

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**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. Discretely presented component units would be 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 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 and manage certain TIF development projects for the benefit of the City. The Authority's operations are included in the governmental activities of the government-wide financial statements and in a TIF District capital projects fund. The Authority follows accounting policies of the City.

**CITY OF FRANKLIN, WISCONSIN**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**Government-Wide Financial Statements**

The statement of net position (Exhibit A) and statement of activities (Exhibit B) 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 non-exchange revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services provided.

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 all 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, deferred outflows, liabilities, deferred inflows, net position/fund equity, revenue and expenditures/expenses.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds with the latter being excluded from 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 nonmajor funds within the governmental and enterprise fund statements. An emphasis is placed on major funds within the governmental and enterprise categories.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets and deferred outflows, liabilities and deferred inflows, 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 – accounts for resource accumulation from tax increments and other revenue of the TIF Districts along with payments made for capital outlay, other expenditures, principal and interest on long-term debt obligations of the TIF Districts. Each TIF District is a sub fund of the TIF Districts Fund.

**Major Enterprise Funds**

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.

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.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

In addition the City reports:

**NonMajor Governmental Funds**

Special Revenue Funds – account for the proceeds of specific revenue sources (other than major capital projects) that are legally or policy restricted to expenditures for specified purposes. The funds include Library Operating, Library Auxiliary, Solid Waste Collection, St Martin’s Fair, Donation, Civic Celebrations and Grant.

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 by the City for active employees of group health and dental charges for services and stop loss insurance charges and the billing of departments or agencies of the City on a cost-reimbursement basis for the services received.

Fiduciary 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 fiduciary funds include a property tax fund, an other agency fund that records the agency activity for emergency government, monitoring and siting activities funded by others, an escrow fund and a post employment benefits trust fund for retiree group health costs.

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

**Government-Wide Financial Statements**

The government-wide statement of net position 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 for.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Government-Wide Financial Statements (continued)**

Taxes receivable for the following year are recorded as receivables and deferred inflows. 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. Receivables are recorded as revenue when services are performed.

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 grant revenue to be available if they are collected within 150 days of the end of the current fiscal period and all other 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 the year levied as receivable and deferred inflow and are recognized as revenue 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 are recorded as receivables. Amounts not available or received prior to the entitlement period are recorded as deferred inflow.

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 inflows.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Fund Financial Statements (continued)**

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

Deferred inflows are reported on the governmental funds balance sheet. Deferred inflow arise from taxes levied in the current year that are for subsequent year's operations. For governmental fund financial statements unearned revenues where potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue 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 is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund 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.

Proprietary funds distinguish operating revenue and expenses from nonoperating 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 Sewerage District and local operation and maintenance expenses. The principal operating revenue of the internal service fund is charges to other funds for group health coverage.

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 nonoperating revenue and expenses.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**All Financial Statements**

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

**D. ASSETS, LIABILITIES AND NET POSITION 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.

The City of Franklin maintains two investment policies. The first covers all funds except fiduciary funds for retiree health purposes. The objective of this policy is to generate current income, consistent with safety and reasonable risk as defined under prudent person rules. As operating reserves, the quality, liquidity and maturity structure of the portfolio are most important. The investment policy:

- a. Requires a minimum rating at time of purchase of Aa1 by either Moody's or Standard & Poor's.
- b. Limits an issuer to 10% or less and asset classes to 35% or less of the fair value of the portfolio with the exception of U.S. Government Treasury and Agency securities that have the full faith guarantee of the U.S. Government.
- c. Specifies a minimum amount of cash equivalents be maintained, an average life of the portfolio not exceeding 2½ years and no individual issue with a maturity exceeding seven years at the date of purchase to limit interest rate risk.
- d. Limits investments highly sensitive to market changes through its duration and diversification policies to limit interest rate risk.
- e. Prohibits the investment in foreign owned securities.
- f. Limits derivative investments to those with a final maturity of seven years or less.

In addition the City's investment policy restricts allowable investments to investments that follow state statutes, section 66.0603, that limits investments to:

- a. Time deposits in any credit union, bank, savings bank, trust company or loan association authorized to transact business in the state and maturing in three years or less.
- b. The Local Government Investment Pool (LGIP).
- c. Bonds or securities issued or guaranteed by the federal government.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**1. Cash and Investments (continued)**

- d. 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 and the Wisconsin Aerospace Authority.
- e. Any security maturing in seven years or less and having the highest or second highest rating category assigned of a nationally recognized rating agency.
- f. Securities of an open-ended management investment company or investment trust subject to various conditions and investment options.
- g. Repurchase agreements with public depositories, with certain conditions.

The second investment policy is for its fiduciary fund for retiree health purposes. The policy:

- a. Requires the investment to be in a section 115 trust for retiree health purposes.
- b. Requires compliance with the "prudent person" standard.
- c. Requires asset allocation policy that considers the liability stream of benefits, the relationship to current and projected assets, the historical performance of capital markets and the perception of future economic conditions.
- d. Primary investment objectives are safety, diversification and return.
- e. Allows investment in various asset classes.
- f. Limits investment in equities after five years to 75% of total assets to be invested. During the first eight years equity investments may be up to 100% of the assets.

The City manages the various risks in its cash and investments as follows:

- a. Custodial credit risk – investments are held by trustee or third party custodian.
  - deposits in excess of FDIC insurance limits are maintained in the State LGIP or collateralized bank balances in amounts at least 75% of the year end cash balances.
- b. Credit risk – securities purchased need to have a AA or better investment rating.
- c. Concentration of credit risk – issuer or asset class not to exceed 10% of the market value of the portfolio with the exception of U.S. issued securities.
- d. Interest rate risk – managed by limiting the length of maturity of newly purchased investments and limits the average life of the portfolio to control risk.

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.

**CITY OF FRANKLIN, WISCONSIN  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**1. Cash and Investments (continued)**

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 City 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, 2013, 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 other governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying fiduciary funds statement of fiduciary net position.

Property tax calendar – 2013 tax roll:

Lien date and levy date	December 2013
Tax bills mailed	December 2013
Payment in full, or	January 31, 2014
First installment due	January 31, 2014
Second installment due	March 31, 2014
Third installment due	May 31, 2014
Personal property taxes in full	January 31, 2014
Final tax settlement with County	August 20, 2014
Tax deed by County – 2013	
Delinquent real estate taxes	October 2016

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 are reported as "advances from and to other funds".

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**2. Receivables (continued)**

Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

In the general fund financial statements, advances to other funds are offset equally by nonspendable fund balance which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation. Advances in all other governmental funds are classified in fund balance based on the availability of repayments for use.

**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 agreements with external parties. Current liabilities payable from restricted assets are so classified. The excess of restricted assets over current liabilities will be used first for equipment replacement. The remainder, if generated from earnings, is shown as restricted net position.

**5. Capital Assets**

**Government-Wide Statements**

Capital assets, which include property, plant and equipment, are reported in the government-wide 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 with estimated useful lives of two years or more. Capital assets are recorded at historical cost or estimated historical cost if actual amounts are not available. Donated capital assets are recorded at estimated fair value at the date of donation. 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.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**5. Capital Assets (continued)**

**Government-Wide Statements (continued)**

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 the applicable function.

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 position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by asset type follows:

Buildings and improvements	20-50 Years
Machinery and Equipment	2-30 Years
Water and sewer systems	20-100 Years
Infrastructure	30-90 Years

**Fund Financial Statements**

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

**6. Deferred Inflows/Outflows of Resources**

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 gains/losses is shown as an increase or decrease in the deferred outflow of resources section of the statement of net position.

In governmental funds, property taxes receivable, special assessments and interest revenue not yet due are not recognized as revenue in the current period. For the government-wide and proprietary fund type financial statements, special assessments and interest revenue are recognized as revenue in the current period. This leaves property tax receivable as a deferred inflow of resources in the statement of net position.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**7. Compensated Absences**

Under terms of employment, employees may earn compensatory time and are granted sick leave, severance pay and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. All vested compensatory time, 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 a liability, as a result of employee resignations or retirements are payable with expendable available resources. Payments for vested compensatory time, severance pay and vacation pay will be made at rates in effect when the benefits are used. Accumulated vested compensatory time, severance pay and vacation pay liabilities are determined on the basis of current salary rates and include salary related payments. Vacation and compensatory time are used on a first-in, first-out basis. Accordingly all accrued amounts are considered to be due within one year. Severance due within one year is estimated based on employee age and expected retirement.

**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 of notes and bonds payable and accrued compensated absences.

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

The City has approved issuance of industrial development revenue bonds (IDRB) for the benefit of private business enterprises. IDRB's are secured by mortgages or revenue agreements on associated projects of the business enterprises. The IDRB's 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, WISCONSIN**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**10. Equity Classifications**

**Government-Wide Statements**

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

- a. Net Investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Unspent related debt proceeds are excluded from the calculation of net investment in capital assets.
- b. Restricted net position – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- c. Unrestricted net position – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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 nonspendable, restricted, committed, assigned and unassigned. *Nonspendable* fund balance is that portion of fund balance that is not available for current spending. The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by external parties. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Common Council. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. *Unassigned* fund balance is the residual classification for the government's General Fund and includes all spendable amounts not contained in the other classifications. Also included are deficit fund balances in other governmental funds. Proprietary fund equity is classified the same as in the government-wide statements. For classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive classification first when one or more classification is available. Assignments are made by the City's Finance Director.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**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, 2012 from which the data was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**NOTE 2 - 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, transfers from the General Fund to Special Revenue Funds 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 GAAP basis statements present this item as a transfer.

A budget has been adopted for the General, Debt Service, Library, Solid Waste, Capital Outlay, Equipment Replacement, Capital Improvement, Street Improvement, Development, Sanitary Sewer and Water Utility funds. Budgets have not been formally adopted for other funds.

The budget amounts presented include any amendments made during the year. The City may authorize transfers of budget 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.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

**B. LIMITATIONS ON THE CITY'S TAX LEVY**

As part of Wisconsin's Act 40 (2011), legislation was passed that limited 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 0%. Unused tax levy may not be carried forward into the following year. Changes in debt service from one year to the next are generally exempt from this limit.

**C. EXCESS EXPENDITURES OVER APPROPRIATIONS**

The City controls expenditures at the function level (e.g. public safety). For the year ended December 31, 2013 the General Fund expended \$2,986, more than budget in Culture and recreation.

**NOTE 3 - DETAILED NOTES ON ALL FUNDS**

**A. CASH AND INVESTMENTS**

The City maintains a cash and investment pool that is utilized by all funds. Each fund's portion of this pool is displayed on the statement of net position and balance sheet as cash and investments of the City. In addition, investments are separately held by several of the funds.

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings deposits and \$250,000 for demand deposits.

The City's bank accounts are also insured by the State of Wisconsin Deposit Guarantee Fund in the amount of \$400,000 per financial institution. However, although the fund had reserves available at December 31, 2013, the future availability of resources to cover the losses cannot be projected because provisions of the 1985 Wisconsin Act 35 provided that the amount in the fund will be used to repay public depositors for losses until the appropriation is exhausted at which time the fund is abolished.

The City maintains a collateral arrangement with its main bank to provide collateralization in excess of deposits maintained at the bank. The collateral is maintained in the form of a letter of credit from the Federal Home Loan Bank of Cincinnati in the amount of \$42,000,000. Cash and investments as shown on the December 31, 2013 City of Franklin Statement of Net position are subject to the following risks:

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**A. CASH AND INVESTMENTS (continued)**

	Carrying Value	Bank & Investment Balances	Risks
Local Government Investment Pool	\$ 381,805	\$ 381,805	Credit and interest rate
Money market funds	590,123	590,123	Credit and interest rate
U.S. treasuries	1,504,223	1,504,223	Interest rate
U.S. agencies	7,016,127	7,016,127	Credit, interest rate and concentration of credit
Corporate notes	<u>3,053,722</u>	<u>3,053,722</u>	Credit, interest rate and concentration of credit
Total fixed income investments	12,546,000	12,546,000	
Equity funds	3,639,422	3,639,422	Custodial
Cash and demand deposits	55,108,293	51,228,422	Custodial
Total	<u>\$ 71,293,715</u>	<u>\$ 67,413,844</u>	

Reconciliation to the financial statements is shown below:

Per Statement of Net Position

Primary Government:

Unrestricted cash and investments

\$ 17,067,528

Restricted cash and investments

277,230

Per Statement of Fiduciary Net Position - Agency Funds

49,786,062

- Post Employment Benefits Trust

4,162,895

\$ 71,293,715

**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, 2013, none of the City's total bank balances of \$51,228,422 were 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. All of the City's investments except the Local Government Investment Pool have a tri-party relationship with the investments held by a party independent of the party managing the investment.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**A. CASH AND INVESTMENTS (continued)**

**Credit Risk** Credit risk is the risk that an issuer or other counterparty will not fulfill its obligation. The City's policy requires a minimum credit rating of Aa1 at time of purchase. The City's fixed income investments subject to credit risk include agencies securities, corporate asset backed securities, corporate bonds, government repurchase agreements and money market funds and were rated by Moody's Investor Service.

As of December 31, 2013, 95.2% of the investments were in rated fixed income investments and subject to credit risk. The ratings were as follows: Aaa at 74.9%, Aa2 at 8.3%, A1 at 8.6% and A3 at 8.2%. The portfolio makeup of fixed income investments was corporate securities at 18.9%, treasury and agency securities at 52.7%, and money market funds at 3.6%. The Local Government Investment Pool was 2.4% of the investments and is not rated but is subject to credit risk. Equities and fixed income mutual funds held in trust at 22.5% make up the remainder of the investments.

**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, 2013 no issue other than U.S. Treasury and Agency securities that have the full faith guarantee of the U.S. government and the Local Government Investment Pool had a position of greater than ten 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 is in portfolio value.

The portfolio policy limits this risk by limiting the length of permitted investments and limits the purchase of investments highly sensitive to market changes.

As of December 31, 2013 the City's fixed income investments were as follows:

Investment type ( in thousands)	Fair Value	Investment Maturity in years		
		Less than 1	1 - 5	Over 5
Money market funds	\$ 590,123	\$ 590,123	\$ -	\$ -
U.S. treasuries and agencies	8,520,350	-	2,487,881	6,032,469
Corporate notes	3,053,722	1,000,714	2,053,008	-
Local government investment pool	381,805	381,805	-	-
Total	<u>\$ 12,546,000</u>	<u>\$ 1,972,642</u>	<u>\$ 4,540,889</u>	<u>\$ 6,032,469</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**B. RECEIVABLES (continued)**

Receivables consist of accounts, taxes, notes 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 ambulance revenue, was \$48,328 at December 31, 2013. Other than the note receivable and special assessment receivables, all other receivables are expected to be collected within one year.

The City has a note receivable with a local business in the amount of \$6,195,000. Terms of the note call for semi-annual payments of interest at 1.95% and a final principal payment on February 28, 2014 of \$6,195,000.

The City in 2011 entered into an intergovernmental cooperation agreement with another government where the other government will reimburse the City for substantially all of the debt service costs resulting from the City taking on a State Clean Water Fund Loan. Those reimbursements will start in 2015 and will continue over the life of the loan, ending in 2031.

**C. RESTRICTED ASSETS**

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 is accumulated and used for replacement of certain equipment. The balance in this account at December 31, 2013 is \$277,230.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**D. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Additions	Dispositions	Ending Balance
Capital assets not depreciated:				
Land	\$ 25,012,541	\$ 19,321	\$ 73,535	\$ 24,958,327
Construction in progress	487,587	154,499	489,163	152,923
Total capital assets not depreciated	<u>25,500,128</u>	<u>173,820</u>	<u>562,698</u>	<u>25,111,250</u>
Capital assets depreciated:				
Buildings & improvements	24,180,167	45,325	-	24,225,492
Machinery & equipment	16,953,185	839,386	221,414	17,571,157
Infrastructure	90,925,168	1,248,020	-	92,173,188
Total capital assets depreciated	<u>132,058,520</u>	<u>2,132,731</u>	<u>221,414</u>	<u>133,969,837</u>
Less: Accumulated depreciation for:				
Buildings & improvements	8,031,773	547,712	-	8,579,485
Machinery & equipment	10,354,968	870,948	221,414	11,004,502
Infrastructure	23,495,350	1,532,242	-	25,027,592
Total accumulated depreciation	<u>41,882,091</u>	<u>2,950,902</u>	<u>221,414</u>	<u>44,611,579</u>
Net capital assets depreciated	<u>90,176,429</u>	<u>(818,171)</u>	<u>-</u>	<u>89,358,258</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 115,676,557</u>	<u>\$ (644,351)</u>	<u>\$ 562,698</u>	<u>\$ 114,469,508</u>

Depreciation expense was charged to functions as follows:

<b>Governmental Activities</b>	
General government	\$ 164,843
Public safety	627,524
Public works	1,848,751
Health & human services	13,482
Culture & recreation	294,229
Conservation & development	<u>2,073</u>
Total governmental activities depreciation expense	<u>\$ 2,950,902</u>

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**D. CAPITAL ASSETS (continued)**

	Beginning Balance	Additions	Dispositions	Ending Balance
<b>Business-type Activities</b>				
Capital Assets not depreciated:				
Land	\$ 521,225	\$ -	\$ -	\$ 521,225
Construction in progress	113,269	189,665	244,992	57,942
Total capital assets not depreciated	<u>634,494</u>	<u>189,665</u>	<u>244,992</u>	<u>579,167</u>
Capital assets depreciated:				
Buildings & improvements	3,438,927	-	-	3,438,927
Machinery & equipment	2,794,982	255,137	251,012	2,799,107
Infrastructure	108,555,571	1,244,667	35,488	109,764,750
Total capital assets depreciated	<u>114,789,480</u>	<u>1,499,804</u>	<u>286,500</u>	<u>116,002,784</u>
Less: Accumulated depreciation for:				
Buildings & improvements	1,042,076	109,248	-	1,151,324
Machinery & equipment	1,721,617	151,707	251,012	1,622,312
Infrastructure	23,262,199	1,486,420	35,488	24,713,131
Total accumulated depreciation	<u>26,025,892</u>	<u>1,747,375</u>	<u>286,500</u>	<u>27,486,767</u>
Net capital assets depreciated	<u>88,763,588</u>	<u>(247,571)</u>	<u>-</u>	<u>88,516,017</u>
Business-type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 89,398,082</u>	<u>\$ (57,906)</u>	<u>\$ 244,992</u>	<u>\$ 89,095,184</u>

Depreciation expense was charged to functions as follows.

Business-Type Activities:

Water	\$ 1,097,315
Sewer	<u>650,060</u>
	<u>\$ 1,747,375</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

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 position, interfund balances owed within the governmental activities or business – type activities are netted and eliminated.

The interfund receivables and payables at December 31, 2013 are as follows:

Payable Fund	Receivable Fund				Total
	General	Capital Projects	Water Utility	Sanitary Sewer	
General	\$ -	\$ -	\$ 65,910	\$ -	\$ 65,910
Water Utility	133,796	-	-	54,698	188,494
Sanitary Sewer	-	757	10,214	-	10,971
<b>Totals</b>	<b>\$ 133,796</b>	<b>\$ 757</b>	<b>\$ 76,124</b>	<b>\$ 54,698</b>	<b>\$ 265,375</b>

The City of Franklin provides short and long term advances to its TIF Districts. The amounts advanced are either from proceeds of a borrowing or from fund reserves. They are used to enable the TIF Districts to carry out approved project plans and may be replaced in the future by direct borrowing. The TIF Districts interest rate is based upon the interest rate incurred by the Debt Service Fund on its borrowings or the reinvestment rate available to other funds. The advances will be repaid as the proportionate principal amounts in the Debt Service Fund are due or when TIF District resources are available.

Payable Fund	Receivable Fund			Total	Due within one year
	General	Self Insurance	Capital Projects Development		
TIF Districts	\$ -	\$ 2,163,000	\$ 1,150,000	\$ 3,313,000	\$ 750,000
Debt Service	-	-	2,137,000	2,137,000	1,062,000
Sanitary Sewer	505,040	-	-	505,040	-
	<u>\$ 505,040</u>	<u>\$ 2,163,000</u>	<u>\$ 3,287,000</u>	<u>\$ 5,955,040</u>	<u>\$ 1,812,000</u>

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, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)**

Transfers during the year ended December 31, 2013 were as follows:

	Transfers In					Eliminations	Reclassification of Capital Contributions	Government- Wide Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Enterprise Funds	Fund Totals			
Transfers Out								
General Fund	\$ -	\$ -	\$ 109,982	\$ -	\$ 109,982	\$ (109,982)	\$ -	\$ -
Nonmajor Governmental Funds	194,845	366,276	967,679	-	1,528,800	(1,528,800)	-	-
Enterprise Funds								
Water Utility	1,127,801	-	-	-	1,127,801	-	(487,927)	639,874
Sanitary Sewer Utility	2,574	-	-	-	2,574	-	(709,174)	(706,600)
<b>Total</b>	<b>\$ 1,325,220</b>	<b>\$ 366,276</b>	<b>\$ 1,077,661</b>	<b>\$ -</b>	<b>\$ 2,769,157</b>	<b>\$ (1,638,782)</b>	<b>\$ (1,197,101)</b>	<b>\$ (66,726)</b>

**F. DEFERRED INFLOWS AND DEFERRED OUTFLOWS**

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

	Unavailable	Unearned	Total
Governmental funds:			
Property taxes receivable	\$ -	\$ 24,222,854	\$ 24,222,854
Interest receivable	40,268	-	40,268
Special assessments not yet due	1,402,776	-	1,402,776
Total deferred inflows for governmental funds	<u>\$ 1,443,044</u>	<u>\$ 24,222,854</u>	<u>\$ 25,665,898</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**G. LONG TERM OBLIGATIONS**

**General Obligation Debt**

Long-term liabilities for the year ended December 31, 2013 were as follows:

	Balance 12/31/12	Additions	Deletions	Balance 12/31/13	Amounts due within one year
<b>Governmental Activities</b>					
General obligation debt	\$ 21,670,000	\$ -	\$ 3,790,000	\$ 17,880,000	\$ 10,265,000
Net pension obligation	91,336	303,994	310,450	84,880	-
Sub-total	<u>21,761,336</u>	<u>303,994</u>	<u>4,100,450</u>	<u>17,964,880</u>	<u>10,265,000</u>
Compensated absences					
Accrued vacation pay	417,760	900,307	908,195	409,872	409,872
Accrued severance pay	1,057,072	221,119	90,156	1,188,035	43,060
Accrued compensatory time	177,601	200,026	201,838	175,789	175,789
Total compensated absences	<u>1,652,433</u>	<u>1,321,452</u>	<u>1,200,189</u>	<u>1,773,696</u>	<u>628,721</u>
Governmental activities					
Long-term liabilities	<u>\$ 23,413,769</u>	<u>\$ 1,625,446</u>	<u>\$ 5,300,639</u>	<u>\$ 19,738,576</u>	<u>\$ 10,893,721</u>

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 governmental activities compensated absences primarily accrue to and are paid from the City's General Fund.

	Balance 12/31/12	Additions	Deletions	Balance 12/31/13	Amounts due within one year
<b>Business-type Activities</b>					
General obligation debt	\$ 22,064,833	\$ 2,500,590	\$ -	\$ 24,565,423	\$ 1,101,072
Compensated absences					
Accrued vacation pay	39,348	41,061	34,629	45,780	45,780
Accrued severance pay	54,915	4,369	2,123	57,161	-
Accrued compensatory time	11,287	6,907	5,681	12,513	12,513
Business-type activities					
Long-term liabilities	<u>\$ 22,170,383</u>	<u>\$ 2,552,927</u>	<u>\$ 42,433</u>	<u>\$ 24,680,877</u>	<u>\$ 1,159,365</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**G. LONG TERM OBLIGATIONS (continued)**

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

<u>Type</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Principal Payable</u>	<u>Interest Payable</u>	<u>Original Amount</u>	<u>Balance Outstanding 12/31</u>
General obligation promissory notes	1/3/07	4.95	3/ 1/08-14	3/1& 9/1	\$ 10,000,000	\$ 6,195,000 <sup>1</sup>
	8/26/08	3.00-3.50	3/ 1/09-14	3/1& 9/1	10,000,000	3,500,000 <sup>2</sup>
General obligation refunding bonds	1/3/07	3.80	3/ 1/08-21	3/1& 9/1	9,925,000	<u>8,185,000</u>
Total Governmental Activities Debt						<u>\$ 17,880,000</u>
Business-type Activity Debt						
General obligation Clean Water Fund Loan	1/25/12	2.462	5/1/14-31	5/1 & 11/1	27,562,754	<u>\$ 24,565,423</u>

<sup>1</sup> Issued for non capital TIF purposes <sup>2</sup> Issued 50% for non capital TIF purposes

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

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

<u>Year Ending 31-Dec</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 10,265,000	\$ 514,776	\$ 1,101,072	\$ 591,136
2015	520,000	279,490	1,128,180	563,804
2016	1,200,000	246,810	1,155,956	535,687
2017	1,190,000	201,400	1,184,416	506,877
2018	1,180,000	156,370	1,213,576	477,357
2019-2023	3,525,000	200,355	6,531,040	1,917,926
2024-2028	-	-	7,375,586	1,062,984
2029-2031	-	-	4,875,597	182,002
Total	<u>\$ 17,880,000</u>	<u>\$ 1,599,201</u>	<u>\$ 24,565,423</u>	<u>\$ 5,837,773</u>

The City's statutory debt limit and margin of indebtedness at December 31, 2013 are \$170,713,830 and \$128,268,407, respectively.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**G. LONG TERM OBLIGATIONS (continued)**

**Conduit Debt Obligations**

Twelve series of Industrial Revenue Bonds originally issued with an aggregate principal amount of \$124,992,000 are outstanding with a December 31, 2013 balance of \$116,038,155.

**H. NET POSITION/FUND BALANCES**

**Governmental Activities**

Governmental activities net position reported on the government-wide statement of net position at December 31, 2013 include the following:

Net investment in capital assets	
Land	\$ 24,958,327
Construction in process	152,923
Other capital assets, net of accumulated depreciation	89,358,258
Less: related long term debt outstanding	<u>(9,747,526)</u>
Net investment in capital assets	<u>104,721,982</u>
Restricted for:	
Debt service	722,710
Utility improvement	1,523,989
Development	5,052,168
Library	582,292
Other	<u>507,955</u>
Total restricted	<u>8,389,114</u>
Unrestricted	<u>4,889,704</u>
 Total governmental activities net position	 <u>\$ 118,000,800</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**H. NET POSITION/FUND BALANCES (continued)**

**Governmental Fund Balances**

Reported on the fund financial statements at December 31, 2013 include the following:

Nonspendable fund balances	
General Fund - Inventories and prepaid items	\$ 45,866
General Fund - Advances	505,040
Library Fund - prepaid items	<u>2,475</u>
Total nonspendable	<u>\$ 553,381</u>
Restricted fund balances	
Debt Service	\$ 6,801,945
Utility Improvements	443,438
Development	5,052,168
Donations	102,326
Health services	165,846
Library services	579,817
Solid Waste	188,307
Recreational services	<u>51,476</u>
Total restricted	<u>\$ 13,385,323</u>
Assigned Fund balances:	
Capital Projects:	
Capital Outlay	\$ 337,575
Equipment Replacement	1,916,045
Capital Improvement	318,928
Street Improvement	<u>218,563</u>
Total Assigned fund balances	<u>\$ 2,791,111</u>
Unassigned fund balances	
General Fund	\$ 7,230,661
Debt Service - Deficit	(2,099,712)
St Martin's Fair - Deficit	(708)
TIF Districts - Deficit	<u>(3,080,379)</u>
Total Unassigned fund balances	<u>\$ 2,049,862</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - OTHER INFORMATION**

**A. DEFINED BENEFIT PENSION PLANS**

**Wisconsin Retirement System**

All eligible protective (public safety) City of Franklin employees participate in the Wisconsin Retirement System ("System"), a cost-sharing multiple-employer defined benefit public employee retirement system ("PERS"). All such permanent employees expected to work over 600 hours a year, for employees hired prior to July 1, 2011 and 1200 hours a year for employees hired prior after that date are eligible to participate in the System. Covered employees in the protective occupations category are required by statute to contribute 5.9% to the plan both for protective occupations with social security, and for protective occupations without social security.

Employers may not make these contributions to the plan on behalf of the protective occupation employees unless provided for by an existing collective bargaining agreement. 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, 2013 was \$7,582,772 and the employer's total payroll was \$13,792,793. The total required contribution for the year ended December 31, 2013 was \$1,653,044, or 21.8% of covered payroll. \$137,435 was paid by employees while \$1,515,609 was paid by the employer. Of the total required contribution, 100% was contributed for the current year. Total contributions for the years ended December 31, 2012, and 2011 were \$1,660,118 and \$1,512,397, respectively which equal the required contributions for each year.

The System provides that 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 year's 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. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be 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, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - OTHER INFORMATION**

**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 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 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 make a non-elective and non-discretionary pension contribution that in 2013 was 5% of payroll. The City contributes all remaining amounts necessary to fund the pension plan. Starting in 2010, the City uses the entry age normal 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.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - OTHER INFORMATION (continued)**

**A. DEFINED BENEFIT PENSION PLANS (continued)**

**Annual Pension Cost**

For 2013, the City's required contribution of \$310,450 was determined during a January 1, 2013 actuarial valuation using the entry age normal cost method. The City began to require employee contributions, totaling \$141,971 in 2013. During the year ended December 31, 2013, combined contributions totaling \$303,994 were accrued. This resulted in the net pension obligation being reduced by \$6,456. The required employer contribution amount represented 18.4% of current year payroll compared to the 16.8% anticipated in the 2012 actuarial report.

The entry age normal actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. The unfunded actuarial liability is being amortized over a 20 year closed period. Significant actuarial assumptions include: (a) a rate of return on the investment of present and future assets ranging of 7.5% compounded annually, (b) projected salary increases of 3.00% per year compounded annually, attributable to inflation applied using the level percentage of projected payroll. The assumptions do 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 five-year period.

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2013	\$ 303,994	102.1%	\$ 84,880
12/31/2012	272,480	102.2%	91,336
12/31/2011	224,478	102.8%	97,341

The following table shows components of the City's annual pension cost for the year, the amount actually contributed to the plan and changes in the City's net pension obligation:

Annual required contribution	\$ 310,450
Interest on net pension obligation	6,850
Adjustment to annual required contribution	<u>(13,306)</u>
Annual pension expense	303,994
Contributions made	<u>(310,450)</u>
Decrease in net pension obligation	(6,456)
Net pension obligation - beginning of year	<u>91,336</u>
Net pension obligation - end of year	<u><u>\$ 84,880</u></u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - OTHER INFORMATION (continued)**

**A. DEFINED BENEFIT PENSION PLANS (continued)**

**Annual Pension Cost**

Actuarial Valuation Date	(A) Actuarial Asset Value	Funding progress			(E) Covered Payroll	(F) UAAL as Percentage of Covered Payroll [(C)/(E)]
		(B) Actuarial Liability (AAL) - Aggregate	(C) Unfunded AAL (UAAL) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]		
1/1/2013	\$ 5,383,619	\$ 6,408,402	\$ 1,024,783	84%	\$ 1,689,291	61%

The multi year trend information is located in the required supplementary information immediately following the notes to the financial statements.

**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 are required to make contributions of 5% of wages. 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 2013, total contributions of \$388,969 or 10% of covered payroll were made. The City contributed \$196,607 and employees \$192,362. The City may make amendments to the Plan.

**C. POST EMPLOYMENT HEALTH CARE BENEFITS**

The City of Franklin administers a single employer defined benefit post employment benefit plan through a trust. The City of Franklin Post Employment Benefits Trust is accounted for on the accrual basis of accounting and presented as a fiduciary fund. Separate financial statements are not prepared for the trust. Retiree and City contributions are recognized in the period in which the contributions are due.

City of Franklin eligible full time employees meeting minimum age and service requirements may receive group health care benefits at a reduced cost during the period from their normal retirement date until they reach age 65. This results in an other post employment benefit (OPEB) obligation for those groups. These groups commonly have higher medical costs than anticipated in the blended premium rates. That differential is referred to as an implicit rate subsidy.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - OTHER INFORMATION (continued)**

**C. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)**

Contribution requirements are established by either City ordinance or collective bargaining and may be amended only by the groups establishing the requirements. The City's periodic contribution is determined and fixed at the time of retirement. The retiree pays the balance of the periodic blended premium. The eligibility for the benefit follows:

<u>Employee Group</u>	<u>#</u>	<u>City Amount</u>	<u>Age</u>	<u>Years Service</u>
Non-represented	35	75% of Premium at Retirement	62	20
Police	66	75% of Premium at Retirement	53	15
Dispatch	13	75% of 2005 Premium	62	20
Fire	55	75% of Premium at Retirement	53	20
DPW	30	75% of Premium at Retirement	60	15

The City's annual other post employment benefit (OPEB) expense is calculated based upon the annual required contribution (ARC) of the City. An actuarial calculation by an actuary was used to calculate the ARC and related information using the measurement method required by GASB Statement No. 45 for employers with 200 or more total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a closed period of 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the trust and changes in the City's net OPEB obligation for retiree health benefits:

Annual required contribution	\$ 523,342
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB expense	<u>523,342</u>
Contributions made	<u>(523,342)</u>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ -</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the trust and the net OPEB obligation for the current and prior two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2013	\$ 523,342	100.0%	\$ -
12/31/2012	837,535	100.0%	-
12/31/2011	822,537	100.0%	-

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - OTHER INFORMATION (continued)**

**C. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)**

Actuarial Valuation Date	(A) Actuarial Asset Value	Funding progress:			(E) Covered Payroll	(F) UAAL as Percentage of Covered Payroll [(C)/(E)]
		(B) Actuarial Accrued Liability (AAL) Projected unit credit	(C) Unfunded AAL (UAAL) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]		
1/1/2012	\$2,399,455	\$ 8,184,388	\$ 5,784,933	29%	\$ 11,553,445	50%

The multi year trend information is located in the required supplementary information immediately following the notes to the financial statements. The projection of future benefits for an ongoing benefit involves estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funding status of the trust and required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented immediately following the footnotes, presents multi-year trend information that shows whether the actuarial value of trust assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The above schedules of employer contributions present trend information about the amounts contributed to the trust by the City in comparison to the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period of thirty years.

Projections of benefits for financial reporting purposes are based upon the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the City and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

The trust's financial statements are prepared using the accrual basis of accounting. Retiree and City contributions are recognized in the period that contributions are due. The City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable. Investments are reported at fair value with the valuation determined by the independent custodian of the assets.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - OTHER INFORMATION (continued)**

**C. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)**

The following significant assumptions were made:

The actuarial valuation uses the projected unit credit actuarial cost method.

The ARC was calculated using the level percentage of payroll method, amortizing costs over a closed period of 30 years. The remaining amortization period at December 31, 2013 was 24 years.

Based upon the expected return of the City of Franklin Post Employment Benefits Trust under the investment policy adopted for the Trust, a discount rate of 7% was used.

The actuarial value of the trust assets is determined using techniques that spread the impact of short term volatility over a five year period.

Group health charges for actives and retirees were used as the basis for calculation of the present value of total benefits to be paid.

The expected healthcare trend rate of increase in group health charges was based upon the recent experience of the City of Franklin self funded health care program. The trend rate assumption of 8.5% for years one and two, 8.0% for years three and four, reduced to an ultimate rate of 5.5% after thirteen years, was used.

The expected long term payroll growth rate was assumed to be 3% which is the expected inflation rate for the City.

No post-retirement benefit increases other than salary increases are anticipated.

Rates of retirement, mortality and termination for reasons other than retirement and death are from the "Wisconsin Retirement System 2003-2005 Experience Study".

Marital status at retirement was assumed to be 75% with a spouse or dependants.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**NOTE 4 - OTHER INFORMATION** (continued)

**D. CONTINGENCIES AND COMMITMENTS**

The City at times is party to 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.

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 has \$2,122,647 in outstanding contractual commitments relating to various Public Works projects and equipment purchases at December 31, 2013. The City has encumbered \$89,186 at year end due to valid contracts or purchase orders in place and the related services committed and not yet received.

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 the current owners of properties that the fees were originally collected.

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. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on future operating results of the City.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 4 - OTHER INFORMATION (continued)**

**E. 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 claims in excess of \$60,000 per year per individual. Liabilities are reported when it is probable that claims have occurred and the amount of the claim 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 two years ended December 31, 2013 are as follows:

	<b>Balance Beginning of Year</b>	<b>Current Claims and Changes in Estimates</b>	<b>Claims Payments</b>	<b>Balance End of Year</b>
2013	\$ 352,000	\$3,808,103	\$ 3,781,003	\$ 379,100
2012	318,000	3,235,548	3,201,548	352,000

**F. IMPLEMENTATION OF GASB STATEMENTS**

The City of Franklin adopted GASB Statement No. 63 Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65 Items Previously Recognized as Assets and Liabilities as of January 1, 2012. GASB Statement No. 63 impacted financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. GASB Statement No. 65 impacted financial reporting by establishing accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The impact of adoptions of these statements resulted in the Statement of Net Assets becoming the Statement of Net Position. Additionally, certain items previously reported as assets or liabilities have been reclassified and reported as deferred inflows or outflows.

**CITY OF FRANKLIN, WISCONSIN  
REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)  
December 31, 2013**

**PUBLIC WORKS EMPLOYEES PENSION PLAN  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	(A) Actuarial Asset Value	Three Year Trend Information			(E) Covered Payroll	(F) UAAL as Percentage of Covered Payroll [(C)/(E)]
		(B) Actuarial Accrued Liability (AAL) - Aggregate	(C) Unfunded AAL (UAAL) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]		
1/1/2013	\$ 5,383,619	\$ 6,408,402	\$ 1,024,783	84%	\$ 1,689,291	61%
1/1/2012	5,096,223	5,749,942	653,719	89%	1,665,439	39%
1/1/2011	4,891,672	5,219,206	327,534	94%	1,566,522	21%

**CITY OF FRANKLIN POST EMPLOYMENT BENEFITS TRUST  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Asset Value	Accrued Liability (AAL) Projected unit credit	Unfunded AAL (UAAL) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	Percentage of Covered Payroll [(C)/(E)]
1/1/2012	\$2,399,455	\$ 8,184,388	\$ 5,784,933	29%	\$ 11,553,445	50%
1/1/2010	1,254,758	6,016,221	4,761,463	21%	11,523,032	41%
1/1/2008	-	7,972,327	7,972,327	0%	11,725,456	68%

Note: The Trust was not yet in effect when the first actuarial valuation was completed.

The study dated January 1, 2008 was the study prepared for the adoption of GASB #45.