

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the City of Franklin's (the "City") 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. The reporting entity for the City consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable or 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. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organizations should also be reported as a component unit 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 or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the primary government and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the primary government. The City has not identified any component units required to be discretely presented.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

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 had no financial transactions during 2017, nor does the Authority own any assets or liable for any debt. Therefore, no financial statements are presented in this report. The Authority does not issue separate financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. This Statement replaces the requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. This standard was implemented January 1, 2017.

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. This standard was implemented January 1, 2017.

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.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 of resources, liabilities, deferred inflows of resources, net position/fund equity, revenue and expenditures/expenses. 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.

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.

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.

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.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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, Tourism Commission, 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.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of resources. 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. At December 31, 2017, there were \$481,411 of anticipated future assessments. This is not reported as receivables because collection is subject to certain events occurring in the future and no formal repayment schedule has been established.

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 of resources 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 inflows of resources.

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

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

Fund Financial Statements (continued)

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 of resources.

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

Deferred inflows of resources are reported on the governmental funds balance sheet. Deferred inflows of resources 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 non-operating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal operations. The principal operating revenue of the Water and Sanitary Sewer funds are charges to customers for sales and services provided. The rates billed in the Water Utility are approved by the Public Service Commission. Sanitary sewer charges are billed at rates established by City policy based on the charges received from the Milwaukee Metropolitan 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 non-operating 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
As of and for the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES 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
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES 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 to 75% of total assets to be invested.

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 methods and inputs as outlined in Note 3.A. 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 (loss). Investment income (loss) 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, 2017, 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
As of and for the Year Ended December 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES 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 – 2017 tax roll:

Lien date and levy date	December 2017
Tax bills mailed	December 2017
Payment in full, or	January 31, 2018
First installment due	January 31, 2018
Second installment due	March 31, 2018
Third installment due	May 31, 2018
Personal property taxes in full	January 31, 2018
Final tax settlement with County	August 20, 2018
Tax deed by County – 2017	
Delinquent real estate taxes	October 2020

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
As of and for the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES 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, if any, is 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. Benefit Obligations

For purposes of measuring the net pension obligations (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
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (continued)

5. Benefit Obligations (continued)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City of Franklin Post Employment Benefits Trust and additions to/deductions from the City of Franklin Post Employment Benefits Trust's fiduciary net position have been determined on the same basis as they are reported by the City of Franklin Post Employment Benefits Trust. For this purpose, the City of Franklin Post Employment Benefits Trust recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 \$5,000 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 acquisition 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. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to the applicable function.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by asset type follows:

Buildings and improvements	5-50 Years
Machinery and equipment	2-30 Years
Water and sewer infrastructure	20-100 Years
Infrastructure	20-90 Years

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (continued)

6. Capital Assets (continued)

Fund Financial Statements

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

7. Deferred Inflows of Resources and Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time. A deferred inflow of resources represents an acquisition of net position/fund balance that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

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 obligation (asset) are amortized over the period determined to be affected by the change. The balance at year end of these items is reported 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.

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

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (continued)

8. Compensated Absences (continued)

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.

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.

For the government-wide statements and proprietary fund statements, bond premiums and discounts are amortized over the life of the issue using the interest rate method. The balance at year end is shown as an increase or decrease in the liability section of the statement of net position.

The City has approved issuance of industrial development revenue bonds (IDRB) for the benefit of private business enterprises. IDRBS are secured by mortgages or revenue agreements on associated projects of the business enterprises. The IDRBS do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the financial statements. Five series of Industrial Revenue Bonds originally issued with an aggregate principal amount of \$13,075,000 are outstanding with a December 31, 2017 balance of \$7,371,535.

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
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES 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 net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation; and includes 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.

The net position section includes an adjustment for capital assets owned by the business-type activities column, but financed by the debt of the governmental activities column. The amount is a reduction of “net investment in capital assets”, and an increase in “unrestricted” net position, shown only in the total column. A reconciliation of this adjustment is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Adjustment</u>	<u>Total</u>
Net investment in capital assets	\$ 115,417,617	\$ 86,584,568	\$ (155,290)	\$ 201,846,895
Unrestricted	11,303,345	4,179,263	155,290	15,637,898

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.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (continued)

11. Equity Classifications (continued)

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 (committed 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, commit 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. The City does not report any committed fund balance.

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.

The City has adopted a fund balance policy (Res. 2016-7216) for all governmental funds supported by tax levy as follows: the ratio of year end fund balance to current year Expenditures shall target a range between 20 and 30%. The amount of Fund Balance will be taken into consideration when establishing the following year's budget. At least 15% of the succeeding year expenditure budget be maintained for working capital. Any non-spendable fund balance of the General Fund shall be excluded from the ratio. As of the year ended December 31, 2017, the City was in compliance with the fund balance policy.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION OR EQUITY (continued)

12. 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, 2016 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, TID #3, TID #4, TID #5, Library Operating, Library Auxiliary, Solid Waste Collection, Civic Celebrations, St Martin's Fair, Donations, Grant, Capital Outlay, Equipment Replacement, Capital Improvement, Street Improvement, Utility Improvement, Development, Sanitary Sewer and Water Utility funds. A budget has not been formally adopted for the Tourism Commission Fund.

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 amounted to approximately \$1.3 million. Budgets are adopted for personnel and non-personnel expenditures at the function level.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

B. LIMITATIONS ON THE CITY'S TAX LEVY

Wisconsin law limits the City's future tax levies. Generally the City is limited to its prior tax levy dollar amount (excluding TIF Districts), increased by the greater of the percentage change in the City's equalized value due to new construction or zero percent. Changes in debt service from one year to the next are generally exempt from this limit with certain exceptions. The City is required to reduce its allowable levy by the estimated amount of fee revenue increase it collects for certain services, if those services were funded in 2013 by the property tax levy. Levies can be increased above the allowable limits if the amount is approved by referendum.

C. EXCESS EXPENDITURES OVER APPROPRIATIONS

The City controls expenditures at the function level (e.g. public safety). For the year ended December 31, 2017 the following fund functions had expenditures exceeding budget:

Fund/Function	Budget Expenditures	Actual Expenditures	Excess Expenditures Over Budget
Civic Celebration			
Culture, recreation, and education	\$ 129,337	\$ 136,353	\$ 7,016
Donation			
Culture, recreation, and education	2,000	2,104	104

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 accounts and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

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, 2017, 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. This coverage has not been considered in computing custodial credit risk.

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, 2017 statement of net position are subject to the following risks:

	Carrying Value	Bank & Investment Balances	Risks
Local Government Investment Pool	\$ 1,368,906	\$ 1,368,906	Credit
Money market funds	234,502	234,502	Custodial credit
Certificates of deposit	1,000,000	1,000,000	Custodial credit
U.S. agencies	13,027,030	13,027,030	Credit, custodial credit, interest rate and concentration of credit
Municipal bonds	1,008,760	1,008,760	Credit, custodial credit, interest rate and concentration of credit
Corporate notes	<u>2,001,408</u>	<u>2,001,408</u>	Credit, custodial credit, interest rate and concentration of credit
Total fixed income investments	18,640,606	18,640,606	
Equity funds	3,684,632	3,684,632	Custodial credit
Fixed income funds	1,749,564	1,749,564	Credit and interest rate
Cash and demand deposits	70,612,961	63,005,109	Custodial credit
Total	<u>\$ 94,687,763</u>	<u>\$ 87,079,911</u>	

Reconciliation to the financial statements is shown below:

Per Statement of Net Position	
Primary Government:	
Unrestricted cash and investments	\$ 30,869,588
Restricted cash and investments	178,590
Per Statement of Fiduciary Net Position - Fiduciary Funds	
Agency Fund	58,030,499
City of Franklin Post Employment Benefits Trust	5,609,086
	<u>\$ 94,687,763</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

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, 2017, none of the City's total bank balances of \$63,005,109 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 have a tri-party relationship with the investments held by a party independent of the party managing the investment.

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, 2017, 70.5% 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 8.7%, and Aa2 at 4.4%. The portfolio makeup of fixed income investments was treasury and agency securities at 56.5%, corporate securities at 8.7%, Municipal Bonds at 4.4%, Local Government Investment Pool at 5.9% and money market funds at 1.0%. The Local Government Investment Pool is not rated. Equities and fixed income mutual funds held in trust at 23.6% make up the remainder of the investments and are not individually 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 December 31, 2017 no issuer other than U.S. Treasury and Agency securities that have the full faith guarantee of the U.S. government 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.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

As of December 31, 2017, the City's investments exposed to interest rate risk were as follows:

Investment type	Fair Value	Investment Maturity in years			
		Less than 1	2 - 3	4 - 5	6 - 7
U.S. treasuries and agencies	\$ 13,027,030	\$ 2,097,973	\$ 8,419,014	\$ 2,510,042	\$ -
Municipal bonds	1,008,760	1,008,760	-	-	-
Corporate notes	2,001,408	1,004,202	997,206	-	-
Fixed income funds	1,749,564	149,739	348,554	346,013	905,258
Total	\$ 17,786,762	\$ 4,260,674	\$ 9,764,774	\$ 2,856,055	\$ 905,258

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

Market approach – prices or other information from market transactions involving identical or similar assets.

Investment Type	As of December 31, 2017:			
	Level 1	Level 2	Level 3	Total
US treasuries and agencies	\$ -	\$ 13,027,030	\$ -	\$ 13,027,030
Municipal bonds	-	1,008,760	-	1,008,760
Corporate notes	-	2,001,408	-	2,001,408
Total	-	16,037,198	-	16,037,198
Equity funds	3,684,632	-	-	3,684,632
Fixed income funds	1,749,564	-	-	1,749,564
Total	\$ 5,434,196	\$ 16,037,198	\$ -	\$ 21,471,394

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 \$ 66,184 at December 31, 2017. Other than the special assessment receivables, all other receivables are expected to be collected within one year.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

B. RECEIVABLES (continued)

Governmental funds report unavailable or unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Governmental funds:			
Subsequent year property taxes	\$ -	\$ 24,734,269	\$ 24,734,269
Special assessments not yet due	845,383	-	845,383
Total deferred inflows of resources for governmental funds	\$ 845,383	\$ 24,734,269	\$ 25,579,652

C. DUE FROM OTHER GOVERNMENTS

In 2011, the City entered into an intergovernmental cooperation agreement with another government for the construction and financing of the Ryan Creek Interceptor Sewer. The terms of this agreement include that 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 continue over the life of the loan, ending in 2031. This is presented as due from other governments in the statement of net position. Annual principal and interest payments to maturity received as part of this agreement are as follows:

Year Ending December 31	Business-type Activities	
	Principal	Interest
2018	\$ 1,214,723	\$ 477,809
2019	1,244,629	447,534
2020	1,275,272	416,514
2021	1,306,669	384,731
2022	1,338,839	352,164
2023-27	7,205,164	1,243,562
2028-31	6,429,397	321,395
Total	\$ 20,014,693	\$ 3,643,709

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, 2017 is \$178,590.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

E. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated:				
Land	\$ 24,623,751	\$ 449,200	\$ -	\$ 25,072,951
Construction in progress	1,019,925	1,964,333	2,541,453	442,805
Total capital assets not depreciated	<u>25,643,676</u>	<u>2,413,533</u>	<u>2,541,453</u>	<u>25,515,756</u>
Capital assets depreciated:				
Buildings & improvements	26,770,132	210,159	119,949	26,860,342
Machinery & equipment	17,924,405	954,579	316,675	18,562,309
Infrastructure	98,419,149	6,003,168	28,471	104,393,846
Total capital assets depreciated	<u>143,113,686</u>	<u>7,167,906</u>	<u>465,095</u>	<u>149,816,497</u>
Less: Accumulated depreciation for:				
Buildings & improvements	10,276,432	675,001	41,981	10,909,452
Machinery & equipment	10,846,700	1,006,333	314,956	11,538,077
Infrastructure	29,234,784	1,754,533	28,471	30,960,846
Total accumulated depreciation	<u>50,357,916</u>	<u>3,435,867</u>	<u>385,408</u>	<u>53,408,375</u>
Net capital assets depreciated	<u>92,755,770</u>	<u>3,732,039</u>	<u>79,687</u>	<u>96,408,122</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 118,399,446</u>	<u>\$ 6,145,572</u>	<u>\$ 2,621,140</u>	<u>\$ 121,923,878</u>

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 140,355
Public safety	696,026
Public works	2,093,744
Health & human services	3,997
Culture & recreation	500,365
Conservation & development	1,380
Total governmental activities depreciation expense	<u>\$ 3,435,867</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

E. CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Dispositions	Transfers	Ending Balance
Business-type Activities					
Capital Assets not depreciated:					
Land	\$ 888,479	\$ -	\$ -	\$ -	\$ 888,479
Capital assets depreciated:					
Buildings & improvements	6,677,157	-	-	5,285	6,682,442
Machinery & equipment	5,385,346	500,158	130,381	(5,285)	5,749,838
Infrastructure	134,145,872	43,241	-	-	134,189,113
Total capital assets depreciated	<u>146,208,375</u>	<u>543,399</u>	<u>130,381</u>	<u>-</u>	<u>146,621,393</u>
Less: Accumulated depreciation for:					
Buildings & improvements	1,510,169	206,796	-	-	1,716,965
Machinery & equipment	3,594,289	255,261	130,381	178,460	3,897,629
Infrastructure	31,508,030	2,851,872	-	(178,460)	34,181,442
Total accumulated depreciation	<u>36,612,488</u>	<u>3,313,929</u>	<u>130,381</u>	<u>-</u>	<u>39,796,036</u>
Net capital assets depreciated	<u>109,595,887</u>	<u>(2,770,530)</u>	<u>-</u>	<u>-</u>	<u>106,825,357</u>
Business-type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 110,484,366</u>	<u>\$ (2,770,530)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,713,836</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Water	\$ 1,194,029
Sewer	<u>2,119,900</u>
Total business-type activities depreciation expense	<u>\$ 3,313,929</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

F. LEASE DISCLOSURES

OPERATING LEASES

The City has entered into several lease agreements with telecommunications companies, wherein the City has agreed to allow the use of water utility property for the purpose of telecommunication relays. Revenue from this activity totaled \$ 106,081 for the year ended December 31, 2017. Future minimum lease payments receivable in conjunction with the leases are as follows:

Fiscal Year	Governmental Activities	Business-Type Activities	Total
2018	\$ 55,892	\$ 55,892	\$ 111,784
2019	43,218	43,218	86,436
2020	20,778	20,778	41,556
2021	1,913	1,913	3,826
Totals	<u>\$ 121,801</u>	<u>\$ 121,801</u>	<u>\$ 243,602</u>

G. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS

Interfund receivables/payables 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.

The interfund receivables and payables at December 31, 2017 are as follows:

Payable Fund	Receivable Fund			Total
	General	Water Utility	Sanitary Sewer	
General	\$ -	\$ 18,352	\$ -	\$ 18,352
TIF Districts	24,695	-	-	24,695
Non-Major	36,552	-	-	36,552
Water Utility	4,495	-	44,650	49,145
Sanitary Sewer	-	20,908	-	20,908
Totals	<u>\$ 65,742</u>	<u>\$ 39,260</u>	<u>\$ 44,650</u>	<u>\$ 149,652</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

G. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS (continued)

Advances

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. 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 TIF District resources are available. In 2017, the City made an advance payment on the Public Works Defined Benefit Pension Plan. In doing so, advanced \$155,700 to the Water Utility on a ten year note to aid the Water Utility portion of the payment.

Payable Fund	Receivable Fund			Total	Due within one year
	General	Capital Projects Development	Internal Service		
TIF Districts	\$ 75,000	\$ 25,000	\$ 25,000	\$ 125,000	\$ 125,000
Water Fund	155,700	-	-	155,700	16,000
	<u>\$ 230,700</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 280,700</u>	<u>\$ 141,000</u>

Transfers

Generally, transfers are used to (1) move revenue from the funds that collect them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund and (3) use unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers as presented on the fund financial statements during the year ended December 31, 2017 were as follows:

Transfers In	Transfers Out			
	General Fund	Nonmajor Governmental Funds	Enterprise Funds	Fund Totals
General Fund	\$ -	\$ 26,950	\$ 1,032,843	\$ 1,059,793
Debt Service Fund	-	113,997	-	113,997
Nonmajor Governmental Funds	57,138	661	-	57,799
Total	<u>\$ 57,138</u>	<u>\$ 141,608</u>	<u>\$ 1,032,843</u>	<u>\$ 1,231,589</u>

Current year transfers into the debt service fund from nonmajor governmental funds were completed for principal and interest payments. Transfers from the enterprise funds to the general fund were for tax-equivalent payments. All other transfers were completed for general operational purposes and capital activities.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

G. INTERFUND RECEIVABLES/PAYABLES, ADVANCES AND TRANSFERS (continued)

Transfers (continued)

A reconciliation of fund statement transfers to government wide transfers for the year ended December 31, 2017 is as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Transfers in per fund statements	\$ 1,231,589	\$ -
Transfers out per fund statements	(198,746)	(1,032,843)
Capital Contributions from governmental funds to enterprise funds	(43,241)	43,241
Government Wide Transfers	<u>\$ 989,602</u>	<u>\$ (989,602)</u>

H. LONG TERM OBLIGATIONS

General Obligation Debt

Long-term liabilities for the year ended December 31, 2017 were as follows:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amounts due within one year</u>
Governmental Activities					
General obligation debt	\$ 10,245,000	\$ 1,630,000	\$ 3,030,000	\$ 8,845,000	\$ 2,315,000
Premium	260,403	51,071	93,852	217,622	-
Sub-total	<u>10,505,403</u>	<u>1,681,071</u>	<u>3,123,852</u>	<u>9,062,622</u>	<u>2,315,000</u>
Compensated absences					
Accrued vacation pay	451,180	1,017,970	1,041,653	427,497	427,496
Accrued severance pay	1,403,107	149,098	140,959	1,411,246	114,247
Accrued compensatory time	<u>196,464</u>	<u>275,865</u>	<u>288,969</u>	<u>183,360</u>	<u>183,359</u>
Total compensated absences	2,050,751	1,442,933	1,471,581	2,022,103	725,102
Net pension obligation - WRS	1,344,496	-	651,834	692,662	-
Net pension obligation - City of Franklin Defined Benefit Retirement Plan	788,557	808,904	-	1,597,461	-
Net OPEB obligation	<u>2,296,829</u>	<u>-</u>	<u>302,532</u>	<u>1,994,297</u>	<u>-</u>
Total benefit obligations	<u>6,480,633</u>	<u>2,251,837</u>	<u>2,425,947</u>	<u>6,306,523</u>	<u>725,102</u>
Governmental activities					
Long-term liabilities	<u>\$ 16,986,036</u>	<u>\$ 3,932,908</u>	<u>\$ 5,549,799</u>	<u>\$ 15,369,145</u>	<u>\$ 3,040,102</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

H. LONG TERM OBLIGATIONS (continued)

General Obligation Debt (continued)

	Restated Beginning Balance	Additions	Deletions	Ending Balance	Amounts due within one year
Business-type Activities					
General obligation debt	\$ 22,380,228	\$ -	\$ 1,240,535	\$ 21,139,693	\$ 1,269,723
Discount	(11,534)	-	(1,109)	(10,425)	-
Subtotal	<u>22,368,694</u>	<u>-</u>	<u>1,239,426</u>	<u>21,129,268</u>	<u>1,269,723</u>
Compensated absences					
Accrued vacation pay	44,933	45,048	43,832	46,149	46,149
Accrued severance pay	75,694	-	446	75,248	4,091
Accrued compensatory time	<u>27,506</u>	<u>7,120</u>	<u>5,980</u>	<u>28,646</u>	<u>28,646</u>
Total compensated absences	148,133	52,168	50,258	150,043	78,886
Net OPEB obligation	45,440	-	5,986	39,454	-
Net pension obligation - City of Franklin Defined Benefit Retirement Plan					
	<u>383,148</u>	<u>396,565</u>	<u>-</u>	<u>779,713</u>	<u>-</u>
Total Benefit Obligations	<u>576,721</u>	<u>448,733</u>	<u>56,244</u>	<u>969,210</u>	<u>78,886</u>
Business-type activities					
Long-term liabilities	<u>\$ 22,945,415</u>	<u>\$ 448,733</u>	<u>\$ 1,295,670</u>	<u>\$ 22,098,478</u>	<u>\$ 1,348,609</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

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, 2016 are as follows:

Type	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance Outstanding 12/31
General obligation Refunding Bonds	4/20/2016	2.0%	3/1/17-21	3/1 & 9/1	\$ 5,770,000	\$ 4,560,000
General obligation promissory notes	12/18/14	2.0% - 2.5%	3/1/15-24	3/1 & 9/1	5,320,000	2,655,000 ¹
General Obligation Notes	12/21/17	2.5% - 3.0%	3/1/19-27	3/1 & 9/1	1,630,000	<u>1,630,000</u> ⁴
Total Governmental Activities Debt						<u>\$ 8,845,000</u>
Business-type Activity Debt						
General obligation Clean Water Fund Loan	1/25/12	2.46%	5/1/14-31	5/1 & 11/1	27,562,754	\$ 20,014,693 ²
General obligation Bonds	12/18/14	2.0% - 3.125%	3/1/15-34	3/1 & 9/1	1,290,000	<u>1,125,000</u> ³
Total Business-type Activities Debt						<u>\$ 21,139,693</u>

¹ Issued 63% for capital TIF purposes and 37% for general capital purposes, ² Issued for a sewer extension on W Ryan Rd, ³ Issued for water building purposes. ⁴ Issued for general Capital Improvement purposes.

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 2,315,000	\$ 140,045	\$ 1,269,723	\$ 509,746
2019	1,405,000	88,788	1,299,629	478,371
2020	1,325,000	62,412	1,330,272	446,251
2021	1,345,000	36,262	1,366,669	413,018
2022	560,000	19,319	1,398,839	378,652
2023-27	1,895,000	15,900	7,520,164	1,348,326
2028-32	-	-	6,794,397	374,970
2033-34	-	-	160,000	5,000
Total	<u>\$ 8,845,000</u>	<u>\$ 362,726</u>	<u>\$ 21,139,693</u>	<u>\$ 3,954,334</u>

The City's statutory debt limit and margin of indebtedness at December 31, 2017 are \$194,446,310 and \$ 164,461,617, respectively. By City debt policy, the debt limit and margin of indebtedness limit are \$ 77,778,524 (40% of the limit prescribed by law) and \$ 47,793,831, respectively.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

H. LONG TERM OBLIGATIONS (continued)

On September 19, 2017 the Common Council adopted Resolution 2017-7299 authorizing the issuance of \$42.75 million of Note Anticipation Notes. As of December 31, 2017 – all \$42.75 million of NAN authorized values are remaining to be issued.

I. NET POSITION/FUND BALANCES

Governmental Activities

Governmental activities net position reported on the government-wide statement of net position at December 31, 2017 include the following:

Net investment in capital assets	
Land	\$ 25,072,951
Construction in process	442,805
Other capital assets, net of accumulated depreciation	96,408,122
Less: related long term debt outstanding, net of unspent bond proceeds	<u>(6,506,261)</u>
Net investment in capital assets	<u>\$ 115,417,617</u>

Business-type Activities

Business-type activities net position reported on the government-wide statement of net position at December 31, 2017 include the following:

Net investment in capital assets	
Land	\$ 888,479
Other capital assets, net of accumulated depreciation	106,825,357
Less: related long term debt outstanding	<u>(21,129,268)</u>
Net investment in capital assets	<u>\$ 86,584,568</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

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, 2017 include the following:

Nonspendable fund balances	
General Fund - advances	\$ 230,700
General Fund - prepaid items and inventory	15,848
Library Fund - prepaid items	650
Total nonspendable fund balance	<u>\$ 247,198</u>
Restricted fund balances	
Debt service	\$ 735,022
Utility improvements	1,413,378
Development	4,166,500
TIF Districts	2,405,999
Donations	150,136
Health services	199,428
Library services	580,430
Solid waste	393,677
Recreational services	65,727
Tourism Commission	211,793
Total restricted fund balance	<u>\$ 10,322,090</u>
Assigned Fund balances:	
General Fund - purchases on order	\$ 150,565
Capital Projects:	
Capital outlay	353,040
Equipment replacement	2,311,815
Capital improvement	3,795,493
Street improvement	286,266
Total assigned fund balances	<u>\$ 6,897,179</u>
Unassigned fund balances	
General Fund	\$ 6,190,398
TIF Districts (Deficit)	(183,998)
St Martin's Fair (Deficit)	(34,452)
Total unassigned fund balances	<u>\$ 5,971,948</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION

A. DEFINED BENEFIT PENSION PLANS

Wisconsin Retirement System (Protective Occupation Employees only)

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 and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

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.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Wisconsin Retirement System (continued)

General Information about the Pension Plan (continued)

Benefits provided. Employees who retire at or after age 54 for protective occupation employees 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 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.

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
2007	3.0%	10%
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Wisconsin Retirement System (continued)

General Information about the Pension Plan (continued)

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. 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 \$818,075 in contributions from the employer.

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

Contribution rates as of December 31, 2017 are:

Employee Category	Employee	Employer
Protective with Social Security	6.8%	12.0%

At December 31, 2017, the City reported a liability of \$692,662, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. 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 was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the City's proportion was 0.08403662%, which was an increase of 0.00129740%, from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the City recognized pension expense of \$1,846,839, which includes amounts paid to WRS related to duty disability payments.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

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, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 264,113	\$ 2,178,363
Changes in assumptions	724,205	-
Net differences between projected and actual earnings on pension plan investments	3,447,854	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	69,377	18,408
Employer contributions subsequent to the measurement date	<u>1,074,037</u>	<u>-</u>
Total	<u>\$ 5,579,586</u>	<u>\$ 2,196,771</u>

The \$1,074,037 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 pension liability in the year ended December 31, 2018 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:

Year ended December 31:

2018	\$939,511
2019	939,511
2020	638,907
2021	(210,133)
2022	982

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

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 assumptions. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2015
Measurement Date of Net Pension Liability (Asset)	December 31, 2016
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% - 5.6%
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 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

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.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

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)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Core Fund Asset Class</u>	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50%	45%	8.3%	5.4%
Fixed Income	24.5	37	4.2	1.4
Inflation Sensitive Assets	15.5	20	4.3	1.5
Real Estate	8	7	6.5	3.6
Private Equity/Debt	8	7	9.4	6.5
Multi-Asset	4	4	6.6	3.7
Total Core Fund	110	120	7.4	5.0
<u>Variable Fund Asset Class</u>				
US Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%
Asset allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

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
As of and for the Year Ended December 31, 2017**

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)	\$ 9,112,418	\$ 692,662	\$ (5,790,931)

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 \$131,664 as of December 31, 2017, of which \$84,041 was the City's share.

City of Franklin Defined Benefit Retirement Income Plan

General Information about the Pension Plan

Plan Description - The City is also a participant in the City of Franklin Defined Benefit Retirement Income 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 Defined Benefit Retirement Income 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.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

City of Franklin Defined Benefit Retirement Income Plan (continued)

General Information about the Pension Plan (continued)

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	31
Terminated vested participants	6
Retirees	22
Total	59

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 \$302,518 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, 2017, the City reported a liability of \$2,377,179 for its net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

City of Franklin Defined Benefit Retirement Income Plan (continued)

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

Current year changes in the net pension liability were as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2016	\$ 8,364,462	\$ 7,192,757	\$ 1,171,705
Changes for the year:			
Service cost	154,889	-	154,889
Interest	606,747	-	606,747
Difference between expected and actual experience	425,998	-	425,998
Changes of assumptions	709,323	-	709,323
Contributions - employer	-	302,518	(302,518)
Net investment income	-	409,272	(409,272)
Benefit payments	(296,465)	(296,465)	-
Administrative Expense	-	(20,307)	20,307
Balance at December 31, 2017	<u>\$ 9,964,954</u>	<u>\$ 7,587,775</u>	<u>\$ 2,377,179</u>

At December 31, 2017, 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	\$ 488,362	\$ 214,177
Changes in assumptions	596,342	-
Net differences between projected and actual earnings on pension plan investments	473,050	-
Employer contributions subsequent to measurement date	983,537	-
Total	<u>\$ 2,541,291</u>	<u>\$ 214,177</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

City of Franklin Defined Benefit Retirement Income Plan (continued)

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

The \$983,537 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 in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31:

2016	\$	507,330
2017		457,989
2018		356,234
2019		22,024

Actuarial assumptions - The pension liability in the December 31, 2016 actuarial valuation was determined use the following actuarial assumptions, applied to all periods in the measurement:

Actuarial Valuation Date:	December 31, 2015
Measurement Date of Net Pension Liability (Asset):	December 31, 2016
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Market Value
Long-Term Expected Rate of Return:	7.00%
Discount Rate:	6.54%
Salary increase - Inflation:	2.00%
Salary increase - Seniority/Merit:	3.00%
Mortality:	2016 IRS Prescribed Mortality - Optional 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, 2016 is based upon the liability calculated from the December 31, 2015 actuarial valuation.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

City of Franklin Defined Benefit Retirement Income 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:

Asset Class	Long-Term Real Rate of Return	Target Allocation
US Equity - Large Cap	7.85%	40.36%
US Equity - Mid Cap	8.10%	4.80%
US Equity - Small Cap	8.55%	2.43%
Non-US Equity	8.10%	12.47%
Core Bonds	3.75%	35.88%
High Yield	6.70%	4.00%

Discount rate - A discount rate of 6.54% 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 7.00% and a long term bond rate of 4.09%. The projection of cash flows used to determine the 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
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

City of Franklin Defined Benefit Retirement Income 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 calculated using the discount rate of 6.54%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.54%) or 1-percentage-point higher (7.54%) than the current rate:

	1% Decrease to Discount Rate (5.54%)	Current Discount Rate (6.54%)	1% Increase to Discount Rate (7.54%)
City's net pension liability	\$ 3,500,724	\$ 2,377,179	\$ 1,418,719

For the year ended December 31, 2017, the City recognized pension expense of \$407,270.

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 2017, total contributions of \$414,676 or 10% of covered payroll were made. The City contributed \$202,272 and employees \$202,272. The City may make amendments to the Plan.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

C. POST-EMPLOYMENT HEALTH CARE BENEFITS

General Information About the OPEB Plan

Plan administration and description. The City administers the City of Franklin Post-Employment Benefits Trust (City OPEB Plan), a single-employer defined benefit OPEB plan that is used to provide post-employment health care benefits for all eligible full-time employees of the City. Management of the City OPEB Plan is vested in the City's Common Council. Separate financial statements are not prepared for the City OPEB Plan.

Benefits provided. 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.

Employees covered by benefit terms. At December 31, 2017, the following employees were covered by the benefit terms:

Active employees	179
Inactive employees entitled to by not yet receiving benefits	-
Retirees receiving benefits	<u>24</u>
Total	<u><u>203</u></u>

Contributions. 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
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

C. POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

Investments

Investment policy. The City is authorized to invest funds of the City OPEB Plan in accordance with the City's investment policy for the City OPEB Plan.

The long-term expected rate of return on OPEB plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity (maximum)	75%	10.0%
Domestic equity (minimum)	25	10.0
Fixed income (maximum)	50	2.5
Fixed income (minimum)	25	2.5

Concentrations. All OPEB plan assets have been invested in bonds and equity securities. See Note 3.A for additional information.

Rate of return. The annual money-weighted rate of return on investments, net of investment expense for 2017 was 13.6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

C. POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

Net OPEB Liability

The City's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	2.00 percent, average, including inflation
Investment rate of return	6.50 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	-2.5% for 2018, 7.0% for 2019, 6.5% for 2020 and 2021, 6.0% for 2022 and 2023 and 5.5% for 2024 and thereafter

Mortality rates were based on a blend of the Death-In-Service and Retired Lives mortality rates from the "Wisconsin Retirement System 2012 – 2014 Experience Study" with the MP-2015 generational improvement scale (multiplied by 50%).

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2012 – December 31, 2014.

Discount rate. The discount rate used to measure the total OPEB liability was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates over the next 40 years. This rate is a blend of expected earnings on Plan assets and the current yield for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The discount rate used for the December 31, 2017 valuation was reduced 0.25% from the previous valuation.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

C. POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
	(a)	(b)	(a) - (b)
Balance at December 31, 2016	\$ 7,312,825	\$ 4,970,556	\$ 2,342,269
Changes for the year:			
Service cost	223,719	-	223,719
Interest	489,875	-	489,875
Contributions - employer	-	422,684	(422,684)
Net investment income	-	323,086	(323,086)
Benefit payments	(418,905)	(418,905)	-
Estimated Balance at December 31, 2017	\$ 7,607,514	\$ 5,297,421	\$ 2,310,093
Difference between estimated and actual Plan Fiduciary Net Position	-	276,342	(276,342)
Actual Balance at December 31, 2017	\$ 7,607,514	\$ 5,573,763	\$ 2,033,751

Plan fiduciary net position as a percentage of the total OPEB liability 73.27%

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current discount rate:

	1% Decrease to Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase to Discount Rate (7.5%)
	(5.5%)	(6.5%)	(7.5%)
City's net OPEB liability	\$ 3,026,996	\$ 2,310,094	\$ 1,664,690

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

C. POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

Changes in the Net OPEB Liability (continued)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.0 percent decreasing to 4.5 percent) or 1-percentage-point higher (8.0 percent decreasing to 6.5 percent) than the current healthcare cost trend rates:

	1% Decrease to (6.0% Decreasing to 4.5%)	Healthcare Cost Trend Rates (7.0% Decreasing to 5.5%)	1% Increase to (8.0% Decreasing to 6.5%)
City's net OPEB liability \$	1,722,862	\$ 2,310,094	\$ 2,974,885

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2017, the City recognized negative OPEB expense of \$308,518. At December 31, 2017, the City did not report any deferred outflows of resources or deferred inflows of resources related to OPEB.

Payable to the OPEB Plan

At December 31, 2017, the City does not report a payable for any outstanding amount of contributions to the City OPEB Plan required for the year ended December 31, 2017.

D. CONTINGENCIES AND COMMITMENTS

The City at times is party to claims and legal proceedings. Although the outcome of such matters in 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.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

D. CONTINGENCIES AND COMMITMENTS (continued)

The City has encumbered approximately \$1.3 million 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.

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 and \$75,000 per year per group. 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 years ended December 31, 2017 and 2016 are as follows:

Fiscal Year	Balance Beginning of Year	Current Claims and Changes in Estimates	Claims Payments	Balance End of Year
2017	\$ 270,500	\$ 3,944,749	\$ 3,924,549	\$ 290,700
2016	270,500	3,802,461	3,802,461	270,500

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2017**

NOTE 4 - OTHER INFORMATION (continued)

F. RESTATEMENT

The City implemented GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This standard was implemented January 1, 2017. As a result, beginning net position has been restated as follows: Governmental Activities – (\$2,296,828), Business-type Activities – (\$45,440), Water Utility – (\$22,720) and Sewer Utility – (\$22,720).

G. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 85, *Omnibus 2017*
- Statement No. 86, *Certain Debt Extinguishment Issues*
- Statement No. 87, *Leases*

When they become effective, application of these standards may restate portions of these financial statements.

H. SUBSEQUENT EVENT

On April 17, 2018 the City issued taxable general obligation note anticipation notes in the amount of \$23,480,000 with interest rates of 2.50% and 3.20%. The notes are being used to finance project cost related to the City's Tax Incremental District #5.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF FRANKLIN, WISCONSIN

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) -
WISCONSIN RETIREMENT SYSTEM
For the Year Ended December 31, 2017

<u>WRS Fiscal Year Ending Date</u>	<u>Proportion of the Net Pension Asset</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
12/31/14	0.084116700%	\$ (2,065,567)	\$ 8,071,472	25.59%	102.74%
12/31/15	0.082739220%	1,344,496	8,459,850	15.89%	98.20%
12/31/16	0.084036620%	692,662	8,682,689	7.98%	99.12%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM
For the Year Ended December 31, 2017

<u>City Fiscal Year Ending Date</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
12/31/15	\$ 689,692	\$ 689,692	\$ -	\$ 8,459,850	8.15%
12/31/16	869,137	869,137	-	8,682,689	10.01%
12/31/17	1,074,037	1,074,037	-	8,950,304	12.00%

See independent auditors' report and accompanying notes
to required supplementary information.

CITY OF FRANKLIN, WISCONSIN

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS CITY OF FRANKLIN DEFINED BENEFIT RETIREMENT INCOME PLAN For the Year Ended December 31, 2017

	Fiscal Year Ending		
	2015	2016	2017
Total Pension Liability			
Service Cost	\$ 165,130	\$ 180,074	\$ 154,889
Interest on the Total Pension Liability	531,850	603,514	606,747
Difference between Expected and Actual Experience	527,384	(460,357)	425,998
Assumption Changes	213,402	12,332	709,323
Benefit Payments	<u>(191,375)</u>	<u>(239,861)</u>	<u>(296,465)</u>
Net Change in Total Pension Liability	1,246,391	95,702	1,600,492
Total Pension Liability - Beginning	<u>7,022,369</u>	<u>8,268,760</u>	<u>8,364,462</u>
 Total Pension Liability - Ending	 <u>\$ 8,268,760</u>	 <u>\$ 8,364,462</u>	 <u>\$ 9,964,954</u>
 Plan Fiduciary Net Position			
Employer Contributions	293,632	339,927	302,518
Pension Plan Net Investment Income	377,842	(41,577)	409,272
Benefit Payments	(191,375)	(239,861)	(296,465)
Pension Plan Administrative Expense	<u>(27,941)</u>	<u>(22,802)</u>	<u>(20,307)</u>
Net Change in Plan Fiduciary Net Position	452,158	35,687	395,018
Plan Fiduciary Net Position - Beginning	<u>6,704,912</u>	<u>7,157,070</u>	<u>7,192,757</u>
 Plan Fiduciary Net Position - Ending	 <u>\$ 7,157,070</u>	 <u>\$ 7,192,757</u>	 <u>\$ 7,587,775</u>
 Net Pension Liability (Asset) Ending	 \$ 1,111,690	 \$ 1,171,705	 \$ 2,377,179
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 87%	 86%	 76%
 Covered Payroll	 \$ 1,792,628	 \$ 1,876,995	 \$ 1,876,995
 Net Pension Liability as a Percentage of Covered Payroll	 62%	 62%	 127%

See independent auditors' report and accompanying notes
to required supplementary information.

CITY OF FRANKLIN, WISCONSIN

SCHEDULE OF CONTRIBUTIONS CITY OF FRANKLIN DEFINED BENEFIT RETIREMENT INCOME PLAN For the Year Ended December 31, 2017

<u>Fiscal Year Ending Date</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a Percentage of Covered Payroll</u>
12/31/15	\$ 293,632	\$ 293,632	\$ -	\$ 1,792,628	16%
12/31/16	339,927	339,927	-	1,876,995	18%
12/31/17	302,518	302,518	-	1,853,074	16%

See independent auditors' report and accompanying notes
to required supplementary information.

CITY OF FRANKLIN, WISCONSIN

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
OPEB PLAN**

For the Year Ended December 31, 2017

	Fiscal Year Ending <u>2017</u>
Total OPEB Liability	
Service Cost	\$ 223,719
Interest on the Total OPEB Liability	489,875
Benefit Payments	<u>(418,905)</u>
Net Change in Total OPEB Liability	294,689
Total OPEB Liability - Beginning	<u>7,312,825</u>
Total OPEB Liability - Ending	<u>\$ 7,607,514</u>
Plan Fiduciary Net Position	
Employer Contributions	422,684
Employee Contributions	91,969
OPEB Plan Net Investment Income	673,624
Benefit Payments	<u>(500,350)</u>
Net Change in Plan Fiduciary Net Position	687,927
Plan Fiduciary Net Position - Beginning	<u>4,885,836</u>
Plan Fiduciary Net Position - Ending	<u>\$ 5,573,763</u>
Net OPEB Liability Ending	\$ 2,033,751
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	73%
Covered Payroll	\$ 13,879,896
Net OPEB Liability as a Percentage of Covered Payroll	15%

See independent auditors' report and accompanying notes
to required supplementary information.

CITY OF FRANKLIN, WISCONSIN

**SCHEDULE OF CONTRIBUTIONS
OPEB PLAN
For the Year Ended December 31, 2017**

	<u>Fiscal Year Ending 2017</u>
Actuarially Determined Contribution	\$ 422,684
Actual Contribution	<u>422,684</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
Covered Payroll	\$ 13,879,896
Actual Contribution as a Percentage of Covered Payroll	3%

See independent auditors' report and accompanying notes
to required supplementary information.

CITY OF FRANKLIN, WISCONSIN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
As of and for the Year Ended December 31, 2017

NOTE 1 – PRESENTATION

The City is required to present the last ten years of data on each schedule; however, the standards allow the City to present as many years as are available until ten years are presented.

NOTE 2 – WISCONSIN RETIREMENT SYSTEM

The data presented in the Schedule of Proportionate Share of the Net Pension Liability (Asset) for the Wisconsin Retirement System was taken from the reports issued by the 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.

NOTE 3 – CITY OF FRANKLIN DEFINED BENEFIT RETIREMENT INCOME PLAN

The data presented in the Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Contributions for the City of Franklin Defined Benefit Retirement Income Plan was taken from the reports issued by the actuary.

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.

NOTE 4 – OPEB PLAN

The data presented in the Schedule of Changes in Net OPEB Liability and Related Ratios and the Schedule of Contributions for the City of Franklin Post Employment Benefit Trust was taken from the reports issued by the actuary.

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

Changes of assumptions. The discount rate was reduced from 6.75% used in the previous actuarial study to 6.50% used in the current study.