

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**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 Districts (TID) 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 TID 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 TID capital projects fund. The Authority follows accounting policies of the City.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**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  
December 31, 2015**

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

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

**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 TID along with payments made for capital outlay, other expenditures, principal and interest on long-term debt obligations of the TIDs. Each TID is a sub fund of the TID 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**  
**December 31, 2015**

**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, deferred inflows, liabilities and deferred outflows 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.

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.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

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

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 due and payable

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.

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.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

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

**Fund Financial Statements (continued)**

Deferred inflows are reported on the governmental funds balance sheet. Deferred inflows arise from taxes levied in the current year that are for subsequent year's operations. For governmental fund financial statements unearned revenues arise 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.

**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.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

**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 Aa3 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 6 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, which 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.
- 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.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

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

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 2015 to 75% of total assets to be invested. Prior to January 1, 2016 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 a trustee or third party custodian.
  - deposits in excess of FDIC insurance limits are maintained in the State LGIP or secured bank balances in amounts of at least 75% of the year end cash balances.
- b. Credit risk – securities purchased need to have an 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.

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 various City 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, 2015, the fair value of the City's share of LGIP assets was substantially equal to the amount reported in these statements.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**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, three 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 – 2015 tax roll:

Lien date and levy date	December 2015
Tax bills mailed	December 2015
Payment in full, or	January 31, 2016
First installment due	January 31, 2016
Second installment due	March 31, 2016
Third installment due	May 31, 2016
Personal property taxes in full	January 31, 2016
Final tax settlement with County	August 20, 2016
Tax deed by County – 2015	
Delinquent real estate taxes	October 2018

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”.

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.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

**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. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. 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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**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 Pension Asset has been reported as restricted. This asset represents funds held by the Plan Trust, which can only be used to settle Plan obligations. 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. Pensions**

For purposes of measuring the net pension liabilities (assets), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Wisconsin Retirement System (WRS) and the City of Franklin Defined Benefit Retirement Income Plan (DPW) and additions to/deductions from WRS and DPW's fiduciary net position have been determined on the same basis as they are reported by WRS and DPW. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**6. 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.

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. \$24,601 of 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	10-50 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.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

**7. 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.

Certain items affect the net pension asset(s)/liability(s) are amortized over the period determined to be affected by the change. The balance at year end of these items is report as deferred outflows of resources or deferred inflows of resources section of the statement of net position.

**8. 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.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

**9. 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.

**10. 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  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**11. 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 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**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitation on the use of resources through either a commitment (restricted fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, committed fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**12. Equity Classifications (continued)**

**Fund Statements (continued)**

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 committed. The governing council (Common Council) has by resolution authorized the Director of Finance & Treasurer to assign fund balance (Resolution 2014-7025). The Common Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, as additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

When committed, assigned and unassigned resources are available for use, it is the City's policy to use committed resources first, then assigned resources and then unassigned resources, as they are needed.

**13. 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, 2014 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 budgeted under the prior period and encumbrances expected to be liquidated under the current period budget. Actual (budgetary basis) revenue presents 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.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

**A. BUDGETARY INFORMATION (continued)**

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 for personnel and non-personnel expenditures at the function level.

**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%. Limited amounts of unused tax levy may 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, 2015 the General Fund did not exceed budgeted expenditures, except for Alderman personnel services.

**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, 2015, 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.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

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 \$20,000,000. Cash and investments as shown on the December 31, 2015 City of Franklin Statement of Net position are subject to the following risks:

	Carrying Value	Bank & Investment Balances	Risks
Local Government Investment Pool	\$ 233,082	\$ 233,082	Credit and interest rate
Money market funds	204,884	204,884	Credit and interest rate
Certificates of deposit	1,470,000	1,470,000	Custodial
U.S. treasuries	2,004,062	2,004,062	Interest rate
U.S. agencies	7,055,737	7,055,737	Credit, interest rate and concentration of credit
Municipal Bonds	1,041,060	1,041,060	Credit, interest rate
Corporate notes	<u>6,540,859</u>	<u>6,540,859</u>	Credit, interest rate and concentration of credit
Total fixed income investments	18,549,684	18,549,684	
Equity funds	3,475,966	3,475,966	Custodial
Fixed income funds	1,045,253	1,045,253	Custodial and credit
Cash and demand deposits	<u>59,781,402</u>	<u>55,526,385</u>	Custodial
Total	<u>\$ 82,852,305</u>	<u>\$ 78,597,288</u>	

Reconciliation to the financial statements is shown below:

Per Statement of Net Position

Primary Government:

Unrestricted cash and investments	\$ 24,982,829
Restricted cash and investments	356,106

Per Statement of Fiduciary Net Position - Agency Funds

- Post Employment Benefits Trust	<u>4,708,888</u>
----------------------------------	------------------

\$ 82,852,305

**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, 2015, none of the City's total bank balances of \$ 55,526,385 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, 2015**

**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 Aa3 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, 2015, 89.7% of the fixed income investments were in rated fixed income investments and subject to credit risk. The ratings as a percentage of the total investment portfolio were as follows: Aaa at 48.1%, Aa1 at 8.8%, Aa2 at 10.9%, and Aa3 at 4.3%. The portfolio makeup of fixed income investments was corporate securities at 35.3%, treasury and agency securities at 48.8%, Municipal Bonds at 5.6%, certificates of deposit at 7.9%, Local Government Investment Pool at 1.3% and money market funds at 1.1%. The Local Government Investment Pool and money market funds are not rated but are subject to credit risk. The certificates of deposit are not rated and are not subject to credit risk. Equities and fixed income mutual funds held in trust at 19.6% make up the remainder of the investments and are not rated.

**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, 2015 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, 2015, the City's investments exposed to interest rate risk were as follows:

Investment type (in thousands)	Fair Value	Investment Maturity in years		
		Less than 1	1 - 5	5 - 7
Money market funds	\$ 204,884	\$ 204,884	\$ -	\$ -
Certificates of deposit	1,470,000	1,225,000	245,000	-
U.S. treasuries and agencies	9,059,799	4,000,834	5,058,965	-
Municipal bonds	1,041,060	-	1,041,060	-
Corporate notes	6,540,859	1,998,075	4,542,784	-
Local government investment pool	233,082	233,082	-	-
<b>Total</b>	<b>\$ 18,549,684</b>	<b>\$ 7,661,875</b>	<b>\$ 10,887,809</b>	<b>\$ -</b>

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

**B. RECEIVABLES**

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 \$ 80,106 at December 31, 2015. Other than the special assessment receivables, all other receivables are expected to be collected within one year.

**C. DUE FROM OTHER GOVERNMENTS**

In 2011, the City 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. This is presented as Due from other governments in the statement Net Position.

**D. 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, 2015 is \$356,106.

The Pension Asset has been reported as restricted. This asset represents funds held by the Plan Trust, which can only be used to settle Plan obligations. The balance of the Pension Asset related to the Wisconsin Retirement System (WRS) at December 31, 2015 is \$2,066,135.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

**E. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Additions	Dispositions	Ending Balance
Capital assets not depreciated:				
Land	\$ 24,949,631	\$ 319,060	\$ -	\$ 25,268,691
Construction in progress	423,313	1,188,207	430,617	1,180,903
Total capital assets not depreciated	<u>25,372,944</u>	<u>1,507,267</u>	<u>430,617</u>	<u>26,449,594</u>
Capital assets depreciated:				
Buildings & improvements	24,717,845	163,057	-	24,880,902
Machinery & equipment	17,514,597	1,245,775	622,380	18,137,992
Infrastructure	93,860,788	1,280,571	-	95,141,359
Total capital assets depreciated	<u>136,093,230</u>	<u>2,689,403</u>	<u>622,380</u>	<u>138,160,253</u>
Less: Accumulated depreciation for:				
Buildings & improvements	9,104,243	488,008	-	9,592,251
Machinery & equipment	10,888,324	1,039,337	601,811	11,325,850
Infrastructure	26,588,923	1,597,549	-	28,186,472
Total accumulated depreciation	<u>46,581,490</u>	<u>3,124,894</u>	<u>601,811</u>	<u>49,104,573</u>
Net capital assets depreciated	<u>89,511,740</u>	<u>(435,491)</u>	<u>20,569</u>	<u>89,055,680</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 114,884,684</u>	<u>\$ 1,071,776</u>	<u>\$ 451,186</u>	<u>\$ 115,505,274</u>

Depreciation expense was charged to functions as follows:

<b>Governmental Activities</b>	
General government	\$ 136,550
Public safety	702,123
Public works	1,934,325
Health & human services	6,096
Culture & recreation	344,062
Conservation & development	1,738
Total governmental activities depreciation expense	<u>\$ 3,124,894</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

**E. CAPITAL ASSETS (continued)**

	Beginning Balance	Additions	Dispositions	Adjustment	Ending Balance
<b>Business-type Activities</b>					
Capital Assets not depreciated:					
Land	\$ 521,225	\$ -	\$ -	\$ -	\$ 521,225
Construction in progress	351,610	3,668,220	3,979,346	-	40,484
Total capital assets not depreciated	<u>872,835</u>	<u>3,668,220</u>	<u>3,979,346</u>	<u>-</u>	<u>561,709</u>
Capital assets depreciated:					
Buildings & improvements	3,434,412	3,336,718	124,187	-	6,646,943
Machinery & equipment	2,694,341	158,387	261,153	2,705,403	5,296,978
Infrastructure	110,447,988	847,540	875,245	(1,470,476)	108,949,807
Total capital assets depreciated	<u>116,576,741</u>	<u>4,342,645</u>	<u>1,260,585</u>	<u>1,234,927</u>	<u>120,893,728</u>
Less: Accumulated depreciation for:					
Buildings & improvements	1,239,632	168,244	106,382	-	1,301,494
Machinery & equipment	1,633,171	267,498	225,818	1,824,833	3,499,684
Infrastructure	26,009,516	1,464,248	40,036	(863,495)	26,570,233
Total accumulated depreciation	<u>28,882,319</u>	<u>1,899,990</u>	<u>372,236</u>	<u>961,338</u>	<u>31,371,411</u>
Net capital assets depreciated	<u>87,694,422</u>	<u>2,442,655</u>	<u>888,349</u>	<u>273,589</u>	<u>89,522,317</u>
Business-type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 88,567,257</u>	<u>\$ 6,110,875</u>	<u>\$ 4,867,695</u>	<u>\$ 273,589</u>	<u>\$ 90,084,026</u>

Depreciation expense was charged to functions as follows.

**Business-Type Activities:**

Water	\$ 1,207,081
Sewer	<u>692,909</u>
	<u>\$ 1,899,990</u>

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

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, 2015 are as follows:

Payable Fund	Receivable Fund				Total
	General	Nonmajor	Water Utility	Sanitary Sewer	
General	\$ -	\$ -	\$ 57,727	\$ 34,082	\$ 91,809
Non-Major	11,552	-	-	-	11,552
Water Utility	-	131,198	-	55,137	186,335
Sanitary Sewer	59,832	-	50,083	-	109,915
<b>Totals</b>	<b>\$ 71,384</b>	<b>\$ 131,198</b>	<b>\$ 107,810</b>	<b>\$ 89,219</b>	<b>\$ 399,611</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	Internal Service	Capital Projects Development		
TIF Districts	\$ -	\$ 1,088,000	\$ 850,000	\$ 1,938,000	\$ 1,388,000
Sanitary Sewer	2,198,616	-	-	2,198,616	-
	<u>\$ 2,198,616</u>	<u>\$ 1,088,000</u>	<u>\$ 850,000</u>	<u>\$ 4,136,616</u>	<u>\$ 1,388,000</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, 2015**

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

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

Transfers as presented on the fund financial statements during the year ended December 31, 2015 were as follows:

	Transfers Out			Fund Totals
	General Fund	Nonmajor Governmental Funds	Enterprise Funds	
Transfers In				
General Fund	\$ -	\$ -	\$ 1,044,459	\$ 1,044,459
Debt Service Fund	-	182,494	-	182,494
Nonmajor Governmental Funds	574,000	607,300	-	1,181,300
Total	<u>\$ 574,000</u>	<u>\$ 789,794</u>	<u>\$ 1,044,459</u>	<u>\$ 2,408,253</u>

A reconciliation of fund statement transfers to government wide transfers for the year ended December 31, 2015 is as follows:

	Governmental Funds	Enterprise Funds
Transfers In per fund statements	\$ 2,408,253	\$ -
Transfers Out per fund statements	(1,363,794)	(1,044,459)
Government Wide Transfers	<u>\$ 1,044,459</u>	<u>\$ (1,044,459)</u>

**G. DEFERRED INFLOWS AND DEFERRED OUTFLOWS**

Governmental funds report deferred inflows in connection with receivables for revenues 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 cannot 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	\$ -	\$ 24,809,701	\$ 24,809,701
Special assessments not yet due	1,204,211	-	1,204,211
Total deferred inflows			
for governmental funds	<u>\$ 1,204,211</u>	<u>\$ 24,809,701</u>	<u>\$ 26,013,912</u>

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

**H. LONG TERM OBLIGATIONS**

**General Obligation Debt**

Long-term liabilities for the year ended December 31, 2015 were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts due within one year
<b>Governmental Activities</b>					
General obligation debt	\$ 12,935,000	\$ -	\$ 615,000	\$ 12,320,000	\$ 1,950,000
Premium	252,273	-	48,371	203,902	-
Sub-total	<u>13,187,273</u>	<u>-</u>	<u>663,371</u>	<u>12,523,902</u>	<u>1,950,000</u>
Compensated absences					
Accrued vacation pay	427,655	1,002,753	990,132	440,276	440,276
Accrued severance pay	1,188,583	221,672	91,925	1,318,330	68,896
Accrued compensatory time	208,096	240,140	226,022	222,214	222,214
Total compensated absences	<u>1,824,334</u>	<u>1,464,565</u>	<u>1,308,079</u>	<u>1,980,820</u>	<u>731,386</u>
Governmental activities					
Long-term liabilities	<u>\$ 15,011,607</u>	<u>\$ 1,464,565</u>	<u>\$ 1,971,450</u>	<u>\$ 14,504,722</u>	<u>\$ 2,681,386</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.

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts due within one year
<b>Business-type Activities</b>					
General obligation debt	\$ 24,776,522	\$ -	\$ 1,184,245	\$ 23,592,277	\$ 1,212,048
Discount	(13,507)	-	(826)	(12,681)	-
Subtotal	<u>24,763,015</u>	<u>-</u>	<u>1,183,419</u>	<u>23,579,596</u>	<u>1,212,048</u>
Compensated absences					
Accrued vacation pay	44,159	39,900	41,880	42,179	42,178
Accrued severance pay	61,769	8,991	-	70,760	-
Accrued compensatory time	16,691	9,845	5,017	21,519	21,519
Business-type activities					
Long-term liabilities	<u>\$ 24,885,634</u>	<u>\$ 58,736</u>	<u>\$ 1,230,316</u>	<u>\$ 23,714,054</u>	<u>\$ 1,275,745</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

Details of general obligation notes and bonds payable as of December 31, 2015 are as follows:

Type	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance Outstanding 12/31
General obligation promissory notes	12/18/14	2.0-2.5	3/1/15-24	3/1 & 9/1	\$ 5,320,000	\$ 5,225,000 <sup>1</sup>
General obligation refunding bonds	1/3/07	3.80	3/ 1/08-21	3/1 & 9/1	9,925,000	<u>7,095,000</u>
Total Governmental Activities Debt						<u>\$ 12,320,000</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	\$ 22,357,277 <sup>2</sup>
	12/18/14	2.0-3.125	3/1/15-34	3/1 & 9/1	1,290,000	<u>1,235,000</u> <sup>3</sup>
Total Business-type Activities Debt						<u>\$ 23,592,277</u>

<sup>1</sup> Issued 63% for capital TIF purposes and 33% for general capital purposes, <sup>2</sup> Issued for a sewer extension on W Ryan Rd, <sup>3</sup> Issued for water building 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:

Year Ending 31-Dec	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 1,950,000	\$ 377,598	\$ 1,212,048	\$ 570,330
2017	3,010,000	297,388	1,240,535	540,393
2018	2,320,000	207,958	1,269,723	509,746
2019	1,365,000	143,987	1,299,629	478,371
2020	1,320,000	95,852	1,330,272	446,251
2021-25	2,355,000	82,846	7,168,066	1,713,235
2026-30	-	-	8,095,547	766,529
2031-35	-	-	1,976,457	40,202
Total	<u>\$ 12,320,000</u>	<u>\$ 1,205,629</u>	<u>\$ 23,592,277</u>	<u>\$ 5,065,057</u>

The City's statutory debt limit and margin of indebtedness at December 31, 2015 are \$182,459,295 and \$ 146,547,018, respectively. By City debt policy, the debt limit and margin of indebtedness limit are \$ 72,983,718 and \$ 37,071,441, respectively.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**Conduit Debt Obligations**

Eleven series of Industrial Revenue Bonds originally issued with an aggregate principal amount of \$102,992,000 are outstanding with a December 31, 2015 balance of \$93,157,637.

**I. NET POSITION/FUND BALANCES**

**Governmental Activities**

Governmental activities net position reported on the government-wide statement of net position at December 31, 2015 include the following:

Net investment in capital assets	
Land	\$ 25,268,691
Construction in process	1,180,903
Other capital assets, net of accumulated depreciation	89,055,680
Less: related long term debt outstanding	<u>(8,320,671)</u>
Net investment in capital assets	<u>107,184,603</u>
Restricted for:	
Debt service	482,773
Utility improvement	1,999,759
Development	3,851,653
Library	524,137
Solid waste	260,944
Recreation services	47,656
Health	160,003
Donations	<u>133,678</u>
Total restricted	<u>7,460,603</u>
Unrestricted	<u>16,401,941</u>
 Total governmental activities net position	 <u>\$ 131,047,147</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**Governmental Fund Balances**

Reported on the fund financial statements at December 31, 2015 include the following:

General Fund - advances	\$ 2,198,616
General Fund - prepaid items and inventory	41,186
Library Fund - prepaid items	<u>730</u>
Total nonspendable	<u>\$ 2,281,718</u>
Restricted fund balances	
Debt Service	\$ 507,283
Utility Improvements	907,003
Development	3,851,653
TIF Districts	996,460
Donations	133,678
Health services	160,003
Library services	523,237
Solid Waste	260,944
Recreational services	<u>47,656</u>
Total restricted	<u>\$ 7,387,917</u>
Assigned Fund balances:	
General Fund	\$ 147,121
Capital Projects:	
Capital Outlay	666,161
Equipment Replacement	2,304,643
Capital Improvement	1,689,835
Street Improvement	<u>245,955</u>
Total Assigned fund balances	<u>\$ 5,053,715</u>
Unassigned fund balances	
General Fund	\$ 6,662,986
TIF Districts - Deficit	(138,216)
St Martin's Fair - Deficit	<u>(12,711)</u>
Total Unassigned fund balances	<u>\$ 6,512,059</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**Business-type Activities**

Business-type activities net position reported on the government-wide statement of net position at December 31, 2015 include the following:

Net investment in capital assets	
Land	\$ 521,225
Construction in process	40,484
Other capital assets, net of accumulated depreciation	89,522,317
Less: related long term debt outstanding, net of unspent bond proceeds	<u>(1,222,320)</u>
Net investment in capital assets	<u>88,861,706</u>
Restricted for:	
Sewer equipment replacement	<u>356,106</u>
Unrestricted	<u>2,853,728</u>
Total business-type activities net position	<u>\$ 92,071,540</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 4 - OTHER INFORMATION**

**A. DEFINED BENEFIT PENSION PLANS**

**Wisconsin Retirement System**

**General Information about the Pension Plan**

Plan Description - The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

Vesting - For employees beginning participation on or 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, and prior to July 1, 2011, 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.

Benefits Provided - Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. 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 participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**Wisconsin Retirement System (continued)**

**General Information about the Pension Plan (continued)**

Post-Retirement Adjustments - The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2005	2.6%	7.0%
2006	0.8	3.0
2007	3.0	10.0
2008	6.6	0.0
2009	(2.1)	(42.0)
2010	(1.3)	22.0
2011	(1.2)	11.0
2012	(7.0)	(7.0)
2013	(9.6)	9.0
2014	4.7	25.0

Contributions - Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized \$815,219 contributions from the employer.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**Wisconsin Retirement System** (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Contribution rates as of December 31, 2015 are:

Employee Category	Employee	Employer
Protective with Social Security	6.8%	9.5%

At December 31, 2015, the City reported a liability (asset) of (\$2,066,135), for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the City's proportion was 0.08411666%, which was a decrease of 0.0021106%, from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the City recognized pension expense of \$931,839, which includes amounts paid to WRS, related to duty disability payments.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**Wisconsin Retirement System (continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 299,525	\$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	1,000,522	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	62,336	-
Employer contributions subsequent to the measurement date	803,686	-
<b>Total</b>	<b>\$ 2,166,069</b>	<b>\$ -</b>

The \$803,686 reported as deferred outflows related to pension resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016 for the City. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 267,288	\$ -
2017	267,288	-
2018	267,288	-
2019	267,288	-
2020	267,288	-
Thereafter	25,943	-

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**Wisconsin Retirement System** (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (continued)

Actuarial Assumption - The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2013
Measurement Date of Net Pension Liability (Asset):	December 31, 2014
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases	
Inflation:	3.2%
Seniority/Merit:	0.2% - 5.8%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*:	2.1%

\* No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2014 is based upon a roll-forward of the liability calculated from the December 31, 2013 actuarial valuation.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

**Wisconsin Retirement System (continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Long-term Expected Return on Plan Assets - The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Real Rate of Return	Target Allocation
US Equities	5.3%	21.0%
International Equities	5.7	23.0
Fixed Income	1.7	36.0
Inflation Sensitive Assets	2.3	20.0
Real Estate	5.2	7.0
Private Equity/Debt	0.9	7.0
Multi-Asset	3.9	6.0
Cash	0.9	(20.0)

Single Discount Rate - A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**Wisconsin Retirement System** (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset) - The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
City's proportionate share of the net pension liability (asset)	\$ 5,828,923	\$ (2,066,135)	\$ (8,301,333)

Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://legis.wisconsin.gov/lab/> and reference report number 15-11.

Payables to the pension plan - The City reported payables to the WRS of \$125,268 as of December 31, 2015, of which \$77,759 was the City's share.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**PUBLIC WORKS EMPLOYEES PENSION PLAN**

**General Information about the 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.

Vesting – Participants with five years of credible service are 50% vested in the plan. Upon reaching 10 years of credible service participants are fully vested in the plan.

Benefits provided – The City of Franklin Public Works Employees' Pension Plan provides retirement benefits to former bargaining employees of the City that are not covered under Wisconsin State Pension Plan (Wisconsin Retirement System), or who are regular part-time employees as defined by Civil Service and who have a minimum of 6 months of service. Employees who retire at or after age 60 are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) average compensation at retirement, (2) years of creditable service, and (3) a formula factor.

Average compensation at retirement is the average of the participant's three highest consecutive years' earnings out of the ten latest years prior to retirement. Creditable service is the creditable current and prior service expressed in years or fractional partial years for which a participant receives earnings. The formula factor is a standard percentage based on the plan provisions.

Employees may retire at age 55, with a minimum of 10 completed years of service and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may receive either normal retirement benefits at normal retirement date, or a lump-sum cash payment of participant's vested accumulations.

The plan also provides death and disability benefits for employees.

Participating employees - Membership in the plan as of date of study consisted of the following classes of participants:

Active employees	32
Terminated vested participants	5
Disabled participants	-
Retirees	17
Total	<u>54</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**PUBLIC WORKS EMPLOYEES PENSION PLAN (continued)**

**General Information about the Pension Plan (continued)**

Contributions - Contribution requirements are established through action of the City Council and may be amended only through city ordinance. Employees make a non-elective and non-discretionary pension contribution that is equal to 8.2% of their payroll. The City contributes all remaining amounts necessary to fund the pension plan. During the reporting period, contributions of \$293,632 were made by the City to the plan.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2015, the City reported a liability (asset) of \$1,111,690 for its net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2014. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
Differences between expected and actual experience	\$ 410,447	\$ -
Changes in assumptions	166,084	-
Net differences between projected and actual earnings on pension plan investments	97,813	-
Employer contributions subsequent to measurement date	<u>167,954</u>	<u>-</u>
Total	<u>\$ 842,298</u>	<u>\$ -</u>

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**PUBLIC WORKS EMPLOYEES PENSION PLAN (continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

The \$167,955 reported as deferred outflows related to pension resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 188,708	\$ -
2017	188,708	-
2018	188,708	-
2019	108,220	-
2020	-	-
Thereafter	-	-

Actuarial assumptions - The pension liability in the December 31, 2014 actuarial valuation was determined use the following actuarial assumptions, applied to all periods in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability (Asset):	December 31, 2014
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Market Value
Long-Term Expected Rate of Return:	7.3%
Discount Rate:	7.3%
Salary Increases	
Inflation:	2.3%
Seniority/Merit:	3.0%
Mortality:	2014 IRS Prescribed Mortality - Optioanl Combined Table for Small Plans

Actuarial assumptions are based upon an experience study conducted in 2014 using historical experience. The total pension liability for December 31, 2014 is based upon the liability calculated from the December 31, 2014 actuarial valuation.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**PUBLIC WORKS EMPLOYEES PENSION PLAN** (continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (continued)

Long-term Expected Return on Plan Assets - The long-term expected rate of return on pension plan investments was determined using the weighted average rate based on the target asset allocation and the Long-Term Capital Market Assumptions. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Real Rate of Return</u>	<u>Target Allocation</u>
US Equity - Large Cap	8.8%	38.8%
US Equity - Mid Cap	9.1%	4.9%
US Equity - Small Cap	9.6%	4.8%
Non-US Equity	9.2%	12.4%
REITs	8.4%	0.0%
Core Bonds	4.3%	35.1%
High Yield	6.3%	4.0%

Discount rate - A discount rate of 7.25% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a long term bond rate of 7.25%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

**PUBLIC WORKS EMPLOYEES PENSION PLAN (continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Sensitivity of the net pension liability to changes in the discount rate – The following presents the City’s net pension liability (asset) calculated using the discount rate of 7.25%, as well as what the City’s net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease to Discount Rate (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase to Discount Rate (8.25%)</u>
City's net pension liability (asset)	\$ 2,055,117	\$ 1,111,690	\$ 305,487

For the year ended December 31, 2015, the City recognized pension expense of \$323,200.

**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 2015, total contributions of \$396,948 or 10% of covered payroll were made. The City contributed \$198,448 and employees \$198,500. The City may make amendments to the Plan.

**CITY OF FRANKLIN, WISCONSIN  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2015**

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

**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 another 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.

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	34	75% of Premium at Retirement	62	20
Police	72	75% of Premium at Retirement	53	15
Dispatch	14	75% of 2005 Premium	62	20
Fire	54	75% of Premium at Retirement	53	20
DPW	28	75% of Premium at Retirement	60	15

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

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	\$ 324,393
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB expense	<u>324,393</u>
Contributions made	<u>(475,451)</u>
Increase in net OPEB obligation (asset)	(151,058)
Net OPEB obligation (asset) - beginning of year	-
Net OPEB obligation (asset) - end of year	<u>\$ (151,058)</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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
12/31/2015	\$ 324,393	146.6%	\$ (151,058)
12/31/2014	551,716	100.0%	-
12/31/2013	523,342	100.0%	-

Funding progress:

(A)	(B)	(C)	(D)	(E)	(F)	
Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Projected unit credit	Unfunded AAL (UAAL) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2016	\$ 4,537,189	\$ 5,815,218	\$ 1,278,029	78%	\$ 12,867,864	10%

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.

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

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.

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, 2015 was 22 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 6.75% 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 6.5% for years one and two, 6.0% for years three and four, reduced to an ultimate rate of 5.5% after thirteen years, was used.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

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

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 2009-2011 Experience Study".

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

**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 \$2,962,937 in outstanding contractual commitments relating to various Public Works projects and equipment purchases at December 31, 2015. The City has encumbered \$147,121 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.

**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.

**CITY OF FRANKLIN, WISCONSIN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

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

**E. RISK MANAGEMENT (continued)**

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, 2015 are as follows:

	<u>Balance Beginning of Year</u>	<u>Current Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance End of Year</u>
2015	\$ 370,500	\$ 3,296,302	\$ 3,396,302	\$ 270,500
2014	\$ 379,100	\$ 3,047,834	\$ 3,056,434	\$ 370,500

**F. RESTATEMENT**

The City adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* as of January 1, 2015. The standard revises and establishes new financial reporting requirements for most government that provide their employees with pension benefits. As a result, the City' beginning of the year net position has been restated as follows:

	<u>Governmental Funds</u>	<u>Water Utility</u>	<u>Sanitary Sewer</u>	<u>Business-type Activities</u>
Ending net position, December 31, 2015, as previously reported	\$122,708,989	\$ 46,541,606	\$ 46,354,839	\$ 92,896,445
Restatement to record beginning of the year deferred outflow for contributions made after the measurement date	929,213	37,987	20,720	58,707
Restatement to record beginning of the year WRS pension asset	3,399,508	-	-	-
Restatement to record beginning of the year DPW pension liability	<u>(130,642)</u>	<u>(69,840)</u>	<u>(38,095)</u>	<u>(107,935)</u>
Net position, January 1, 2015, as restated	<u>\$126,907,068</u>	<u>\$ 46,509,753</u>	<u>\$ 46,337,464</u>	<u>\$ 92,847,217</u>

**G. SUBSEQUENT EVENT**

On April 5, 2016 the City issued \$5,770,000 of General Obligation Refunding Bonds, series 2016A with maturity dates between March 1, 2017 and March 1, 2021. The bonds carry an interest rate of 2.00% and interest is payable March 1 and September 1, annually. The proceeds are to be used for refunding certain outstanding obligations.

**CITY OF FRANKLIN, WISCONSIN  
REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)  
December 31, 2015**

**City of Franklin Post Employment Benefit Trust  
Schedule of Funding Progress**

Actuarial Valuation Date	(A) Actuarial Asset Value	(B) Actuarial Accrued Liability (AAL) - Aggregate	(C) Unfunded AAL (UAAL) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2016	\$ 4,537,189	\$ 5,815,218	\$ 1,278,029	78%	\$ 12,867,864	10%
1/1/2014	3,908,637	7,095,993	3,187,356	55%	12,155,777	26%
1/1/2012	2,399,455	8,184,388	5,784,933	29%	11,553,455	50%

**CITY OF FRANKLIN, WISCONSIN**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**  
**December 31, 2015**

**Schedule of the City's Proportionate Share of the Net Pension Liability (Asset)**  
Wisconsin Retirement System

	<b>2015</b>
The City's proportion of the net pension liability (asset)	0.08411666%
The City's proportionate share of the net pension liability (asset)	\$ (2,066,135)
The City's covered-employee payroll	\$ 8,071,472
Plan fiduciary net position as a percentage of the total pension liability (asset)	103%

**Schedule of the City's Contributions**  
Wisconsin Retirement System

	<b>2015</b>
Contractually required contributions	\$ 815,219
Contributions in relation to the contractually required contributions	\$ 815,219
Contribution deficiency (excess)	\$ -
City's covered - employee payroll	\$ 8,071,472
Contributions as a percentage of covered-employee payroll	10%

CITY OF FRANKLIN, WISCONSIN  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
AND RELATED RATIOS MULTIYEAR (UNAUDITED)  
Last 10 Fiscal Years (Which May be Built Prospectively)  
Public Works Employee Pension Plan

Fiscal Year Ending December 31,

2015

**Total Pension Liability**

Service Cost	\$	165,130
Interest on the Total Pension Liability		531,850
Benefit Changes		-
Difference between Expected and Actual Experience		527,384
Assumption Changes		213,402
Benefit Payments		(191,375)
Refunds		-
<b>Net Change in Total Pension Liability</b>		<b>1,246,391</b>
<b>Total Pension Liability - Beginning</b>		<b>7,022,369</b>
<b>Total Pension Liability - Ending</b>	<b>\$</b>	<b>8,268,760</b>

**Plan Fiduciary Net Position**

Employer Contributions	\$	293,632
Employee Contributions		-
Pension Plan Net Investment Income		377,842
Benefit Payments		(191,375)
Refunds		-
Pension Plan Administrative Expense		(27,941)
Other		-
<b>Net Change in Plan Fiduciary Net Position</b>		<b>452,158</b>
<b>Plan Fiduciary Net Position - Beginning</b>		<b>6,704,912</b>
<b>Plan Fiduciary Net Position - Ending</b>	<b>\$</b>	<b>7,157,070</b>

**Net Pension Liability (Asset) Ending**

\$ 1,111,690

**Plan Fiduciary Net Position as a Percentage of Total Pension Liability**

87%

**Covered Payroll**

\$ 1,792,628

**Net Pension Liability as a Percentage of Covered Payroll**

62%

**Notes to Schedule:**

Information prior to 2015 is not available

**CITY OF FRANKLIN, WISCONSIN**  
**SCHEDULE OF CONTRIBUTIONS MULTIYEAR (UNAUDITED)**  
**Last 10 Fiscal Years (Which May be Built Prospectively)**  
 Public Works Employee Pension Plan

Fiscal Year Ending December 31,	Actuarially	Actual	Contribution	Contribution	Covered	Actual Contribution
	Determined	Contribution	(Excess)	Payroll	as a % of	
	Contribution	Contribution	(Excess)	Payroll	Covered Payroll	
2015	\$ 293,632	\$ 293,632	\$ -	\$ 1,792,628		16%

**Notes to Schedule:**  
 Information prior to 2015 is not available

**CITY OF FRANKLIN, WISCONSIN**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2015**

**NOTE 1 - FUNDING PROGRESS DATA**

The data presented in the Schedule of Funding Progress for City of Franklin Public Works Employees' Pension Plan was taken from the reports issued by the actuary.

**NOTE 2 - WISCONSIN RETIREMENT SYSTEM**

Changes of benefit terms. There were no changes of benefit terms for any participating employer in WRS.

Changes of assumptions. There were no changes in the assumptions.