					381,116	-	381,116
Intergovernmental revenue not restricted to specific programs					1,271,794	-	1,271,794
Investment earnings					1,111,774	44,096	1,155,870
Miscellaneous revenue					119,276	51,510	170,786
Transfers					(934,281)	934,281	-
Total general revenue and transfers					<u>21,755,470</u>	<u>1,029,887</u>	<u>22,785,357</u>
Change in net assets					9,368,603	4,102,677	13,471,280
Net assets - beginning (restated)					6,975,380	83,554,963	90,530,343
Net assets - ending					<u>\$ 16,343,983</u>	<u>\$ 87,657,640</u>	<u>\$ 104,001,623</u>

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Balance Sheet
Governmental Funds
December 31, 2005

Exhibit C

	General	Debt Service	TIF Districts	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 6,779,141	\$ 2,144,492	\$ 7,280,175	\$ 13,614,660	\$ 29,818,468
Receivables					
Accounts receivable	608,733	57,062	17,178	36,664	719,637
Taxes receivable	12,903,041	2,594,039	2,860,368	2,543,986	20,901,434
Special assessments receivable		1,708,141	-	851,529	2,559,670
Due from other funds	254,107	-	-	-	254,107
Due from other governments	171,840	-	250	24,371	196,461
Prepaid items	17,954	-	-	10,032	27,986
Inventories	20,437	-	-	-	20,437
Long term advances	-	6,717,987	-	-	6,717,987
TOTAL ASSETS	\$ 20,755,253	\$ 13,221,721	\$ 10,157,971	\$ 17,081,242	\$ 61,216,187
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 578,675	\$ -	\$ 1,858,725	\$ 1,996,389	\$ 4,433,789
Accrued liabilities	634,195	-	15,000	16,680	665,875
Due to other governments	54,050	-	-	-	54,050
Special deposits	124,672	200,000	-	-	324,672
Deferred revenue	12,894,601	4,302,180	2,860,368	3,395,515	23,452,664
Long term advances	-	-	6,717,987	-	6,717,987
Total Liabilities	14,286,193	4,502,180	11,452,080	5,408,584	35,649,037
FUND BALANCES					
Reserved for:					
Inventories and prepaid items	38,391	-	-	10,032	48,423
Advances to other funds	-	6,717,987	-	-	6,717,987
Encumbrances	19,000	-	-	201,000	220,000
Subsequent years expenditures	-	-	-	623,142	623,142
Subsequent years debt service	-	2,001,554	-	-	2,001,554
Emergency medical services	-	-	-	16,624	16,624
Utility improvements	-	-	-	1,129,596	1,129,596
Development	-	-	-	2,853,329	2,853,329
Donations & grants	-	-	-	167,834	167,834
Unreserved balance (deficit) reported in:					
General Fund	6,411,669	-	-	-	6,411,669
Special Revenue Funds	-	-	-	218,770	218,770
Capital Project Funds	-	-	(1,294,109)	6,452,331	5,158,222
Total fund balances	6,469,060	8,719,541	(1,294,109)	11,672,658	25,567,150
TOTAL LIABILITIES AND FUND BALANCES	\$ 20,755,253	\$ 13,221,721	\$ 10,157,971	\$ 17,081,242	\$ 61,216,187
Total fund balances of governmental funds					\$ 25,567,150
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.					40,697,119
Internal service net assets					(78,339)
Other long-term assets that are not available to pay for current period expenditures and are deferred in the funds.					3,002,695
Long-term liabilities, including long-term debt, are not due and payable in the current period and are not reported in the funds.					(52,844,642)
Not assets of governmental activities					\$ 16,343,983

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, 2005

Exhibit D

	General	Debt Service	TIF Districts	Nonmajor Governmental Funds	Total Governmental Funds
REVENUE					
Taxes	\$ 12,668,469	\$ 2,310,000	\$ 2,919,438	\$ 2,289,000	\$ 20,186,907
Intergovernmental revenue	2,581,477	-	88,555	247,481	2,917,513
Licenses and permits	1,486,966	-	-	-	1,486,966
Fines, forfeitures and penalties	361,656	-	-	-	361,656
Public charges for services	1,398,810	689,060	-	-	2,087,870
Special assessments	-	641,445	-	2,979,369	3,620,814
Intergovernmental charges for services	591,834	-	-	-	591,834
Investment earnings	425,444	226,399	138,992	336,328	1,127,163
Miscellaneous revenue	149,013	-	178,663	478,429	806,105
Total Revenue	19,663,669	3,866,904	3,325,648	6,330,607	33,186,828
EXPENDITURES					
Current					
General government	2,314,862	-	-	-	2,314,862
Public safety	12,668,899	-	-	8,869	12,677,768
Public works	3,746,773	-	-	-	3,746,773
Health and human services	455,963	-	-	43,533	499,496
Culture, recreation and education	152,797	-	-	1,117,643	1,270,440
Conservation and development	491,582	-	89,308	74,038	654,928
Capital outlay	-	-	1,309,496	2,425,912	3,735,408
Debt service					
Principal	-	1,900,000	2,315,000	-	4,215,000
Interest	-	1,123,504	999,836	-	2,123,340
Debt issuance costs	-	-	32,375	13,875	46,250
Total Expenditures	19,830,876	3,023,504	4,746,015	3,683,870	31,284,265
Excess (Deficiency) of Revenue Over (Under) Expenditures	(167,207)	843,400	(1,420,367)	2,646,737	1,902,563
OTHER FINANCING SOURCES (USES)					
Transfers in	777,829	545,014	-	2,163,624	3,486,467
Transfers out	(424,400)	-	(113,589)	(3,882,759)	(4,420,748)
General obligation debt issued	-	7,000,000	-	3,000,000	10,000,000
Premium on debt issued	-	204,561	-	-	204,561
Net change in fund balances	186,222	8,592,975	(1,533,958)	3,927,602	11,172,843
Fund balances - beginning (restated)	6,282,838	126,566	239,847	7,745,056	14,394,307
Fund balances - ending	\$ 6,469,060	\$ 8,719,541	\$ (1,294,109)	\$ 11,672,658	\$ 25,567,150

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, 2005

Net change in fund balances - total governmental funds \$ 11,172,843

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 (\$3,033,631) exceeded depreciation (\$1,421,435) in the current period.

1,612,196

Contributed capital assets are reported as revenues in the statement of activities.

3,884,257

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.

(5,785,000)

Government funds report the effects of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of the differences in the treatment of these items.

(150,396)

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

(299,226)

Revenue in the statement of activities not providing current financial resources are not reported as revenue in the funds

54,083

Revenue in the governmental funds that provides current financial resources but has been previously reported as revenue in the statement of activities

(1,094,105)

Internal service fund change in net assets

(26,049)

Net change in net assets of governmental activities

\$ 9,368,603

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, 2005

	Original Budget	Final Budget	Actual	Variance with final budget - Favorable (Unfavorable)
REVENUE				
Taxes	\$ 13,403,300	\$ 13,403,300	\$ 13,446,298	\$ 42,998
Intergovernmental revenue	2,582,700	2,582,700	2,581,477	(1,223)
Licenses and permits	1,053,500	1,053,500	1,486,966	433,466
Fines, forfeitures and penalties	450,000	450,000	361,656	(88,344)
Public charges for services	1,329,800	1,329,800	1,398,810	69,010
Intergovernmental charges for services	548,000	548,000	591,834	43,834
Investment earnings	315,500	315,500	425,444	109,944
Miscellaneous revenue	136,200	136,200	149,013	12,813
Total Revenue	19,819,000	19,819,000	20,441,498	622,498
EXPENDITURES				
Current				
General government	2,637,312	2,574,162	2,311,862	262,300
Public safety	12,809,809	12,822,159	12,678,899	143,260
Public works	3,860,868	3,891,843	3,750,973	140,870
Health and human services	537,665	544,640	455,963	88,677
Culture and recreation	153,359	156,209	156,097	112
Conservation and development	559,987	569,987	393,082	176,905
Total Expenditures	20,559,000	20,559,000	19,746,876	812,124
Excess (Deficiency) of Revenue Over (Under) Expenditures	(740,000)	(740,000)	694,622	1,434,622
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	(200,000)	(424,400)	(224,400)
Net change in fund balance - budgetary basis	(740,000)	(940,000)	270,222	1,210,222
Adjustments to generally accepted accounting principles basis				
2005 encumbrances	19,000	19,000	19,000	-
2004 encumbrances	(103,000)	(103,000)	(103,000)	-
Net change in fund balance - generally accepted accounting principles basis	(824,000)	(1,024,000)	186,222	1,210,222
Fund Balances - beginning	6,282,838	6,282,838	6,282,838	-
Fund Balances - ending	\$ 5,458,838	\$ 5,258,838	\$ 6,469,060	\$ 1,210,222

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Net Assets
Proprietary Funds
December 31, 2005

(with comparative information for the year ended December 31, 2004)

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year	Current Year Totals	
ASSETS						
Current assets						
Cash and investments	\$ 1,236,234	\$ 746,633	\$ 882,746	\$ 845,286	\$ 2,118,980	\$ 272,457
Receivables						
Accounts receivable	804,164	892,644	449,934	449,069	1,254,098	55,055
Taxes receivable	118,043	95,448	59,082	54,903	177,125	-
Due from other funds	145,355	113,905	-	53,977	145,355	-
Total current assets	<u>2,303,796</u>	<u>1,848,630</u>	<u>1,391,762</u>	<u>1,403,235</u>	<u>3,695,558</u>	<u>327,512</u>
Noncurrent assets						
Restricted cash and investments	-	-	178,274	132,035	178,274	-
Total restricted assets	<u>-</u>	<u>-</u>	<u>178,274</u>	<u>132,035</u>	<u>178,274</u>	<u>-</u>
Capital assets						
Land	115,465	115,465	310,919	310,919	426,384	-
Buildings and improvements	724,880	724,880	1,617,259	1,621,073	2,342,139	-
Improvements other than buildings	46,503,747	43,335,501	49,563,684	47,805,220	96,067,431	-
Machinery and equipment	1,369,043	1,360,057	518,862	513,776	1,887,905	-
Construction in progress	453	-	-	-	453	-
Less accumulated depreciation	<u>(7,568,309)</u>	<u>(6,856,617)</u>	<u>(8,057,066)</u>	<u>(7,528,144)</u>	<u>(15,625,375)</u>	<u>-</u>
Total capital assets (net of accumulated depreciation)	<u>41,145,279</u>	<u>38,679,286</u>	<u>43,953,658</u>	<u>42,722,844</u>	<u>85,098,937</u>	<u>-</u>
Total noncurrent assets	<u>41,145,279</u>	<u>38,679,286</u>	<u>44,131,932</u>	<u>42,854,879</u>	<u>85,277,211</u>	<u>-</u>
Total assets	<u>\$ 43,449,075</u>	<u>\$ 40,527,916</u>	<u>\$ 45,523,694</u>	<u>\$ 44,258,114</u>	<u>\$ 88,972,769</u>	<u>\$ 327,512</u>

Continued

CITY OF FRANKLIN
Statement of Net Assets
Proprietary Funds
December 31, 2005
(with comparative information for the year ended December 31, 2004)

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year	Current Year Totals	
LIABILITIES						
Current liabilities						
Accounts payable	\$ 413,063	\$ 483,034	\$ 281,274	\$ 317,850	\$ 694,337	\$ 38,723
Accrued liabilities	425	391	21,241	23,400	21,666	366,000
Due to other governments	102,368	102,368	-	-	102,368	-
Due to other funds	252,829	173,089	146,633	50,853	399,462	-
Special deposits	1,000	500	-	-	1,000	1,128
Current portion of compensated absences	18,745	17,238	18,744	17,238	37,489	-
Total current liabilities	<u>788,430</u>	<u>776,620</u>	<u>467,892</u>	<u>409,341</u>	<u>1,256,322</u>	<u>405,851</u>
Noncurrent liabilities						
Accrued compensated absences	29,403	22,553	29,404	22,553	58,807	-
Total noncurrent liabilities	<u>29,403</u>	<u>22,553</u>	<u>29,404</u>	<u>22,553</u>	<u>58,807</u>	<u>-</u>
Total liabilities	<u>817,833</u>	<u>799,173</u>	<u>497,296</u>	<u>431,894</u>	<u>1,315,129</u>	<u>405,851</u>
NET ASSETS						
Invested in capital assets	41,145,279	38,679,286	43,953,658	42,722,844	85,098,937	-
Restricted for						
Sewer equipment replacement	-	-	178,274	132,035	178,274	-
Unrestricted (deficit)	1,485,963	1,049,457	894,466	971,341	2,380,429	(78,339)
Total net assets	<u>\$ 42,631,242</u>	<u>\$ 39,728,743</u>	<u>\$ 45,026,398</u>	<u>\$ 43,826,220</u>	<u>\$ 87,657,640</u>	<u>\$ (78,339)</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, 2005
(with comparative information for the year ended December 31, 2004)

	Business-type Activities - Enterprise Funds					Governmental
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year	Current Year Totals	Activities - Internal Service Funds
OPERATING REVENUE						
Metered sales						
Residential	\$ 1,974,050	\$ 1,251,511	\$ 1,039,091	\$ 909,607	\$ 3,013,141	\$ -
Commercial	794,103	619,272	401,135	351,574	1,195,238	-
Public authority	214,133	195,966	105,783	96,502	319,916	-
Industrial	215,665	195,477	171,299	143,149	386,964	-
Total metered sales	3,197,951	2,262,226	1,717,308	1,500,832	4,915,259	-
Group health & dental charges	-	-	-	-	-	2,802,968
Public fire protection service	516,484	451,488	-	-	516,484	-
Private fire protection service	77,054	65,975	-	-	77,054	-
Forfeited discounts, penalties and other	23,706	31,041	15,429	14,252	39,135	-
Total operating revenue	3,815,195	2,810,730	1,732,737	1,515,084	5,547,932	2,802,968
OPERATING EXPENSES						
Cost of sales and services	2,227,658	1,589,789	1,556,855	1,439,584	3,784,513	2,839,275
Depreciation	705,561	578,708	599,156	541,105	1,304,717	-
Administration	373,838	403,823	193,408	163,227	567,246	-
Total operating expenses	3,307,057	2,572,320	2,349,419	2,143,916	5,656,476	2,839,275
Operating income (loss)	508,138	238,410	(616,682)	(628,832)	(108,544)	(36,307)
NON-OPERATING REVENUE (EXPENSES)						
Investment earnings	26,079	8,892	18,017	9,563	44,096	10,258
Sundry	49,324	60,203	2,186	5,355	51,510	-
Total non-operating revenue (expenses)	75,403	69,095	20,203	14,918	95,606	10,258
Income (loss) before capital contributions and transfers	583,541	307,505	(596,479)	(613,914)	(12,938)	(26,049)
Capital contributions	1,519,889	9,514,855	1,661,445	3,916,276	3,181,334	-
Transfers in	1,571,405	131,665	140,705	2,136,442	1,712,110	-
Transfers out	(772,336)	(629,811)	(5,493)	(4,651)	(777,829)	-
Change in net assets	2,902,499	9,324,214	1,200,178	5,434,153	4,102,677	(26,049)
Net assets - beginning	39,728,743	30,404,529	43,826,220	38,392,067	83,554,963	(52,290)
Net assets - ending	\$ 42,631,242	\$ 39,728,743	\$ 45,026,398	\$ 43,826,220	\$ 87,657,640	\$ (78,339)

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2005
(with comparative information for the year ended December 31, 2004)

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year	Current Year Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 3,713,116	\$ 2,366,816	\$ 1,728,000	\$ 1,485,761	\$ 5,441,116	\$ 2,881,418
Receipts for interfund services provided	227,675	217,856	1,879	-	229,554	-
Payments to suppliers	(2,145,318)	(1,181,532)	(1,149,637)	(1,116,238)	(3,294,955)	(2,828,391)
Payments to employees	(386,818)	(362,251)	(409,484)	(347,615)	(796,302)	-
Payments for interfund services used	(82,150)	(79,300)	(82,150)	(79,300)	(164,300)	-
Net cash flows provided by (used in) operating activities	<u>1,326,505</u>	<u>961,589</u>	<u>88,608</u>	<u>(57,392)</u>	<u>1,415,113</u>	<u>53,027</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer out - paid for tax equivalent	<u>(775,989)</u>	<u>(633,039)</u>	<u>(1,840)</u>	<u>(1,423)</u>	<u>(777,829)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of capital assets	<u>(86,994)</u>	<u>(351,818)</u>	<u>(21,086)</u>	<u>(46,497)</u>	<u>(108,080)</u>	<u>-</u>
Net cash flows used in capital and related financing activities	<u>(86,994)</u>	<u>(351,818)</u>	<u>(21,086)</u>	<u>(46,497)</u>	<u>(108,080)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment earnings	<u>26,079</u>	<u>8,892</u>	<u>18,017</u>	<u>9,564</u>	<u>44,096</u>	<u>10,258</u>
Net increase (decrease) in cash and cash equivalents	<u>489,601</u>	<u>(14,376)</u>	<u>83,699</u>	<u>(95,748)</u>	<u>573,300</u>	<u>63,285</u>
Cash and cash equivalents - Beginning	<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 cash equivalents - Ending	<u>\$ 1,236,234</u>	<u>\$ 746,633</u>	<u>\$ 1,061,020</u>	<u>\$ 977,321</u>	<u>\$ 2,297,254</u>	<u>\$ 272,457</u>
Cash and Investments - Unrestricted	\$ 1,236,234	\$ 746,633	\$ 882,746	\$ 845,286	\$ 2,118,980	\$ 272,457
Cash and Investments - Restricted	-	-	178,274	132,035	178,274	-
	<u>\$ 1,236,234</u>	<u>\$ 746,633</u>	<u>\$ 1,061,020</u>	<u>\$ 977,321</u>	<u>\$ 2,297,254</u>	<u>\$ 272,457</u>

Continued

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2005
(with comparative information for the year ended December 31, 2004)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year	Current Year Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 508,138	\$ 238,410	\$ (616,682)	\$ (628,832)	\$ (108,544)
Adjustments to reconcile operating income (loss) to net cash flows provided by (used in) operating activities					
Depreciation	705,561	578,708	599,156	541,105	1,304,717
Depreciation allocated to other funds	6,734	6,161	(6,734)	(6,161)	-
Other nonoperating income	52,977	63,431	(1,467)	2,127	51,510
(Increase) decrease in assets					
Accounts receivable	88,480	(269,097)	(866)	(14,141)	87,614
Taxes receivable	(22,595)	(26,553)	(4,179)	(20,537)	(26,774)
Due from other funds	(45,704)	49,960	53,977	(2,076)	8,273
Increase (decrease) in liabilities					
Accounts payable	(69,971)	131,333	(36,576)	58,439	(106,547)
Accrued liabilities	252,863	(10,846)	(2,158)	(1,224)	250,705
Due to other governments	-	102,368	-	-	-
Due to other funds	(158,835)	93,751	95,780	10,244	(63,055)
Customer deposits	500	300	-	-	500
Compensated absences	8,357	3,663	8,357	3,664	16,714
Total Adjustments	818,367	723,179	705,290	571,440	1,523,657
Net cash flows provided by (used in) operating activities	\$ 1,326,505	\$ 961,589	\$ 88,608	\$ (57,392)	\$ 1,415,113
Noncash Capital Activities					
Cost of Utility plant installed and/or financed by external parties	\$ 1,519,889	\$ 9,514,855	\$ 1,704,925	\$ 3,916,276	\$ 3,224,814
					\$ -

See accompanying notes to the financial statements.

CITY OF FRANKLIN
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

ASSETS	Agency Funds
Cash and investments	\$ 41,638,653
Taxes receivable	<u>10,287,184</u>
Total assets	<u>51,925,837</u>
 LIABILITIES	
Accounts payable	250,295
Due to other governments	51,664,607
Special deposits	<u>10,935</u>
Total liabilities	<u>51,925,837</u>
 Total net assets	 <u>\$ -</u>

See accompanying notes to the financial statements.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. This report does not contain any discretely presented component units.

Blended Component Unit

The Community Development Authority (Authority) was created by the City in 1992 to serve as a financing vehicle for a certain Tax Incremental Financing (TIF) development within the City. The Authority is governed by a seven member board appointed by the Mayor and confirmed by the Common Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to finance the TIF development projects for the benefit of the City and its citizens. The Authority's operations are included in the governmental activities of the government-wide financial statements and in a TIF District special revenue fund. The Authority follows the accounting policies of the City. Separate financial statements are not published for the Authority.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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.

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:

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- a. Total assets, liabilities, revenue, or expenditures/expenses of that individual governmental or enterprise 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 enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise 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 enterprise fund debt.

TIF Districts Fund – A Special Revenue fund that accounts for resource accumulation from the tax increment and other revenue along with payments made for capital outlay, other expenditures, principal and interest on long-term debt obligations of the TIF Districts.

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.

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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, Master Plan, 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 – 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 – 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 an other agency fund that records the agency activity for emergency government, monitoring and siting activities funded by others.

**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 expenses are recorded when the liability is incurred or economic asset used. Revenue, expenses, 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.

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.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-Wide Financial Statements (Continued)

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 financial 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, judgments, 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 next 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.

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.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements (continued)

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 (other than agency funds) 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 and do not have a measurement focus.

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.

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.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

1. Cash 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.

Investments 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 of any county, City, drainage district, technical college district village, town or school district of the State of Wisconsin. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
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.

The City has adopted an investment policy. That investment policy restricts allowable investments to investments that follow state statutes. In addition the investment policy:

1. Does not address Custodial Credit Risk.
2. Limits credit risk by restricting investments to a minimum rating of AA by both Moody's and Standard & Poor's.
3. Limits concentration of credit risk by limiting any one issuer or asset class to less than 10% of the market value of the portfolio with the exception of U.S. Government Treasury and Agency securities.
4. Limits Interest Rate Risk by specifying that a minimum amount of cash equivalents be maintained, the average life of the portfolio shall not exceed 2 1/2 years and no individual issue shall have a maturity exceeding 5 years at the date of purchase.
5. Limits investments highly sensitive to market changes through its duration and diversification policies. No highly sensitive investments are in the investment portfolio.
6. Prohibits the investment in foreign owned securities.
7. Limits derivative type investments to those that have a final maturity or seven years or less.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Cash and Investments (continued)

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average investment balances.

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, 2005, the fair value of the City's share of LGIP 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. Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof

Property tax calendar - 2005 tax roll:

Lien date and levy date	December 2005
Tax bills mailed	December 2005
Payment in full, or	January 31, 2006
First installment due	January 31, 2006
Second installment due	March 31, 2006
Third installment due	May 31, 2006
Personal property taxes in full	January 31, 2006
Final tax settlement with County	August 15, 2006
Tax deed by County - 2005	
Delinquent real estate taxes	October 2008

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Receivables (continued)

Accounts receivable have been shown net of an allowance for uncollectible accounts. No provision for uncollectible accounts receivable has been made for enterprise funds 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".

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.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. Capital Assets

Government-Wide Statements

In the government-wide financial statements, capital assets are recorded on the financial statements. 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.

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, 2005, 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

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. Capital Assets (continued)

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.

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.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

For the government-wide and proprietary fund statements, bond premiums and discounts are deferred and amortized over the life of the issue using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year end for both premiums/discounts and gains/losses, as applicable, is shown as an increase or decrease in the liability section of the statement of net assets.

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 of the business enterprises and do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the financial statements.

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.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 less any unspent debt proceeds.
- 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.

11. Comparative data

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, 2004, from which the data was derived.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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>\$3,002,695</u>
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Capital assets used in government funds are not financial resources and, therefore, are not reported in the funds.

Land	\$6,885,868
Buildings	21,288,949
Machinery and equipment	11,742,433
Infrastructure	11,998,351
Construction in progress	415,821
Less: Accumulated depreciation	<u>(11,634,303)</u>
Adjustment for capital assets	<u>\$40,697,119</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.

General obligation debt	\$32,900,000
Lease revenue bonds	17,715,000
Deferred amounts for premiums	194,333
Unamortized debt issue costs	(43,937)
Compensated absences	1,249,069
Net pension obligation	129,381
Accrued interest	<u>700,798</u>
Combined adjustment for long-term liabilities	<u>\$52,844,642</u>

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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

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>\$54,083</u>
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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	\$10,000,000
Principal repayments:	
General obligation debt	<u>4,215,000</u>
Net adjustment to decrease net changes	
In fund balances - total governmental	
Funds to arrive at changes in net	
Assets of governmental activities	<u>\$5,785,000</u>

Another element of that reconciliation states that "Governmental funds report the effects of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of the differences are as follows:

Debt issuance costs incurred	\$46,250
Premium received	(204,561)
Amortization of issuance costs	(2,313)
Amortization of premium	<u>10,228</u>
Net adjustment to decrease net changes in fund	
balances-total governmental funds to arrive at	
changes in net assets of governmental activities	<u>\$(150,396)</u>

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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 "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	\$103,389
Net Pension obligations	129,381
Other	(23,000)
Accrued interest	<u>89,456</u>
Net adjustments to increase net changes in	
fund balances - total governmental funds	
to arrive at changes in net assets of	
governmental activities	<u>\$299,226</u>

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	\$856,275
Partial interest in sale of land	<u>237,830</u>
Net adjustments to decrease net changes in fund	
balances - total governmental funds to arrive at	
changes in net assets of governmental activities	<u>\$1,094,105</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.

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

A. BUDGETARY INFORMATION (continued)

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.

C. DEFICIT BALANCES

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end. At December 31, 2005 the TIF Districts Fund had a deficit balance of \$1,294,109.

TIF District deficits are anticipated to be funded with future incremental taxes levied over the life of the districts, which is 27 years for our TIF District #2 that was created before October 1, 1995, and 23 years for our TIF Districts #3 & TIF District #4 created in 2005.

D. LIMITATIONS ON THE CITY'S TAX LEVY

As part of Wisconsin's Act 25 (2005), new legislation was passed that limits the city's future tax levies. Generally, the City is limited to its prior tax levy dollar amount (excluding TIF districts), increased by the greater of the percentage change in the City's equalized value due to new construction, or 2%. Changes in debt service from one year to the next are generally exempt from this limit. The levy limit begins with the 2005 levy collected in 2006 and is set to expire after the 2006 levy.

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

Cash and investment balances disclosed herein are an integral part of the pooled cash and investments of the City.

Deposits in each local and area 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 City's bank accounts are also insured by the State of Wisconsin Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the 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.

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 FDIC and State of Wisconsin Guarantee Fund insurance.

The City maintains a collateral arrangement with its main bank to provide collateralization in excess (about 20%) of deposits maintained at the bank. The collateral is maintained at the Federal Reserve and the City receives monthly reports of the collateral in place. The collateral balance at December 31, 2005 was \$33,140,847.

Cash and investments as shown on the December 31, 2005 City of Franklin Statement of Net Assets are subject to the following risks:

	Carrying Value	Bank Balances	Risks
Cash and demand deposits	\$ 45,845,672	\$ 29,872,661	Custodial
U.S. treasuries and agencies	5,720,755	5,720,755	Credit and interest rate
Asset backed securities	1,341,215	1,341,215	Credit and interest rate
Corporate bonds	345,402	345,402	Credit, interest rate and concentration of credit
Local Government Investment Pool	20,773,788	20,773,788	Credit and interest rate
Total	\$ 74,026,832	\$ 58,053,821	

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

Reconciliation to the financial statements is shown below:

Primary Government:	
Unrestricted cash and investments	\$ 32,209,905
Restricted cash and investments	178,274
Per Statement of Fiduciary Net Assets	<u>41,638,653</u>
	<u>\$ 74,026,832</u>

Custodial Credit Risk For deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to the City. As of December 31, 2005 \$1,518,209 of the City's total bank balances of \$29,209,703 was uninsured and uncollateralized and therefore exposed to custodial credit risk. For Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City does not have any investments that were exposed to custodial credit risks at December 31, 2005.

Credit Risk Credit risk is the risk that an issuer or other counterparty will not fulfill its obligation. As of December 31, 2005 the City's investments in treasuries, agencies and corporate bonds were rated Moody's Investor Service from AA3 to AAA with only 2.8% of the portfolio in the lowest (AA3) rating. Treasury and agency securities make up 22% of the portfolio. Local Government Investment Pool is not rated and makes up 72% of the portfolio.

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to a large investment position in a single issuer. As of the December 31, 2005 no issue other than the Local Government Investment Pool, treasury or agency securities had a position of greater than four percent of the portfolio.

Interest Rate Risk Interest rate risk is the risk that rising interest rates will have an adverse impact on the fair value of the investments in the portfolio. The longer the maturities in the portfolio the greater the risk of loss in portfolio value.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

As of December 31, 2005 the City's investments were as follows:

Investment Type (in thousands)	Fair Value	Investment Maturity in years		
		Less than 1	1 - 5	More than 5
Money Market	\$ 662,958	\$ 662,958	\$ -	\$ -
U.S. treasuries and agencies	5,720,755	1,318,002	4,269,804	132,949
Asset backed securities	1,341,215	-	1,341,215	-
Corporate bonds	345,402	50,110	295,292	-
Local Government Investment Pool	<u>20,773,788</u>	<u>20,773,788</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 28,844,118</u>	<u>\$ 22,804,858</u>	<u>\$ 5,906,311</u>	<u>\$ 132,949</u>

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 \$44,824 at December 31, 2005. 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	\$ -	\$ 20,449,969	\$ 20,449,969
Special assessments not yet due	<u>3,002,695</u>	<u>-</u>	<u>3,002,695</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 3,002,695</u>	<u>\$ 20,449,969</u>	<u>\$ 23,452,664</u>

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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, 2005 is \$178,274.

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 4,777,991	\$ 2,107,877	\$ -	\$ 6,885,868
Construction in progress	-	415,821	-	415,821
Total capital assets not depreciated	4,777,991	2,523,698	-	7,301,689
Capital assets depreciated:				
Buildings & improvements	21,190,277	98,672	-	21,288,949
Machinery & equipment	11,482,674	620,428	(360,669)	11,742,433
Infrastructure	8,323,261	3,675,090	-	11,998,351
Total capital assets depreciated	40,996,212	4,394,190	(360,669)	45,029,733
Less: Accumulated depreciation for:				
Buildings & improvements	3,826,776	482,307	-	4,309,083
Machinery & equipment	6,637,048	786,015	(360,669)	7,062,394
Infrastructure	109,713	153,113	-	262,826
Total accumulated depreciation	10,573,537	1,421,435	(360,669)	11,634,303
Net capital assets depreciated	30,422,675	2,972,755	-	33,395,430
Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 35,200,666	\$ 5,496,453	\$ -	\$ 40,697,119

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 2006,

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS (continued)

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 otherwise expected.

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 197,942
Public safety	555,655
Public works	480,387
Health & human services	4,477
Culture & recreation	177,007
Conservation & development	5,967
Total governmental activities depreciation expense	\$ 1,421,435

	Beginning Balance	Additions	Dispositions	Ending Balance
Business-type Activities				
Capital Assets not depreciated:				
Land	\$ 426,384	\$ -	\$ -	\$ 426,384
Construction in progress	-	453	-	453
Total capital assets not depreciated	426,384	453	-	426,837
Capital assets depreciated:				
Buildings & improvements	2,345,953	59,686	(63,500)	2,342,139
Machinery & equipment	1,873,833	14,072	-	1,887,905
Infrastructure	91,140,721	4,927,313	(603)	96,067,431
Total capital assets depreciated	95,360,507	5,001,071	(64,103)	100,297,475
Less: Accumulated depreciation for:				
Buildings & improvements	549,301	80,038	(63,500)	565,839
Machinery & equipment	1,021,613	111,225	-	1,132,838
Infrastructure	12,813,847	1,113,454	(603)	13,926,698
Total accumulated depreciation	14,384,761	1,304,717	(64,103)	15,625,375
Net capital assets depreciated	80,975,746	3,696,354	-	84,672,100
Business-type Activities Capital Assets, Net of Accumulated Depreciation	\$ 81,402,130	\$ 3,696,807	\$ -	\$ 85,098,937

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows.

Business-Type Activities:

Water	\$ 592,422
Sewer	712,295
	<u>\$ 1,304,717</u>

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund receivables and payables at December 31, 2005 are as follows:

Receivable Fund	Payable Fund	Amount
Governmental funds:		
General	Water Utility	\$ 252,829
General	Sanitary Sewer	1,278
Enterprise funds:		
Water Utility	Sanitary Sewer	<u>145,355</u>
Subtotal - Fund Financial Statements		399,462
Less: Government-wide eliminations		<u>145,355</u>
Total internal balances - Government-Wide		
Statement of Net Assets		<u>\$ 254,107</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.

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

Long Term Advances

The debt service fund has advanced funds to TIF District #3 and TIF District #4. The amounts advanced were part of the proceeds of a borrowing designed to enable these new TIF Districts to carry out their approved project plans. The debt service fund is charging the TIF Districts fund interest based upon the amount advanced at an interest rate based upon the interest rate incurred by the debt service fund on this borrowing. The advance is to be repaid to correspond with the principal amounts due by the debt service fund for this borrowing.

Receivable Fund	Payable Fund	Amount	Amounts not due within one year
Governmental funds:			
Debt service	TIF Districts	\$ 6,717,987	<u>\$ 6,717,987</u>
Less: Fund eliminations		<u>(6,717,987)</u>	
Total long-term advances - Government-Wide			
Statement of Net Assets		<u>\$ -</u>	

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, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

Transfers during the year ended December 31, 2005 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Enterprise - Water Utility	\$ 772,336
	Enterprise - Sanitary Sewer	5,493
Debt Service	Capital Projects - Development	431,425
	Special Revenue - TIF Districts	113,589
Special Revenue - Master Plan	General	200,000
Capital Projects Funds:		
Capital Outlay	General	224,400
	Special Revenue - Grant	115,789
Equipment Replacement	Special Revenue - Donations	129,116
Capital Improvements	Capital Projects - Street Improvement	74,200
	Capital Projects - Development	1,326,849
	Capital Projects - Utility Improvement	93,270
Enterprise - Water Utility	Capital Projects - Capital Improvement	822,361
	Capital Projects - Development	749,044
Enterprise - Sanitary Sewer	Capital Projects - Capital Improvement	97,225
	Capital Projects - Utility Improvement	43,480
Subtotal - Fund financial statements		5,198,577
Less: Government-wide eliminations		4,264,296
Total transfers - Government-wide Statement of Activities		\$ 934,281

F. LONG TERM OBLIGATIONS

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 \$550,000 in maturities of the \$3,250,000 General Obligation Refunding Bonds issued in 1996 at interest rates ranging from 4.0% to 5.1% on September 1, 2005, an early redemption call date.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

Long-term liabilities for the year ended December 31, 2005 were as follows:

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Amounts due within one year
Governmental Activities					
General obligation debt	\$ 24,800,000	\$ 10,000,000	\$ 1,900,000	\$ 32,900,000	\$ 1,300,000
Lease revenue debt	20,030,000	-	2,315,000	17,715,000	2,750,000
Unamortized premium	-	204,561	10,228	194,333	20,456
Sub-total	<u>44,830,000</u>	<u>10,204,561</u>	<u>4,225,228</u>	<u>50,809,333</u>	<u>4,070,456</u>
Compensated absences					
Accrued vacation pay	264,638	675,565	643,411	296,792	296,792
Accrued severance pay	807,456	95,233	39,022	863,667	-
Accrued compensatory time	<u>73,585</u>	<u>173,706</u>	<u>158,681</u>	<u>88,610</u>	<u>88,610</u>
Total compensated absences	<u>1,145,679</u>	<u>944,504</u>	<u>841,114</u>	<u>1,249,069</u>	<u>385,402</u>
Government activities					
Long-term liabilities	<u>\$ 45,975,679</u>	<u>\$ 11,149,065</u>	<u>\$ 5,066,342</u>	<u>\$ 52,058,402</u>	<u>\$ 4,455,858</u>
The governmental activities compensated absences accrue to and are paid from the City's General Fund.					
Business-type Activities					
Compensated absences					
Accrued vacation pay	\$ 33,397	\$ 34,442	\$ 31,832	\$ 36,008	\$ 36,008
Accrued severance pay	45,106	13,701	-	58,807	-
Accrued compensatory time	<u>1,079</u>	<u>4,085</u>	<u>3,683</u>	<u>1,481</u>	<u>1,481</u>
Business-type activities	<u>\$ 79,582</u>	<u>\$ 52,228</u>	<u>\$ 35,515</u>	<u>\$ 96,296</u>	<u>\$ 37,489</u>

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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	\$ 4,325,000
	5/15/01	4.25-4.60	3/ 1/02-11	3/1& 9/1	10,000,000	8,750,000
	8/15/05	3.75-3.90	3/ 1/07-15	3/1& 9/1	10,000,000	10,000,000
General obligation refunding bonds						
	4/15/01	4.3-5.40	3/ 1/02-21	3/1& 9/1	10,000,000	9,825,000
						<u>\$ 32,900,000</u>

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
2005				\$ 32,900,000
2006	\$ 1,300,000	\$ 1,433,187	\$ 2,733,187	31,600,000
2007	2,350,000	1,338,485	3,688,485	29,250,000
2008	2,925,000	1,224,866	4,149,866	26,325,000
2009	3,300,000	1,090,998	4,390,998	23,025,000
2010	2,925,000	957,172	3,882,172	20,100,000
2011 - 2015	12,845,000	3,130,500	15,975,500	7,255,000
2016 - 2020	5,695,000	1,153,463	6,848,463	1,560,000
2021	1,560,000	39,000	1,599,000	-
	<u>\$ 32,900,000</u>	<u>\$ 10,367,671</u>	<u>\$ 43,267,671</u>	

The City's statutory debt limit and margin of indebtedness at December 31, 2005 are \$151,540,795 and \$118,640,795, respectively.

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, 2005 balance of \$100,252,376.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM OBLIGATIONS (continued)

Lease Revenue Debt

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 #2. 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 Outstanding 12/31
Redevelopment Lease Revenue Bonds						
	7/1/98	6.65-6.95	4/1/04-08	4/1&10/1	\$ 5,275,000	\$ 3,375,000
	7/1/98	3.90-5.20	4/1/99-13	4/1&10/1	18,145,000	14,340,000
						<u>\$ 17,715,000</u>

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

Year	Principal	Interest	Total	Balance Outstanding 12/31
2005				\$ 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 *	1,870,000	333,985	2,203,985	5,650,000
2011 - 2013 *	5,650,000	437,045	6,087,045	-
	<u>\$ 17,715,000</u>	<u>\$ 3,300,538</u>	<u>\$ 21,015,538</u>	

* The City issued in January 2006 \$10,000,000 in general obligation notes for the purpose of refinance existing lease revenue bonds. The issues called were all maturities due in 2009 to 2013 and \$535,000 of the 2008 maturities. The new notes are scheduled to mature in amounts of \$2,300,000 to \$4,700,000 per year on March 1 from 2009 to 2011 and bear interest rates of 3.89% to 4.00%, payable semi-annually on March 1 and September 1 of each year.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

G. NET ASSETS/FUND BALANCES

Governmental Activities

Government activities net assets reported on the government-wide statement of net assets at December 31, 2005 include the following:

Invested in capital assets, net of related debt	
Land	\$ 6,885,868
Construction in process	415,821
Other capital assets, net of accumulated depreciation	33,395,430
Less: related long term debt outstanding	<u>(39,062,445)</u>
Total invested in capital assets	<u>1,634,674</u>
Restricted for:	
Debt service	51,689
Library	248,174
Emergency medical services	16,624
Utility improvement	1,129,596
Development	2,853,329
Donations	83,368
Grants	<u>84,466</u>
Total restricted	<u>4,467,246</u>
Unrestricted	<u>10,242,063</u>
Total governmental activities net assets	<u>\$ 16,343,983</u>

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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, 2005 include the following:

Reserved	
Major funds:	
General Fund - Inventories, prepaid items and encumbrances	\$ 57,391
Debt Service Fund - subsequent year debt service	2,001,554
Debt Service Fund - advances to other funds	<u>6,717,987</u>
Non Major funds:	
Special Revenue Funds:	
Library services including prepaid item	248,174
Emergency medical services and grants	101,090
Donations	<u>83,368</u>
Capital Project Funds:	
Capital Outlay - encumbrances	197,000
Capital Improvement - encumbrances	4,000
Capital Improvement - subsequent year expenses	385,000
Development	2,853,329
Utility improvement	<u>1,129,596</u>
Total reserved	<u>\$ 13,778,489</u>
Unreserved:	
Major Fund - General Fund	
Designated for working capital	\$ 3,416,000
Designated for subsequent year expenditures	950,000
Undesignated	<u>2,045,669</u>
Total General Fund	<u>6,411,669</u>
Major Fund - TIF Districts Fund	
Undesignated (Deficit)	<u>(1,294,109)</u>
Non Major funds:	
Special Revenue funds	
Designated for master plan activities	190,346
Designated for civic celebration activities	<u>28,424</u>
Total Special Revenue funds	<u>218,770</u>
Capital project funds	
Designated for Capital Outlay	122,905
Designated for Equipment Replacement	2,042,573
Designated for Capital Improvement	3,866,198
Designated for Street Improvement	<u>420,655</u>
Total Capital Project Funds	<u>6,452,331</u>
Total Unreserved Funds	<u>\$ 11,788,661</u>

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

H. RESTATEMENT OF FUND BALANCES/NET ASSETS

Fund balance and net assets have been restated due to the change in reporting of Tax Incremental Financing District #2 activity from the Component Unit (Authority) financial statements to the Primary Government financial statements. The change was necessitated after a review of the reporting of TIF District activity due to the establishment of additional TIF Districts.

			TIF Districts
Fund Balance - December 31, 2004 (reported)		\$	-
Reclassified funds from Authority financial statements			<u>239,847</u>
Fund balance - January 1, 2005 (restated)		\$	<u>239,847</u>
	Governmental Activities	Component Unit	Fiducary Funds
Net assets (liabilities) - December 31, 2004 (reported)	\$ 26,815,712	\$ (19,840,332)	\$ -
Add (deduct):			
Lease receivable from City	-	20,030,000	-
Reclassified funds from Authority financial statements	239,847	(239,847)	-
Lease payable to Authority	(20,030,000)	-	-
Accrued lease interest receivable	-	265,009	-
Taxes receivable	-	-	(2,925,386)
Due to other governments	-	-	2,925,386
Accrued lease interest payable	(265,009)	-	-
Developer receivable deferred revenue	237,830	(237,830)	-
Contract accounts payable	(23,000)	23,000	-
Net assets - January 1, 2005 (restated)	<u>\$ 6,975,380</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 5 - OTHER INFORMATION

A. 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 5.8% of their salary (4.9% for protective occupations with social security, and 3.3% 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, 2005 was \$6,321,461; the employer's total payroll was \$11,288,707. The total required contribution paid entirely by the employer for the year ended December 31, 2005 was \$1,156,827 or 18.3% of covered payroll. Of the total required contribution, 100 percent was contributed for the current year. Total contributions for the years ended December 31, 2004 and 2003 were \$1,089,239 and \$947,469, 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, 2005

NOTE 5 - OTHER INFORMATION (continued)

A. 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 has been 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, 2005, contributions totaling \$159,000 were made. Full payment in accordance with contribution requirements determined by an actuarial valuation of the pension plan as of January 1, 2005 were not made pending a review of and revision to the administration contract and possible changes in early 2006. The annual actuarial valuation employer contributions amount represented 22.7% of current year covered payroll.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 5 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Public Works Employees Pension Plan (continued)

Annual Pension Cost

For 2005, the City's annual pension cost of \$288,381 for the pension plan was greater than to the City's and actual contributions. The required contribution was determined during the January 1, 2005 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
12/31/2005	\$ 288,381	55%	\$ 129,381
12/31/2004	204,665	100%	-
12/31/2003	191,468	100%	-

	(A)	(B)	(C)	(D)	(E)	(F)
Actual Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) - Aggregate	Unfunded AAL (UAAL) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2005	\$ 2,929,045	\$ 3,058,426	129,381	96%	\$ 1,267,823	10%
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	-%

There were no significant changes in actuarial assumptions during the valuation year ended January 1, 2005.

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 5 - OTHER INFORMATION (continued)

B. 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.

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 non forfeitable 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 2005, the City made the required contribution amounting to \$339,899, or 10% of covered payroll and employees made \$6,329 in additional voluntary contributions to the plan. The City may make amendments to the Plan.

C. 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 2005, 18 retired employees and their dependents received this benefit at a cost to the City of approximately \$116,919.

D. 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, 2005.

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 5 - OTHER INFORMATION (continued)

E. 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.

F. 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, 2005 are as follows:

	Balance Beginning of Year	Current Claims and Changes in Estimates	Claims Payments	Balance End of Year
2005	\$ 359,500	\$ 2,618,903	\$ 2,612,403	\$ 366,000
2004	294,500	2,248,233	2,183,233	359,500
2003	214,500	2,247,593	2,167,593	294,500

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATES

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 Taxable General Obligation Promissory Notes, dated January 3, 2007 (the "Securities"). The Securities are being issued pursuant to an Authorizing Resolution adopted by the Governing Body of the Issuer on December 5, 2006 (the "Resolution") and delivered to Morgan Keegan & Company, Inc., Memphis, Tennessee (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 5, 2006 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 ends December 31, 2006, 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 3rd day of January, 2007.

Thomas M. Taylor
Mayor

(SEAL)

Sandra L. Wesolowski
City Clerk

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 \$9,925,000 General Obligation Refunding Bonds, dated January 3, 2007 (the "Securities"). The Securities are being issued pursuant to an Authorizing Resolution adopted by the Governing Body of the Issuer on December 5, 2006 (the "Resolution") and delivered to Stifel, Nicolaus & Company, Incorporated, Minneapolis, Minnesota (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 5, 2006 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 ends December 31, 2006, 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.

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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.

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(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.

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IN WITNESS WHEREOF, we have executed this Certificate in our official capacities effective the 3rd day of January, 2007.

Thomas M. Taylor
Mayor

(SEAL)

Sandra L. Wesolowski
City Clerk

APPENDIX C

**SPECIMEN OF
FINANCIAL GUARANTEE INSURANCE POLICY**



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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary