



CITY OF FRANKLIN, WISCONSIN

COMPREHENSIVE ANNUAL FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

**PREPARED BY THE
DEPARTMENT OF FINANCE**

**DIRECTOR OF FINANCE & TREASURER
PAUL ROTZENBERG, CPA**

CITY OF FRANKLIN, WISCONSIN

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INTRODUCTORY SECTION

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April 30, 2019

Citizens of Franklin, Honorable Mayor and Common Council members:

Introduction

The Comprehensive Annual Financial Report of the City of Franklin, Wisconsin for the fiscal year ended December 31, 2018, is hereby submitted. State law requires that all local governments with a population over 25,000 publish a complete set of financial statements that are presented in conformity with general accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

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

The City's financial statements have been audited by Baker Tilly Virchow Krause, LLP, a firm of certified public accountants experienced in auditing governmental entities. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2018, are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Baker Tilly Virchow Krause, LLP concluded, based upon the audit, that there was reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended December 31, 2018, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

City Profile

The City of Franklin, incorporated in 1956, is located in the southwestern corner of Milwaukee County. The City is 34.5 square miles in size and has a population of 35,779. Over the last ten years the City has experienced no real growth in population. The city is a residential community (75.1%) with a commercial and industrial component (24.9%). Median Family Income of \$102,206 is 144% of the national average. Approximately one third of the acreage in the City is undeveloped, which demands attention to growth issues. It is considered to be one of the more desirable communities in the Milwaukee metropolitan area in which to live and work. The City provides a typical range of municipal services for a suburban community including police, fire protection, emergency medical/paramedic, maintenance of streets and other infrastructure, library, public health services, recreational activities, building inspection, zoning control, refuse collection, recycling collection, sanitary sewer, storm sewer and water services, both construction and maintenance. The City is authorized to levy property tax on real and personal property located within its boundaries to support the services provided.

The City operates under the mayor/council form of government. Policy making and legislative authority are vested in a governing council consisting of a mayor and six council members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring management. The City's Mayor is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government and for appointing the heads of the various departments. The Council is elected, by district, on a non-partisan basis. The Mayor and Council members serve staggered three-year terms. The City is organized into departments, headed by ten officials appointed by the Mayor or Director of Administration and confirmed by the Common Council. Numerous boards, commissions and committees allow for citizen involvement in government by providing a forum for policy input to the Council and guidance to the departments. Library service is provided through a separate Library Board that functions like a department of the City and engages the Library Director. Water service is provided through a separate Water Utility that functions like a department of the City. The Water Utility also has a Board of Water Commissioners which oversees water utility operations. In 2015, the State mandated that a portion of hotel taxes be dedicated to tourism, as such the City formed a separate Tourism Commission which utilizes those tax resources to promote the City in the area. These areas therefore have been included as an integral part of the City's financial statements. The City also is financially accountable for a legally separate Community Development Authority (Authority). The Authority's activities are reported within the City's financial statements. Additional information on the Authority can be found in Note 1 in the notes to the financial statements.

The budgetary process serves as the foundation of the City's financial planning and control system. The objective of the budgetary process is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Common Council. The preparation of a forecast for the existing programs for the following year is prepared during July and August. Departmental requests for personnel changes and new capital outlay expenditures are made by the middle of August. The Mayor then reviews the forecast including recommended personnel and capital expenditures and determines by mid- August the personnel and capital expenditures that will be included in the initial departmental requested budgets. The departments take this information and submit their requested budgets by the end of August. The budgets are reviewed and the Mayor submits his recommended budget by the middle of September. The Council reviews the recommended budget and agrees on a proposed budget by mid-October. The Council is required to hold a

public hearing on the proposed budget in early November, and then adopts a final budget in mid-November. The adopted budget is prepared by fund, function (e.g. Public Safety), and department (e.g. Police). Transfers of appropriations between funds, functions or department require the approval of the governing council. Budget-to-actual comparisons are provided in this report for each larger governmental fund with an adopted budget. The General Fund comparison is presented in Exhibit F as part of the basic financial statements for the governmental funds and in Schedules 3 & 4 of the supplementary information. For governmental funds other than the General Fund with adopted budgets, this comparison is presented in the supplementary information section of this report.

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

Economic Condition and Outlook

The economic activity in Franklin in both the residential and the non-residential sectors was stable. New construction was marginally elevated in 2018 compared to 2017 as evidenced by increased construction permit revenues. Prospects in 2019 for residential, commercial and industrial development are anticipated to be meaningfully higher.

Estimated actual property values have grown at an average annual rate of (0.42)% since 2009. The new growth was \$34.6 million in 2018, \$19 million in 2017, and \$23 million in 2016. 2019 growth is expected to be in the \$90 to \$100 million dollar range reflecting the impact of Commercial activity. New growth has averaged less than 1% the last ten years, with eight of the ten years having less than 1% growth. Limits on levy increases are currently restricted to new growth, and this has meaningfully dampened tax levy increases, the largest resource to the City.

The City has been successful in restricting tax levy increases by utilizing tools the State provided retarding growth of employee benefits and the shifting tax levy from debt service to operating needs. This is a non-sustainable process.

Residential Growth

Over the past ten years, residential valuation has stagnated, rising just 0.8%. The recession of 2008 had longer impacts than many expected. The development activity increased in 2018, with several large developments in various stages of approval. Longer range, the City has the most developable land in the County and anticipates new subdivisions as economic activity increases again.

Commercial and Industrial Growth

Over the past ten years, commercial and industrial valuation has decreased at an average annual rate of (0.90) %.

In 2005, two TIF Districts (#3 & #4) were established on the eastern side of the City. The two districts have equalized value tax increments of \$51 and \$46 million, respectively. In 2016, a new District #5 was established to aid the Ballpark Commons project. A Developers agreement was signed in Q1 2018. The project projects \$160+ million in new taxable development. In Q4 2018, TID6 was formed to aid the development of an industrial park on the southwest portion of the City. That project could generate \$54 million in new development.

Expansion of the commercial and industrial tax base is a goal of the City with respect to the overall tax rate. Currently 75.1% of the City's property value is residential compared to

72.6% ten years ago. Future tax relief will need to come from industrial and commercial tax base expansion.

Organizational and Service Growth

2018 was a year where overall revenue of \$38.5 million grew 14.1% compared to last year. TID3 saw a increment decline as the result of a challenge to assessed values.

2018 and 2017 were revaluation years. The last reassessment was done in 2010. A revaluation was completed in 2013 and 2016. Performing revaluations on a regular basis is in line with the Common Council policy to schedule a revaluation every three years to keep property values in line with current market values. The State determined that the local assessment, after reassessment, was 100.2% of fair value. The estimated actual value of City properties was approximately \$4.0 billion. The City recently rose to the third largest city in Milwaukee County based upon equalized value.

The challenge for the operating departments in 2018 was to continue to maintain service levels at a time of flat revenues and growth of 0.89% in new property base.

One threat the City faces is the challenge by larger retail property owners of assessed values. Should that group be successful in reducing their assessed values, the tax burden shifts to other property owners.

Internal Controls

The City's internal control structure is subject to ongoing evaluation by management. The City is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with laws, regulations and good financial policies. The results of the City's audit for the fiscal year ended December 31, 2018 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws or regulations.

As a recipient of federal and state financial assistance, if the level of grant expenditures exceeds an established level, currently \$750,000, a single audit of grants is required. The City was not required to have a single audit of grants in 2018.

Financial Planning

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

Financial Policies

The City maintains policies on fund balance level, debt levels and term, investment policies, budget forecasting policy and a capitalization policy. The City also takes advantage of policies that has new development to finance infrastructure needs caused by the new development via special assessments and impact fees. Conservative management and the enumerated policies above have served the City well. The existence of a fund balance enabled the fund balance to be utilized in 2009 during the revenue decline and replenished in 2010 and 2011 when revenue stabilized.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its

Mayor, Common Council and Citizens
April 30, 2019

Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2017. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the 25th consecutive year that the City has received this award.

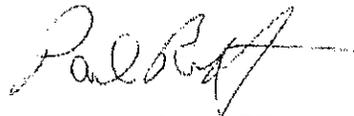
In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements. We will be submitting the CAFR to the GFOA to determine its eligibility for a 2018 Certificate.

Acknowledgments

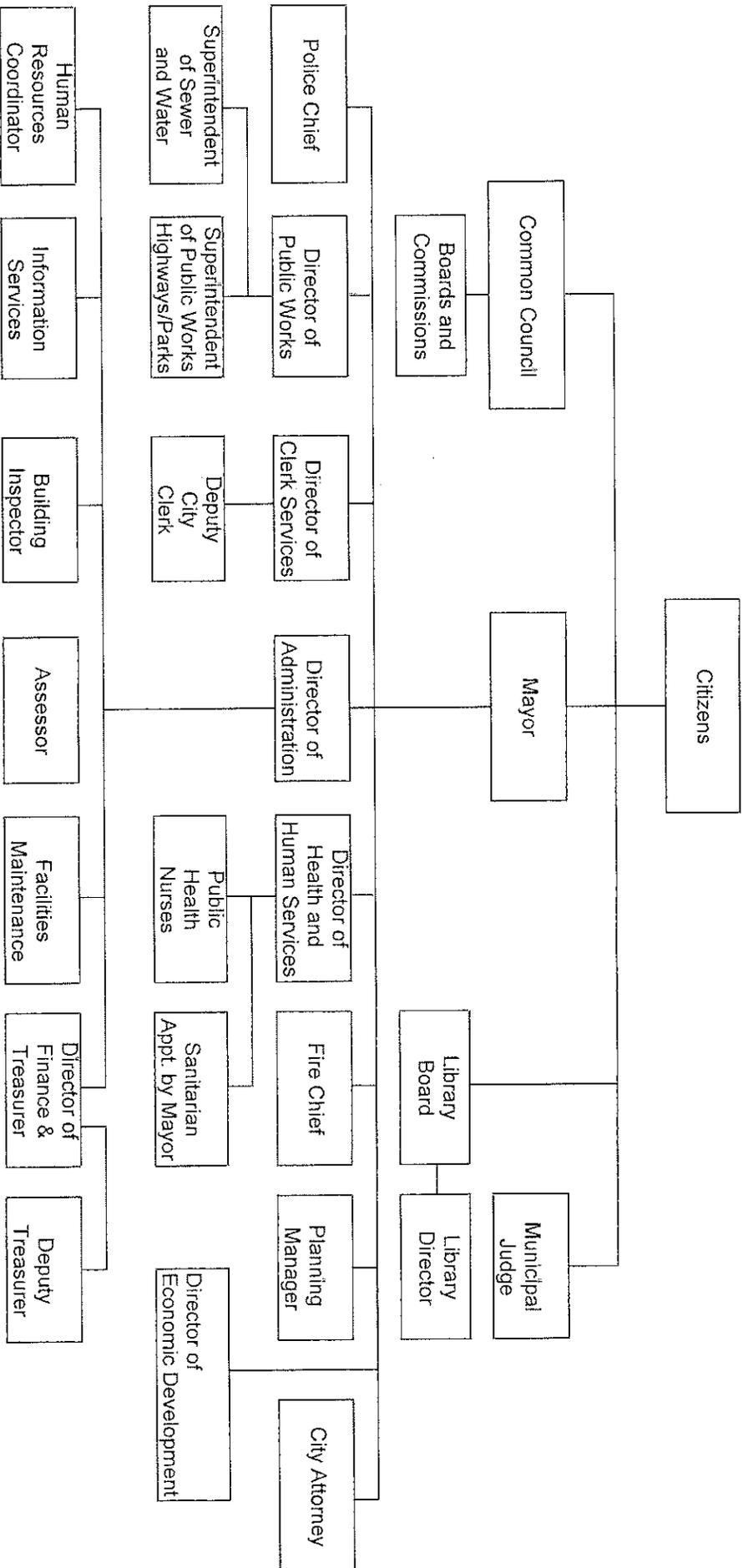
Preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the Finance Department staff. Appreciation is also extended to all other City employees who contributed to its preparation. Thanks are also extended to the Mayor, Common Council,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

Respectfully submitted,



Paul Rotzenberg, CPA
Director of Finance & Treasurer

CITY OF FRANKLIN, WISCONSIN
Organization Chart



**CITY OF FRANKLIN, WISCONSIN
LIST OF PRINCIPAL OFFICIALS**

Elected Officials

<u>Title</u>	<u>Name</u>
Mayor	Stephen R Olson
Aldermen:	
District No. 1	Mark Dandrea
District No. 2	Daniel M Mayer
District No. 3	Kristen Wilhelm
District No. 4	Steve F Taylor
District No. 5	Mike Barber
District No. 6	John Nelson
Municipal Judge	Fred F Klimetz

Non-elected Officials

Assessor	Mark Link
Building Inspector	Scott Satula
City Attorney	Jesse Wesolowski
City Clerk	Sandi Wesolowski
City Engineer/Public Works Director	Glen Morrow
Director of Administration	Mark Luberda
Director of Economic Development	Calli Berg
Director of Finance & Treasurer	Paul Rotzenberg
Director of Health & Human Services	Bill Wucherer
Fire Chief	Adam Remington
Human Resources Coordinator	Dana Zahn
Information Services Manager	James Matelski
Library Director	Jennifer Loeffel
Planning Manager	Joel Dietl
Police Chief	Rick Oliva
Superintendent of Public Works	Bill Dudash
Superintendent of Sewer & Water	Mike Roberts



Government Finance Officers Association

Certificate of
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**City of Franklin
Wisconsin**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2017

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Common Council
City of Franklin
Franklin, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Franklin, Wisconsin, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Franklin's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City of Franklin's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the City of Franklin's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Mayor and Common Council
City of Franklin

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Franklin, Wisconsin, as of December 31, 2018 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

To the Mayor and Common Council
City of Franklin

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin's basic financial statements. The Introductory Section and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Prior-Year Comparative Information

We have previously audited the City of Franklin's 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated May 17, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
April 30, 2019

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**City of Franklin, Wisconsin
Management's Discussion and Analysis
(Unaudited)**

As management of the City of Franklin (City), the following offers readers of the City's financial statements an overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2018. Readers are encouraged to consider this information in conjunction with additional information contained in the letter of transmittal, which can be found on pages 1-5 of this report.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows as of December 31, 2018, by \$243.2 million (**net position**). Of this amount, \$1.5 million (**unrestricted net position**) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position decreased by a net amount of \$5.3 million. Net investment in capital assets decreased by \$4.9 million, while unrestricted net position decreased by \$14.1 million and restricted net position increased by \$13.7 million. The Ballpark Commons development in Tax Increment District #5 launched in 2018. The City borrowed \$23.5 million for project costs, more than half of which will result in a Developer's grant, the remainder in new City infrastructure. The significant grant funds impacted the City's unrestricted position.
- The City's governmental funds reported, as of December 31, 2018, combined ending fund balances of \$37.2 million, an increase of \$13.8 million from the prior year. Much of the increase was unspent proceeds on new debt to support TID 5. At the same time, TID's 3 & 4, generated additional fund balance, not having project costs, further increasing the restricted fund balance.
- The Nonspendable fund balances of \$180,623 did not change much. The restricted fund balances totaling \$23.1 million, (an increase of \$12.8 million), was driven by development activities, principally unspent debt proceeds and collections of impact fees.
- The assigned fund balances in total of \$7.0 million increased slightly from the prior year.
- The unassigned fund balance as of December 31, 2018 for the General Fund was \$6.9 million. This represents approximately 26.3 percent of total anticipated 2019 General Fund expenditures. An \$800,000 increase was the result of un-expected building permit revenues and not needing contingency appropriations. The City borrowed \$23.5 million in 2018, all of which was earmarked for TID 5 project costs. Debt payments of \$2.3 million were made in 2018. Total debt increased as a result of the large TID borrowing.
- The City's Business type activities generated a \$2.1 million loss, most of which is depreciation on the Ryan Creek Sanitary Interceptor sewer.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. These basic financial statements are comprised of three components 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the City's assets, deferred outflows, liabilities and deferred inflows, with the difference between the categories reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Table 1 provides a ten year history of Net Position.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave). Table 2 provides a ten year history of the statement of activities.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-like activities). The governmental activities of the City include general government, public safety, public works, health & human services, culture & recreation and conservation & development. The business-type activities include the Franklin Water Utility and the Sanitary Sewer fund.

The government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate Community Development Authority for which the City is financially accountable. Financial information for this blended component unit is reported as part of the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A and B of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General, Debt Service and TIF Districts Funds, that are all considered to be major funds. Data from the remaining 14 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements later in this report.

The basic governmental fund financial statements can be found on Exhibits C, D, E and F of this report. These statements include a budgetary comparison of the General Fund.

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund, TIF District, Library Operating Fund, Library Auxiliary Fund, Solid Waste Fund, Tourism, Donations, Grant, Civic Celebrations, St Martin's Fair, Capital Outlay Fund, Equipment Replacement Fund, Street Improvement Fund, Capital Improvement Fund, Development Fund, Utility Development Fund, Sanitary Sewer Fund and the Franklin Water Utility. A budgetary comparison statement has been provided for all governmental funds demonstrating compliance with their budgets.

Proprietary funds

Proprietary funds are used to report the functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Franklin Water Utility, the Sanitary Sewer Fund and the Internal Service Fund.

The proprietary fund financial statements can be found on Exhibits G, H & I of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The fiduciary funds maintained by the City are the Property Tax Agency Fund, that records the tax roll and tax collections for the City and other taxing jurisdictions, a post-employment benefits trust to hold funds until needed to pay designated health benefits for eligible current and future retirees and other agency funds.

The basic fiduciary fund financial statements can be found on Exhibit J & K of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are found on pages 40 – 91 of this report.

Other information

In addition to the basic financial statements, notes and accompanying notes, this report also presents certain **required supplementary information** concerning the City of Franklin's progress in funding its retiree health obligations to eligible full time employees and its participation in the Wisconsin Retirement System and City of Franklin Defined Benefit Pension Plans. Required supplementary information can be found on pages 92 - 97 of this report.

The combining and individual fund financial statements and schedules section presents combining statements in connection with non-major governmental funds, a detailed budgetary comparison schedule for the General Fund, Special Revenue, Capital Projects and TIF Funds to demonstrate compliance with the budget complementing the statement included in the basic governmental fund financial statements, and other information related to the individual funds are presented immediately following the required supplementary information. Schedules 1 to 12.2 can be found on pages 98 - 121 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$243 million and \$248 million at the end of 2018 and 2017, respectively.

CITY OF FRANKLIN NET POSITION December 31, 2018 and 2017

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 71,044,675	\$ 54,462,094	\$ 7,905,215	\$ 7,417,875	\$ 78,949,890	\$ 61,879,969
Long term Note Rec	-	-	17,555,340	18,799,969	17,555,340	18,799,969
Capital assets	<u>126,908,049</u>	<u>121,923,878</u>	<u>105,030,800</u>	<u>107,713,836</u>	<u>231,938,849</u>	<u>229,637,714</u>
Total assets	<u>197,952,724</u>	<u>176,385,972</u>	<u>130,491,355</u>	<u>133,931,680</u>	<u>328,444,079</u>	<u>310,317,652</u>
Deferred Outflows	<u>5,866,670</u>	<u>7,287,434</u>	<u>192,473</u>	<u>833,543</u>	<u>6,059,143</u>	<u>8,120,977</u>
Current liabilities	4,215,583	3,612,319	1,493,373	1,639,382	5,708,956	5,251,701
Long-term liabilities	<u>34,878,642</u>	<u>15,369,145</u>	<u>20,183,810</u>	<u>22,098,478</u>	<u>55,062,452</u>	<u>37,467,623</u>
Total liabilities	<u>39,094,225</u>	<u>18,981,464</u>	<u>21,677,183</u>	<u>23,737,860</u>	<u>60,771,408</u>	<u>42,719,324</u>
Deferred Inflows	<u>30,309,811</u>	<u>27,074,967</u>	<u>169,353</u>	<u>70,250</u>	<u>30,479,164</u>	<u>27,145,217</u>
Net position:						
Net Investment in capital assets	113,400,761	115,417,617	85,170,183	86,584,568	196,873,944	201,582,815
Restricted	25,989,242	10,896,013	18,799,969	20,193,282	44,789,211	31,089,295
Unrestricted	<u>(4,974,645)</u>	<u>11,303,345</u>	<u>4,861,140</u>	<u>4,179,263</u>	<u>1,583,495</u>	<u>15,901,978</u>
Total net position	<u>\$ 134,415,358</u>	<u>\$ 137,616,975</u>	<u>\$ 108,831,292</u>	<u>\$ 110,957,113</u>	<u>\$ 243,246,650</u>	<u>\$ 248,574,088</u>

The net position section includes an adjustment for capital assets owned by the business-type activities, but financed by the debt of the governmental activities. Amounts will not cross-foot as a result. See Note 3-G.

The largest portion of the City's net position (approximately 81 and 81 percent, in 2018 and 2017, respectively) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, net position is not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets accounted for \$197 million and \$201 million in 2018 and 2017, respectively of the year end net position.

In 2018, construction in progress rose to \$6.6 million related to the Ballpark Commons project. Other significant additions were a second salt dome, and the River Park trail bridge.

Major 2017 projects were the acceptance of W St. Martin's Road (\$2.8 million jurisdictional transfer from Milwaukee County), the completion of the S 27th Street reconstruction by the State and City enhanced elements, the replacement of a bridge on W St. Martin's Road, and the replacement of an ambulance.

In 2017, the City early adopted GASB 75 related to OPEB obligations. That added over \$2 million in long term obligations.

Deferred outflows decreased in 2018 related to changes in the WRS pension and Defined Benefit plan.

An additional portion of the City's net position (18% and 12% in 2018 and 2017, respectively) represent resources that are subject to external restrictions on how they may be used. There were \$44.8 million and \$31.1 million respectively in those net positions that were restricted to specific purposes.

The 2018 increase relates to TID activities – primarily those in Ballpark Commons and the net pension asset related to the WRS plan.

The 2017 \$1.1 million reduction in restricted net position relates to the collection of the intergovernmental cooperation agreement.

The remaining balance in unrestricted net position of \$1.6 million and \$15.6 million in 2018 and 2017, respectively, may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current and prior fiscal years the City reported positive balances in the unrestricted net position for both the governmental and for its business-type activities. The reduction in 2018 Unrestricted Net Position relates to Developer grants in Ballpark Commons.

Government-wide activities

The details of changes in net position follow:

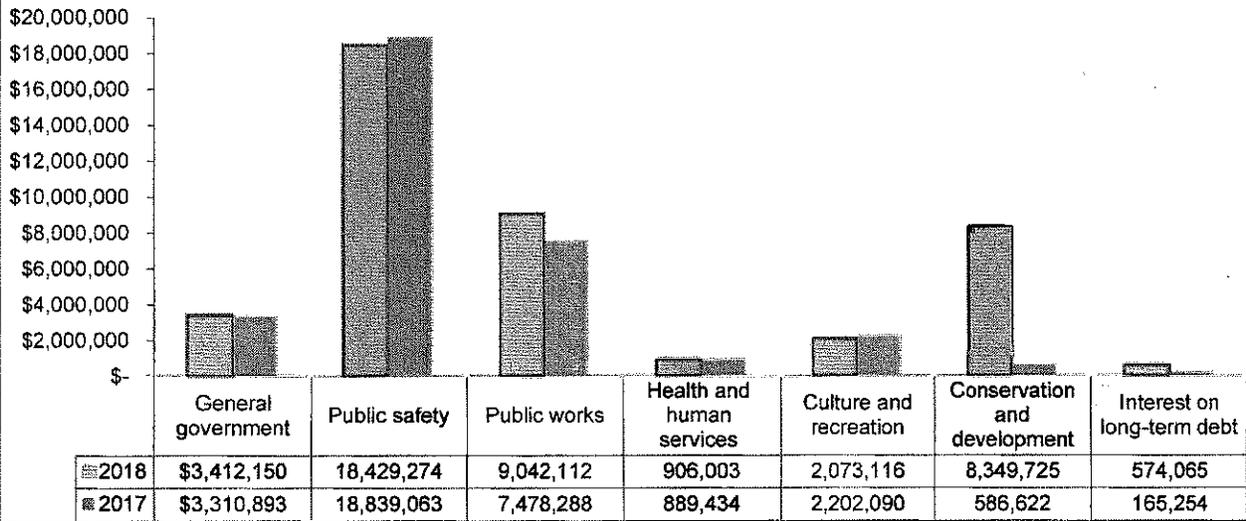
City of Franklin Changes in Net Position For the Years Ending December 31, 2018 and 2017

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue						
Program revenue:						
Charges for services	\$ 6,951,359	\$ 5,760,983	\$ 9,666,202	\$ 9,370,939	\$ 16,617,561	\$ 15,131,922
Operating grants & contributions	1,932,199	1,829,490	-	-	1,932,199	1,829,490
Capital grants & contributions	2,655,553	3,143,577	-	-	2,655,553	3,143,577
General revenue:						
Property taxes	23,621,879	22,925,176	-	-	23,621,879	22,925,176
Other taxes	1,085,976	1,020,027	-	-	1,085,976	1,020,027
Intergovernmental	1,366,802	1,404,222	-	-	1,366,802	1,404,222
Investment earnings	847,916	406,902	548,047	529,004	1,395,963	935,906
Other	111,751	127,280	134,928	85,943	246,679	213,223
Total revenue	<u>38,573,435</u>	<u>36,617,657</u>	<u>10,349,177</u>	<u>9,985,886</u>	<u>48,922,612</u>	<u>46,603,543</u>
Expenses:						
General government	3,412,150	3,310,893	-	-	3,412,150	3,310,893
Public safety	18,429,273	18,839,063	-	-	18,429,273	18,839,063
Public works	9,042,112	7,478,288	-	-	9,042,112	7,478,288
Health & human services	906,003	889,434	-	-	906,003	889,434
Culture & recreation	2,073,116	2,202,090	-	-	2,073,116	2,202,090
Conservation & development	8,349,725	586,622	-	-	8,349,725	586,622
Interest on long-term debt	574,065	165,254	-	-	574,065	165,254
Water	-	-	5,514,057	5,429,943	5,514,057	5,429,943
Sewer	-	-	5,949,549	5,724,633	5,949,549	5,724,633
Total expenses	<u>42,786,444</u>	<u>33,471,644</u>	<u>11,463,606</u>	<u>11,154,576</u>	<u>54,250,050</u>	<u>44,626,220</u>
Increase in net position before transfers	(4,213,009)	3,146,013	(1,114,429)	(1,168,690)	(5,327,438)	1,977,323
Transfers	<u>1,011,392</u>	<u>989,602</u>	<u>(1,011,392)</u>	<u>(989,602)</u>	<u>*</u>	<u>*</u>
Change in net position	<u>(3,201,617)</u>	<u>4,135,615</u>	<u>(2,125,821)</u>	<u>(2,158,292)</u>	<u>(5,327,438)</u>	<u>1,977,323</u>
Net position - beginning	137,616,975	135,778,188	110,957,113	113,160,845	248,574,088	248,939,033
Restatement - pension	-	(2,296,828)	-	(45,440)	*	(2,342,268)
Net position - beginning (restated)	<u>137,616,975</u>	<u>133,481,360</u>	<u>110,957,113</u>	<u>113,115,405</u>	<u>248,574,088</u>	<u>246,596,765</u>
Net position - ending	<u>\$ 134,415,358</u>	<u>\$ 137,616,975</u>	<u>\$ 108,831,292</u>	<u>\$ 110,957,113</u>	<u>\$ 243,246,650</u>	<u>\$ 248,574,088</u>

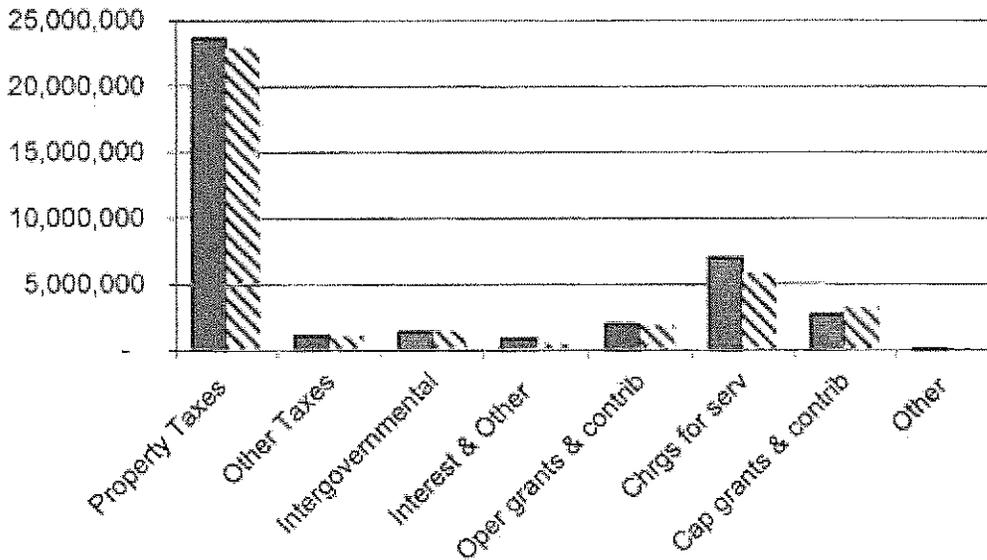
The 2018 Governmental Activities decrease of \$3.2 million is the result of developer grants in Ballpark Commons. The City committed \$22.5 million of site preparation and infrastructure costs to the Developer, with approximately \$14.4 million spent in 2018. Much of those expenditures were classified as developer's grants.

The 2017 Governmental Activities increase of \$4.1 million was principally generated by the \$2.8 million jurisdictional transfer of W St. Martin's Road by Milwaukee County. The Adoption of GASB 75 for OPEB obligations reduced the City Net Position by \$2.3 million.

Expenses by Function - Governmental Activities



Revenue by Source - Governmental Activities

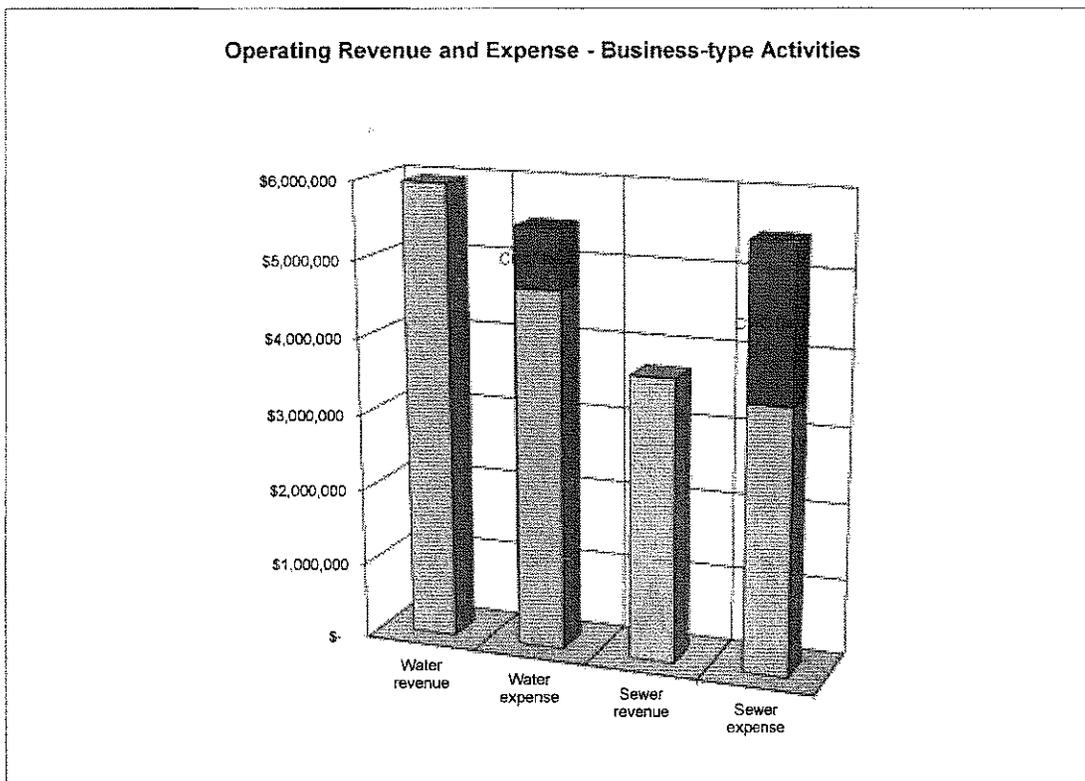


Business-type activities

2018 business-type activities decreased the City's net position by \$2.1 million. Utility rates in both Water & Sewer do not recover the cost of contributed assets. As replacements of those assets occur, future rates will rise to recover the replacement costs. No major business-type assets were replaced in 2018, however, the 2019 budget includes a \$1.3 million water main project.

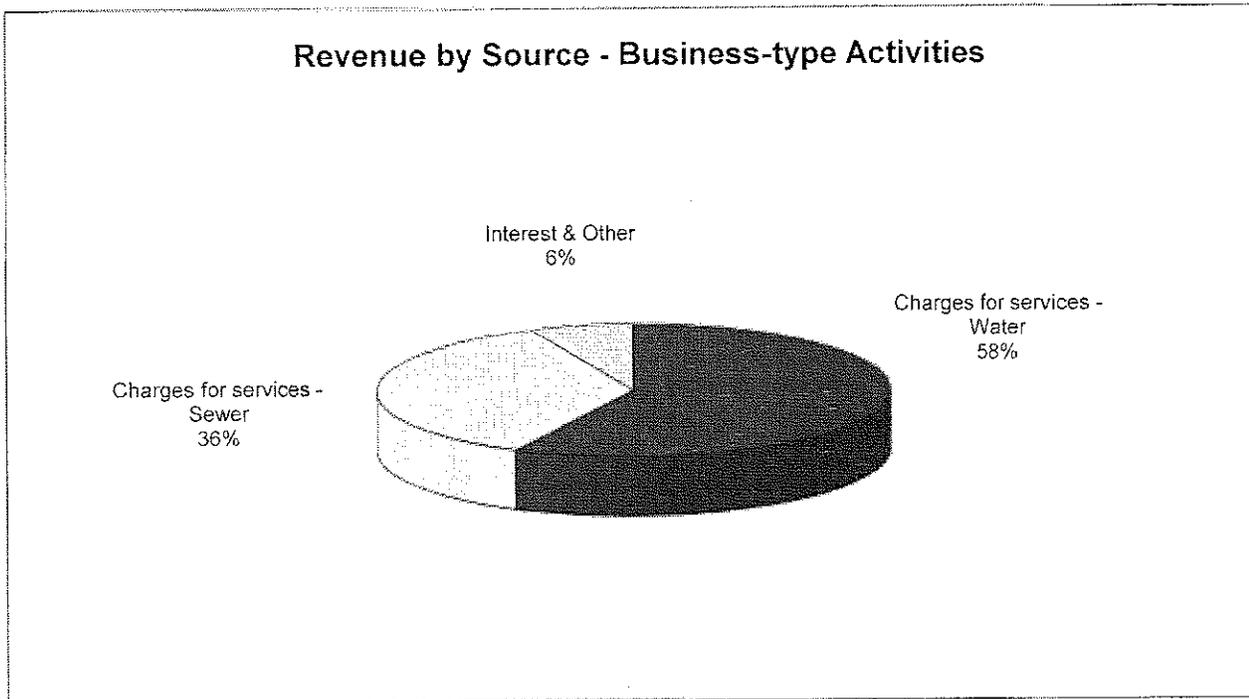
In 2017, business-type activities decreased the City's net position by \$2.1 million. Depreciation on contributed assets and the Ryan Creek Interceptor Sewer are the major reasons for the reduction in net position. The City has not set rates to recover the contributed assets. The Sewer Fund purchased a replacement camera truck for \$240,985, which exhausted its Restricted Cash reserve.

The following graph compares the 2018 charges for services to the operating expenses for water and sewer activities.



Water and Sewer expenses can exceed revenue due to the current policy of including only depreciation from City spending on capital assets in the rate formula. The large amount of infrastructure that has been contributed is the reason for this policy. 88% of the Business-type assets have been contributed by developers or new growth resources (impact fees). When maintenance and replacement costs increase, this policy may need to be reevaluated. The City did not replace any infrastructure assets in 2017 or 2018, but plans a \$1.3 million water project in 2019 and a \$3 million sanitary sewer project in the next few years.

As shown on the following chart, the Business-type revenue includes capital grants and contributions, investment earnings and miscellaneous income in addition to charges for services (operating revenue).



2018 Water revenues decreased \$95,735 (1.6%) on lower volumes related to wetter weather conditions. Sewer revenues increased \$390,998 (11.8%) to recover a large cost increase from the sanitary sewer processor. There were no infrastructure contributions in 2018.

2017 Water revenues increased slightly (less than \$3,000) as volumes in 2017 were lower than 2016. The water usage reduction more than offset the 2016 rate increase. The Common Council reduced sewer rates for 2017 (from 2016 levels). This resulted in 0.4% less revenue (\$14,700). There were minimal capital contributions in 2017.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's **governmental funds** is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$37.2 million, an increase of \$13.8 million from the prior year. At year end the unassigned fund balance was \$6.9 million. A small deficit in the TIF Fund represents organizational expenses in a recently created TIF #6.

The City has assigned fund balances for activities of the Capital Projects of \$6.8 million. In addition, \$270,000 of General Fund Balance has been assigned for purchase commitments into 2019.

Outside party restrictions have resulted in restricted fund balances:

- 1) to pay debt service \$982,719 –collections of special assessments increased the balance by \$247,000.
- 2) for utility improvements - \$1,712,538 – a \$299,160 increase from utility assessment collections and interest on deferred assessment balances.
- 3) for development purposes - \$6.1 million – a nearly \$2 million increase related to new development impact fee collections,
- 4) for TIF Districts of \$12.4 million – a \$10 million increase related to Ballpark Commons development activities, debt issuance and unspent project costs,
- 5) for library services \$630,290
- 6) for Solid Waste services \$430,747 and
- 7) for donations, health, grant funds, tourism and recreational activities – totaling \$794,928.

The City also has nonspendable fund balances to indicate that it is not available for new spending because it has already been committed for prepaid expenses and inventories (\$57,423) and for advances to other funds (\$123,200). The General Fund provided a 10 year advance to the Water Utility to finance an extraordinary contribution to the Public Works Retirement plan (in excess of the Actuarially Determined Contribution). This was financed out of the collection of the Sewer Fund advance.

The **General Fund** is the chief operating fund of the City. As of December 31, 2018, the total fund balance of the General Fund was \$7.3 million of which \$6.88 million was unassigned. This unassigned fund balance represents approximately 27% of 2018 General Fund budgeted expenditures.

The total General fund balance increased by \$748,766 during fiscal year 2018. Much of the surplus came from increased Engineering inspection revenues for developer activities, and building permit fees. Un-used Public Safety appropriations also contributed to the surplus.

The **Debt Service Fund** has a total fund balance of \$982,719, restricted for the payment of debt service.. The City cancelled a planned debt issue, which then negated the need for the debt service included in the tax levy. That resulted in a \$247,000 Debt Service surplus.

The **TIF Districts Fund** has total fund balance of \$12.4 million; included is a small deficit fund balance related to start-up costs in new TID 6 formed in October, 2018.

The **Nonmajor Governmental Funds** have a total fund balance of \$16.5 million. These funds had a collective \$2.6 million increase in fund balance. \$1.9 million of that was the collection of impact fees on new commercial development.

The City's **Proprietary Funds** provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water Utility at the end of the year amounted to \$3.28 million, an increase of \$573,000 from the prior year coming out of operating results.

Unrestricted net position of the Sanitary Sewer Fund at the end of the year amounted to \$1.58 million, an increase of \$109,000 from the prior year. The increase is the result of spending down the Restricted Replacement fund for the purchase of the camera truck.

The enterprise funds financial statements can be found on Exhibits G, H and I of this report.

An Internal Service Fund providing resources related to employee health benefits had a \$126,000 deficit, reducing the Fund Balance to \$1.8 million. The fund balance represents a significant percentage of annual health benefit costs (52%).

General Fund Budgetary Highlights

Revenue exceeded budget by \$671,532. The largest revenue increase (\$511,000) came from engineering fees on new development. Building permits generated \$80,000 more than budget on an increase in new development.

Actual expenditures were less than budgeted by \$1.4 million (5.3% of the amended budget). The City established a \$1.4 million contingency (subsequently amended to \$1.25 million) in the Adopted Budget. \$1.28 million of that contingency was not spent.

A \$711,000 surplus before transfers out, compares favorably to the amended budgeted deficit of \$1.36 million. The total \$748,000 surplus after transfers and encumbrances compares favorably to the \$1.3 million amended deficit.

Capital assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2018, amounts to \$231.9 million, net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings and machinery and equipment.

City of Franklin's Investment in Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 25,109,551	\$ 25,072,951	\$ 888,479	\$ 888,479	\$ 25,998,030	\$ 25,961,430
Buildings and Improvements	27,233,712	26,860,342	6,702,216	6,682,442	33,935,928	33,542,784
Improvements other than buildings	105,348,431	104,393,846	134,188,155	134,189,113	239,536,586	238,582,959
Machinery and and equipment	18,894,992	18,562,309	5,809,997	5,749,838	24,704,989	24,312,147
Construction in process	<u>6,611,711</u>	<u>442,805</u>	<u>63,054</u>	<u>-</u>	<u>6,674,765</u>	<u>442,805</u>
Total capital assets	183,198,397	175,332,253	147,651,901	147,509,872	330,850,298	322,842,125
Less Accumulated depreciation	<u>(56,290,348)</u>	<u>(53,408,375)</u>	<u>(42,621,101)</u>	<u>(39,796,036)</u>	<u>(98,911,449)</u>	<u>(93,204,411)</u>
Capital assets net of depreciation	<u>\$ 126,908,049</u>	<u>\$ 121,923,878</u>	<u>\$ 105,030,800</u>	<u>\$ 107,713,836</u>	<u>\$ 231,938,849</u>	<u>\$ 229,637,714</u>

The total increase in the City's net investment in capital assets net of depreciation for the current fiscal year was \$2.3 million or 1.0%. Construction undertaken for the Ballpark Commons Development is the primary reason for the increase. The City did replace one snowplow.

For further details on capital asset activity refer to Note 1(D)6 and Note 3(E) of the Notes to Financial Statements and Schedules 12 – 12.2.

Long-term debt

State statutes limit the amount of general obligation debt a governmental entity may issue up to 5 percent of its total equalized valuation. At December 31, 2018, the City had general obligation note and bond issues outstanding totaling \$49.8 million. The current legal debt limitation for the City is \$201.1 million. The City's current outstanding general obligation debt is 24.8% of the statutory debt limit.

By City policy, outstanding general obligation debt is limited to 2% of total equalized value or \$80.4 million. Outstanding debt represents 62% of this internal limit, leaving an internal debt limit margin of \$30.5 million.

The City's present rating from Moody's for its general obligation debt is "Aa2". This rating was reduced from "Aa1", when a bond issue took place in December, 2017. The "Aa2" rating was affirmed with the 2018 debt issue.

In May, 2018 the City issued \$23.48 million in Note Anticipation Notes to finance projects in the Ballpark Commons development. The City agreed to reserve this much of the General Obligation Debt limit for the future refunding of this issue.

In December, 2017, the City issued \$1.6 million of notes. The notes financed the 2018 Capital Improvement programs.

City of Franklin's Outstanding Debt (All purposes)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation						
Premium (Discount)	\$ 150,083	\$ 217,622	\$ (9,353)	\$ (10,425)	\$ 140,730	\$ 207,197
Note Anticipation Notes	23,480,000	-	-	-	23,480,000	-
Bonds	3,385,000	4,560,000	19,869,970	21,139,693	23,254,970	25,699,693
Notes	3,145,000	4,285,000	-	-	3,145,000	4,285,000
Total	\$ 30,160,083	\$ 9,062,622	\$ 19,860,617	\$ 21,129,268	\$ 50,020,700	\$ 30,191,890

Additional information of the City's long-term debt can be found in Note 3(H), Schedule 5 and Tables 11 – 13 in the statistical section of the report.

In 2018, the City issued two Municipal Revenue Obligations to developers. The first was a \$3.5 million incentive grant to the Ballpark Commons Developer, payable over the life of the TID. The note carries a 5.5% interest rate. The second was a \$2 million instrument payable over the remaining eight years of that TID. This note bears interest at 4.5%. A \$109,000 payment was made in 2018. The remaining balance of all the notes at December 31, 2018 was \$5,391,000.

Other Changes of Significance

Post Employment Health Care Benefits

The City of Franklin provides retiree health care benefits to certain retiree groups from the date of retirement until age 65. Prior to 2008 the City's portion of health care cost was recognized as an expenditure in the period premiums were paid. Funding for those costs was provided out of the current operating budget of the City. This was referred to as financing on a pay as you go basis.

The Government Accounting Standards Board (GASB) issued Statement #45 effective for the City of Franklin on January 1, 2008 that said that the expense of these benefits has to be recognized over the working lives of the employees. The Common Council concluded that the City of Franklin should not only recognize the expense on its financial statements but should fund those amounts out of its general revenue starting in 2008 with the establishment of a section 115 trust.

In 2017, the City adopted GASB 75, which treats OPEB liabilities similarly to pension obligations. This resulted in a prior period adjustment of \$2,342,268. The OPEB liability as of December 31, 2018 was \$7,733,557 and the plan fiduciary net position was \$5,229,404 for a net OPEB liability of \$2,504,153.

More detailed information can be found in Note 4(C).

Economic Factors, Tax Rates and Next Year's Budgets

- The unemployment rate as of December 31, 2018 for the City was 2.5% and Milwaukee County which includes the City, was 3.0%. This compares with an unemployment rate of 3.0% for the State of Wisconsin.
- The 2018 Budget assessed tax rate of \$5.61 was down from \$5.69 from the prior year. Tax rates are declining as the State imposed levy limits are resulting in smaller increases in the tax levy, while property values are rising faster.
- The City's 2018 total tax levy rose from \$20.5 million the previous five years, to \$21.027 million in 2018. Much of the restrained total levy increase came by way a shift of debt service levy, which declined \$450,000 over that same period to operating and capital purchases levy.
- The 2019 tax levy increased another \$362,000 (1.7%) by use of a one-time tool in state levy limits.
- 2019 budgeted expenditures increased \$1.1 million (4.4% ignoring restricted contingency).
- This larger increase in expenditures compared to tax levy resources is not sustainable.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance & Treasurer, City of Franklin 9229 West Loomis Road, Franklin, WI 53132.

General information or more detailed financial and budget information relating to the City of Franklin can be found at the City's website, www.franklinwi.gov - Finance Department tab.

BASIC FINANCIAL STATEMENTS

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CITY OF FRANKLIN, WISCONSIN
Statement of Net Position
As of December 31, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 41,339,568	\$ 4,114,647	\$ 45,454,215
Receivables			
Accounts	1,112,602	2,356,718	3,469,320
Taxes	24,954,332	282,280	25,236,612
Special assessments	720,062	-	720,062
Due from other governments	110,601	1,244,629	1,355,230
Prepaid items	32,886	4,582	37,468
Inventories	27,582	-	27,582
Long term advances	139,700	(139,700)	-
Restricted pension asset - WRS	2,607,342		2,607,342
Due from other governments - long term	-	17,555,340	17,555,340
Regulatory asset	-	42,059	42,059
Capital assets (net of accumulated depreciation)			
Land	25,109,551	888,479	25,998,030
Buildings and improvements	15,622,585	4,778,046	20,400,631
Machinery and equipment	6,791,865	2,145,873	8,937,738
Infrastructure	72,772,337	97,155,348	169,927,685
Construction in progress	6,611,711	63,054	6,674,765
Total assets	197,952,724	130,491,355	328,444,079
DEFERRED OUTFLOWS OF RESOURCES			
Pension and OPEB related	5,866,670	192,473	6,059,143
Total deferred outflow of resources	5,866,670	192,473	6,059,143
LIABILITIES			
Accounts payable	1,392,291	1,381,236	2,773,527
Accrued liabilities	2,329,619	29,798	2,359,417
Due to other governments	130,254	-	130,254
Accrued interest	304,517	88,339	392,856
Special deposits	58,902	-	58,902
Noncurrent liabilities			
Benefit obligations due within one year	674,885	82,364	757,249
Benefit obligations due in more than one year	4,043,674	240,829	4,284,503
General obligation debt due within one year	11,405,000	1,299,629	12,704,629
General obligation debt due in more than one year	18,755,083	18,560,988	37,316,071
Total liabilities	39,094,225	21,683,183	60,777,408
DEFERRED INFLOWS OF RESOURCES			
Pension and OPEB related	5,502,247	169,353	5,671,600
Subsequent year property taxes	24,807,564	-	24,807,564
Total Deferred Inflow of Resources	30,309,811	169,353	30,479,164
NET POSITION			
Net investment in capital assets	113,400,761	85,170,183	196,873,944
Restricted for			
Debt service	586,594	-	586,594
Utility improvements	2,374,252	-	2,374,252
Development	6,140,196	-	6,140,196
TID Funds	12,430,497	-	12,430,497
Library	630,290	-	630,290
Solid Waste	430,747	-	430,747
Recreation services	70,139	-	70,139
Health	192,510	-	192,510
Donations	150,606	-	150,606
Tourism Commission	376,069	-	376,069
Intergovernmental Cooperation Agreement	-	18,799,969	18,799,969
Pensions	2,607,342	-	2,607,342
Unrestricted (deficit)	(4,974,645)	4,861,140	1,583,495
Total net position	\$ 134,415,358	\$ 108,831,292	\$ 243,246,650

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Statement of Activities
For the Year Ended December 31, 2018

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,412,150	\$ 195,685	\$ 40	\$ 20,625	\$ (3,195,800)	\$ -	\$ (3,195,800)
Public safety	18,429,274	2,895,777	329,531	386,486	(14,817,480)	-	(14,817,480)
Public works	9,042,112	3,296,931	1,290,053	1,085,411	(3,369,717)	-	(3,369,717)
Health and human services	906,003	210,718	199,577	-	(495,708)	-	(495,708)
Culture and recreation	2,073,116	191,991	112,998	1,163,031	(605,095)	-	(605,095)
Conservation and development	8,349,725	160,257	-	-	(8,189,468)	-	(8,189,468)
Interest on long term debt	574,065	-	-	-	(574,065)	-	(574,065)
Total governmental activities	42,786,444	6,951,359	1,932,199	2,655,553	(31,247,332)	-	(31,247,332)
Business-type activities:							
Water	5,514,057	5,961,350	-	-	-	447,293	447,293
Sewer	5,949,549	3,704,852	-	-	-	(2,244,697)	(2,244,697)
Total business-type activities	11,463,606	9,666,202	-	-	-	(1,797,404)	(1,797,404)
Total primary government	\$ 54,250,050	\$ 16,617,561	\$ 1,932,199	\$ 2,655,553	(31,247,332)	(1,797,404)	(33,044,736)
General revenue:							
Property taxes levied for general purposes					19,850,775	-	19,850,775
Property taxes levied for debt service					1,300,000	-	1,300,000
Property taxes levied for TIF Districts					2,471,104	-	2,471,104
Other taxes					1,085,976	-	1,085,976
Intergovernmental revenue not restricted to specific programs					1,366,802	-	1,366,802
Investment earnings					847,916	548,047	1,395,963
Miscellaneous revenue					13,895	134,928	148,823
Gain on sale of capital assets					97,856	-	97,856
Transfers					1,011,392	(1,011,392)	-
Total general revenue and transfers					28,045,716	(328,417)	27,717,299
Change in net position					(3,201,617)	(2,125,821)	(5,327,438)
Net position - beginning					137,616,975	110,957,113	248,574,088
Net position - ending					\$ 134,415,358	\$ 108,831,292	\$ 243,246,650

CITY OF FRANKLIN, WISCONSIN
Balance Sheet
Governmental Funds
As of December 31, 2018

	General	Debt Service	TIF Districts	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 7,618,420	\$ 953,192	\$ 14,025,979	\$ 16,755,483	\$ 39,353,074
Receivables					
Accounts	870,099	-	-	180,841	1,050,940
Taxes	18,184,498	1,329,527	2,156,858	3,283,449	24,954,332
Special assessments	-	58,473	-	661,589	720,062
Due from other governments	42,533	-	-	68,068	110,601
Prepaid items	29,841	-	-	-	29,841
Inventories	27,582	-	-	-	27,582
Advances to other funds	257,395	-	-	-	257,395
TOTAL ASSETS	\$ 27,030,368	\$ 2,341,192	\$ 16,182,837	\$ 20,949,430	\$ 66,503,827
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 504,899	\$ -	\$ 521,754	\$ 365,305	\$ 1,391,958
Accrued liabilities	820,503	-	969,377	249,039	2,038,919
Due to other governments	130,254	-	-	-	130,254
Special deposits	58,902	-	-	-	58,902
Advance from other funds	-	-	117,695	-	117,695
Total liabilities	1,514,558	-	1,608,826	614,344	3,737,728
DEFERRED INFLOWS OF RESOURCES					
Unearned & unavailable revenue	18,179,533	1,358,473	2,156,858	3,832,888	25,527,752
FUND BALANCES					
Nonspendable:					
Inventories and prepaid items	57,423	-	-	-	57,423
Advances to other funds	123,200	-	-	-	123,200
Restricted:					
Debt service	-	982,719	-	-	982,719
Utility improvements	-	-	-	1,712,538	1,712,538
Development	-	-	-	6,140,196	6,140,196
TIF Districts	-	-	12,430,497	-	12,430,497
Donations	-	-	-	150,606	150,606
Health services	-	-	-	192,510	192,510
Library services	-	-	-	630,290	630,290
Solid waste	-	-	-	430,747	430,747
Recreational services	-	-	-	75,743	75,743
Tourism	-	-	-	376,069	376,069
Assigned:					
Purchases on order	271,970	-	-	-	271,970
Capital projects	-	-	-	6,793,499	6,793,499
Unassigned (deficit)	6,883,684	-	(13,344)	-	6,870,340
Total fund balances	7,336,277	982,719	12,417,153	16,502,198	37,238,347
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 27,030,368	\$ 2,341,192	\$ 16,182,837	\$ 20,949,430	\$ 66,503,827

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
As of December 31, 2018

Fund balances - total governmental funds	\$ 37,238,347
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental funds are not financial resources and are therefore are not reported in the funds	
Capital assets, net of depreciation	126,908,049
Some receivables that are not currently available are reported as deferred inflows of resources in the fund financial statements but are recognized as revenues when earned in the government-wide statements	
Special assessments	720,187
The net pension asset does not related to current financial resources and is not reported in the governmental funds.	2,607,342
Deferred outflows of resources and deferred inflows of resources related to pensions and OPEB are applicable to future periods, and, therefore are not reported in fund statements	
Deferred outflows	5,866,670
Deferred inflows	(8,211,653)
Internal Service Fund net position	1,760,168
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due	
General obligation debt	(30,010,000)
Compensated absences	(2,009,153)
Net pension and OPEB obligations	
Unamortized debt premiums	(150,083)
Accrued Interest	<u>(304,516)</u>
Net position of governmental activities	<u>\$ 134,415,358</u>

CITY OF FRANKLIN, WISCONSIN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2018

	General	Debt Service	TIF Districts	Nonmajor Governmental Funds	Total Governmental Funds
REVENUE					
Taxes	\$ 17,611,739	\$ 1,300,000	\$ 2,603,976	\$ 2,991,125	\$ 24,506,840
Intergovernmental revenue	2,317,488	-	481,126	472,264	3,270,878
Licenses and permits	1,166,156	-	-	22,940	1,189,096
Fines, forfeitures and penalties	475,840	-	-	-	475,840
Public charges for services	2,405,406	-	-	2,438,751	4,844,157
Special assessments	-	76,143	-	2,769,016	2,845,159
Intergovernmental charges for services	192,542	-	-	-	192,542
Investment earnings	241,398	18,198	289,188	269,800	818,584
Miscellaneous revenue	244,136	-	5	150,854	394,995
Total revenue	<u>24,654,705</u>	<u>1,394,341</u>	<u>3,374,295</u>	<u>9,114,750</u>	<u>38,538,091</u>
EXPENDITURES					
Current					
General government	2,944,482	-	77,053	1,388	3,022,923
Public safety	17,077,275	-	-	29,518	17,106,793
Public works	3,388,370	-	107,525	1,630,087	5,125,982
Health and human services	670,131	-	-	225,130	895,261
Culture, recreation and education	240,916	-	-	1,465,986	1,706,902
Conservation and development	512,157	-	12,155,000	12,040	12,679,197
Capital outlay	-	-	2,888,703	2,975,682	5,864,385
Debt service					
Principal	-	1,330,000	985,000	-	2,315,000
Interest	-	148,898	242,678	-	391,576
Debt issuance costs	-	-	203,184	-	203,184
Total expenditures	<u>24,833,331</u>	<u>1,478,898</u>	<u>16,659,143</u>	<u>6,339,831</u>	<u>49,311,203</u>
Excess (deficiency) of revenue over expenditures	<u>(178,626)</u>	<u>(84,557)</u>	<u>(13,284,848)</u>	<u>2,774,919</u>	<u>(10,773,112)</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	-	81,652	81,652
Transfers in	1,011,392	332,254	-	395,039	1,738,685
Transfers out	(84,000)	-	-	(643,293)	(727,293)
General obligation debt issued	-	-	23,480,000	-	23,480,000
Total other financing sources and uses	<u>927,392</u>	<u>332,254</u>	<u>23,480,000</u>	<u>(166,602)</u>	<u>24,573,044</u>
Net change in fund balances	748,766	247,697	10,195,152	2,608,317	13,799,932
Fund balances - beginning	<u>6,587,511</u>	<u>735,022</u>	<u>2,222,001</u>	<u>13,893,881</u>	<u>23,438,415</u>
Fund balances - ending	<u>\$ 7,336,277</u>	<u>\$ 982,719</u>	<u>\$ 12,417,153</u>	<u>\$ 16,502,198</u>	<u>\$ 37,238,347</u>

CITY OF FRANKLIN, WISCONSIN
Reconciliation of the Statement of Revenue
Expenditures and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2018

Net change in fund balances - total governmental funds	\$ 13,799,932
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense or losses when disposed of.	
Capital outlays	8,511,071
Depreciation	(3,576,906)
Contributed capital assets are reported as revenues in the statement of activities.	
	50,006
The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes current financial resources of government funds. Neither transaction, however, has any effect on net position.	
Principal paid on long-term debt	2,315,000
Proceeds from long-term debt, net of premium/discount	(23,480,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the government funds	
Compensated absences, pensions and OPEB	(387,008)
Accrued interest payable and amortization of debt premium	(182,489)
Revenue in the governmental funds that provides current financial resources but has been previously reported as revenue in the statement of activities	
Net special assessments	(125,195)
Internal service fund change in net position	(126,028)
Net change in net position of governmental activities	\$ (3,201,617)

CITY OF FRANKLIN, WISCONSIN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balances -
Budget and Actual (on a Budgetary Basis)
For the Year Ended December 31, 2018

	Budgeted Amount		Actual	Variance with final budget - Excess (Deficiency)
	Original	Final		
REVENUE				
Taxes	\$ 18,693,149	\$ 18,693,149	\$ 18,623,131	\$ (70,018)
Intergovernmental revenue	2,432,926	2,432,926	2,317,488	(115,438)
Licenses and permits	1,043,490	1,043,490	1,166,156	122,666
Fines, forfeitures and penalties	500,000	500,000	475,840	(24,160)
Public charges for services	1,805,350	1,805,350	2,405,406	600,056
Intergovernmental charges for services	196,500	196,500	192,542	(3,958)
Investment earnings	205,000	205,000	241,398	36,398
Miscellaneous revenue	117,850	117,850	244,136	126,286
Total revenue	<u>24,994,265</u>	<u>24,994,265</u>	<u>25,666,097</u>	<u>671,832</u>
EXPENDITURES				
Current				
General government	4,181,627	4,072,089	2,937,641	1,134,448
Public safety	17,296,241	17,352,591	17,045,634	306,957
Public works	3,437,593	3,371,593	3,536,292	(164,699)
Health and human services	710,345	710,345	670,131	40,214
Culture and recreation	173,914	239,914	236,956	2,958
Conservation and development	595,345	615,345	528,082	87,263
Total expenditures	<u>26,395,065</u>	<u>26,361,877</u>	<u>24,954,736</u>	<u>1,407,141</u>
Excess (deficiency) of revenue over (under) expenditures	(1,400,800)	(1,367,612)	711,361	2,078,973
OTHER FINANCING SOURCES (USES)				
Transfers out	(24,000)	(84,000)	(84,000)	-
Net change in fund balance - budgetary basis	(1,424,800)	(1,451,612)	627,361	2,078,973
Adjustments to generally accepted accounting principles basis				
2018 encumbrances	-	271,970	271,970	-
2017 encumbrances	-	(150,565)	(150,565)	-
Net change in fund balance - generally accepted accounting principles basis	(1,424,800)	(1,330,207)	748,766	2,078,973
Fund Balances - beginning	<u>6,587,511</u>	<u>6,587,511</u>	<u>6,587,511</u>	<u>-</u>
Fund Balances - ending	<u>\$ 5,162,711</u>	<u>\$ 5,257,304</u>	<u>\$ 7,336,277</u>	<u>\$ 2,078,973</u>

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Statement of Net Position
Proprietary Funds
As of December 31, 2018
(with comparative information for December 31, 2017)

	Business-type Activities - Enterprise Funds				Current Year Totals	Governmental Activities - Internal Service Funds
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year		
ASSETS						
Current assets						
Cash and investments	\$ 2,731,422	\$ 1,900,126	\$ 1,383,225	\$ 1,508,191	\$ 4,114,647	\$ 1,986,494
Receivables						
Accounts receivable	1,399,959	1,474,084	956,759	853,366	2,356,718	61,662
Taxes receivable	173,394	161,856	108,886	97,015	282,280	-
Due from other funds	-	39,260	-	44,650	-	-
Due from other governments	-	-	1,244,629	1,214,723	1,244,629	-
Prepaid expenses	2,291	-	2,291	-	4,582	3,045
Total current assets	<u>4,307,066</u>	<u>3,575,326</u>	<u>3,695,790</u>	<u>3,717,945</u>	<u>8,002,856</u>	<u>2,051,201</u>
Noncurrent assets						
Restricted cash and investments	-	-	-	178,590	-	-
Due from other governments	-	-	17,555,340	18,799,969	17,555,340	-
Regulatory assets	42,059	171,767	-	-	42,059	-
Capital assets						
Land	162,885	162,885	725,594	725,594	888,479	-
Buildings and improvements	3,020,191	3,010,304	3,308,050	3,298,163	6,328,241	-
Improvements other than buildings	55,613,608	55,434,661	78,754,451	78,754,451	134,368,059	-
Machinery and equipment	4,821,896	5,067,718	1,182,171	1,056,096	6,004,067	-
Construction in progress	60,301	-	2,753	-	63,054	-
Less accumulated depreciation	<u>(20,238,971)</u>	<u>(19,203,715)</u>	<u>(22,382,129)</u>	<u>(20,592,321)</u>	<u>(42,621,100)</u>	<u>-</u>
Total capital assets (net of accumulated depreciation)	<u>43,439,910</u>	<u>44,471,853</u>	<u>61,590,890</u>	<u>63,241,983</u>	<u>105,030,800</u>	<u>-</u>
Total noncurrent assets	<u>43,481,969</u>	<u>44,643,620</u>	<u>79,146,230</u>	<u>82,220,542</u>	<u>122,628,199</u>	<u>-</u>
Total assets	<u>47,789,035</u>	<u>48,218,946</u>	<u>82,842,020</u>	<u>85,938,487</u>	<u>130,631,055</u>	<u>2,051,201</u>
DEFERRED OUTFLOWS OF RESOURCES						
Pension related	102,915	447,267	89,558	386,276	192,473	-

Continued

CITY OF FRANKLIN, WISCONSIN
Statement of Net Position
Proprietary Funds
As of December 31, 2018
(with comparative information for December 31, 2017)

	Business-type Activities - Enterprise Funds				Current Year Totals	Governmental Activities - Internal Service Funds
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year		
LIABILITIES						
Current liabilities						
Accounts payable	\$ 760,659	\$ 711,295	\$ 620,577	\$ 800,489	\$ 1,381,236	\$ 333
Accrued liabilities	689	6,558	29,109	28,084	29,798	290,700
Accrued interest payable	11,196	10,829	77,143	82,127	88,339	-
Due to other funds	-	49,145	-	20,908	-	-
Current portion of long-term advances	16,500	16,000	-	-	16,500	-
Current portion of long-term obligations	55,000	55,000	1,244,629	1,214,723	1,299,629	-
Total current liabilities	<u>844,044</u>	<u>848,827</u>	<u>1,971,458</u>	<u>2,146,331</u>	<u>2,815,502</u>	<u>291,033</u>
Noncurrent liabilities						
Net pension liability	66,480	418,383	57,415	361,331	123,895	-
Net OPEB liability	24,289	19,727	24,289	19,727	48,578	-
General obligation notes payable	1,005,647	1,059,575	17,555,341	18,799,970	18,560,988	-
Accrued compensated absences	75,360	75,021	75,360	75,021	150,720	-
Total noncurrent liabilities	<u>1,171,776</u>	<u>1,572,706</u>	<u>17,712,405</u>	<u>19,256,049</u>	<u>18,884,181</u>	<u>-</u>
Long-term advances	<u>123,200</u>	<u>139,700</u>	<u>-</u>	<u>-</u>	<u>123,200</u>	<u>-</u>
Total liabilities	<u>2,139,020</u>	<u>2,561,233</u>	<u>19,683,863</u>	<u>21,402,380</u>	<u>21,822,883</u>	<u>291,033</u>
DEFERRED INFLOWS OF RESOURCES						
Pension related	<u>90,872</u>	<u>37,695</u>	<u>78,481</u>	<u>32,555</u>	<u>169,353</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	42,379,263	43,357,278	42,790,920	43,227,290	85,170,183	-
Restricted						
Sewer equipment replacement	-	-	-	178,590	-	-
Intergovernmental cooperation agreement	-	-	18,799,969	20,014,692	18,799,969	-
Unrestricted	<u>3,282,795</u>	<u>2,710,007</u>	<u>1,578,345</u>	<u>1,469,256</u>	<u>4,861,140</u>	<u>1,760,168</u>
Total net position	<u>\$ 45,662,058</u>	<u>\$ 46,067,285</u>	<u>\$ 63,169,234</u>	<u>\$ 64,889,828</u>	<u>\$ 108,831,292</u>	<u>\$ 1,760,168</u>

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2018
(with comparative information for December 31, 2017)

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year	Current Year Totals	
OPERATING REVENUE						
Metered sales						
Residential	\$ 2,918,671	\$ 3,008,260	\$ 2,019,797	\$ 1,801,699	\$ 4,938,468	\$ -
Multi-Family	751,798	741,401	498,485	447,952	\$ 1,250,283	-
Commercial	829,217	848,981	584,945	492,742	1,414,162	-
Industrial	475,734	475,367	415,365	396,229	891,099	-
Public authority	248,797	258,312	152,553	143,731	401,350	-
Total metered sales	5,224,217	5,332,321	3,671,145	3,282,353	8,895,362	-
Group health & dental charges	-	-	-	-	-	3,257,788
Unmetered sales	17,155	7,355	-	-	17,155	-
Public fire protection service	542,668	541,486	-	-	542,668	-
Private fire protection service	123,381	122,350	-	-	123,381	-
Forfeited discounts, penalties and other	53,929	53,573	33,707	31,501	87,636	-
Total operating revenue	5,961,350	6,057,085	3,704,852	3,313,854	9,666,202	3,257,788
OPERATING EXPENSES						
Cost of sales and services	3,541,829	3,444,137	2,534,885	2,279,953	6,076,714	3,412,999
Depreciation	1,204,485	1,194,029	2,135,076	2,119,900	3,339,561	-
Amortization	130,666	130,666	-	-	130,666	-
Administration	599,458	624,581	806,763	822,289	1,406,221	-
Total operating expenses	5,476,438	5,393,413	5,476,724	5,222,142	10,953,162	3,412,999
Operating income (loss)	484,912	663,672	(1,771,872)	(1,908,288)	(1,286,960)	(155,211)
NONOPERATING REVENUE (EXPENSES)						
Investment earnings (loss)	43,412	9,926	504,635	519,078	548,047	29,183
Sundry	112,106	64,168	22,822	21,775	134,928	-
Interest expense	(37,619)	(36,530)	(472,825)	(502,491)	(510,444)	-
Total non-operating revenue (expenses)	117,899	37,564	54,632	38,362	172,531	29,183
Income (loss) before capital contributions and transfers	602,811	701,236	(1,717,240)	(1,869,926)	(1,114,429)	(126,028)
Capital contributions	-	14,461	-	28,780	-	-
Transfers out	(1,008,038)	(1,029,649)	(3,354)	(3,194)	(1,011,392)	-
Change in net position	(405,227)	(313,952)	(1,720,594)	(1,844,340)	(2,125,821)	(126,028)
Net position - beginning	46,067,285	46,403,957	64,889,828	66,756,888	110,957,113	1,886,196
Restatement	-	(22,720)	-	(22,720)	-	-
Net position - beginning (restated)	46,067,285	46,381,237	64,889,828	66,734,168	110,957,113	1,886,196
Net position - ending	\$ 45,662,058	\$ 46,067,285	\$ 63,169,234	\$ 64,889,828	\$ 108,831,292	\$ 1,760,168

CITY OF FRANKLIN, WISCONSIN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018
(with comparative information for December 31, 2017)

	Business-type Activities - Enterprise Funds				Current Year Totals	Governmental Activities - Internal Service Funds
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year		
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 6,181,203	\$ 6,070,881	\$ 3,634,238	\$ 3,385,447	\$ 9,815,441	\$ 3,246,772
Payments to suppliers	(3,382,687)	(3,426,397)	(2,921,813)	(2,288,910)	(6,304,500)	(3,414,526)
Payments to employees	(597,759)	(618,718)	(484,497)	(527,153)	(1,082,256)	-
Payments for interfund services used	(105,330)	(110,144)	(106,545)	(111,406)	(211,875)	-
Net cash flows provided by (used in) operating activities	<u>2,095,427</u>	<u>1,915,622</u>	<u>121,383</u>	<u>457,978</u>	<u>2,216,810</u>	<u>(167,754)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Advances from other funds	-	155,700	-	-	-	25,000
Transfer out - paid for tax equivalent	(1,008,038)	(1,029,649)	(3,354)	(3,194)	(1,011,392)	-
Net Cash Flows from Noncapital Financing Activities	<u>(1,008,038)</u>	<u>(873,949)</u>	<u>(3,354)</u>	<u>(3,194)</u>	<u>(1,011,392)</u>	<u>25,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Advances to other funds	(16,000)	-	-	-	(16,000)	-
Proceeds on disposal of asset	-	-	22,822	-	22,822	-
Payments on capital debt	(55,000)	(55,000)	(1,214,724)	(1,185,535)	(1,269,724)	-
Payments from other governments	-	-	1,214,723	3,940,408	1,214,723	-
Payment of advances from other funds	-	-	-	(2,198,616)	-	-
Interest on capital debt	(36,180)	(35,788)	(477,808)	(507,355)	(513,988)	-
Capital contribution received	-	14,461	-	28,780	-	-
Acquisition of capital assets	(192,326)	(264,151)	(471,233)	(278,291)	(663,559)	-
Net cash provided (used) by capital and related financing activities	<u>(299,506)</u>	<u>(340,478)</u>	<u>(926,220)</u>	<u>(200,609)</u>	<u>(1,225,726)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment earnings	43,413	9,926	504,635	519,078	548,048	29,183
Net cash provided (used) by investing activities	<u>43,413</u>	<u>9,926</u>	<u>504,635</u>	<u>519,078</u>	<u>548,048</u>	<u>29,183</u>
Net increase (decrease) in cash and cash equivalents	831,296	711,121	(303,556)	773,253	527,740	(113,571)
Cash and cash equivalents - Beginning	1,900,126	1,189,005	1,686,781	913,528	3,586,907	2,100,065
Cash and cash equivalents - Ending	<u>\$ 2,731,422</u>	<u>\$ 1,900,126</u>	<u>\$ 1,383,225</u>	<u>\$ 1,686,781</u>	<u>\$ 4,114,647</u>	<u>\$ 1,986,494</u>
Cash and Investments - Unrestricted	\$ 2,731,422	\$ 1,900,126	\$ 1,383,225	\$ 1,508,191	\$ 4,114,647	\$ 1,986,494
Cash and Investments - Restricted	-	-	-	178,590	-	-
	<u>\$ 2,731,422</u>	<u>\$ 1,900,126</u>	<u>\$ 1,383,225</u>	<u>\$ 1,686,781</u>	<u>\$ 4,114,647</u>	<u>\$ 1,986,494</u>

Continued

CITY OF FRANKLIN, WISCONSIN
Statement of Cash Flows
Proprietary Funds

For the Year Ended December 31, 2018
(with comparative information for December 31, 2017)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Utility Current Year	Water Utility Prior Year	Sanitary Sewer Current Year	Sanitary Sewer Prior Year	
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 484,912	\$ 663,672	\$ (1,771,872)	\$ (1,908,288)	\$ (155,211)
Adjustments to reconcile operating income (loss) to net cash flows provided by operating activities					
Depreciation	1,204,485	1,194,029	2,135,076	2,119,900	3,339,561
Depreciation allocated to other funds	12,927	11,706	(12,750)	(11,706)	177
Amortization	130,666	130,666	-	-	130,666
Nonoperating revenues	118,006	64,168	-	21,775	118,006
(Increase) decrease in assets and deferred outflows of resources					
Accounts receivable	74,125	(58,993)	(103,322)	13,302	(29,197)
Taxes receivable	(11,538)	21,605	(11,871)	24,924	(23,409)
Prepaid expense	(2,291)	2,304	(2,291)	2,214	(4,582)
Due from other funds	39,260	(12,984)	44,579	-	83,839
Due from other governments	-	-	-	11,592	-
Deferred Outflows - OPEB	(4,960)	-	(4,960)	-	(9,920)
Increase (decrease) in liabilities and deferred inflow of resources					
Accounts payable	49,362	(19,237)	(179,912)	242,404	(130,550)
Accrued liabilities	339	955	1,364	1,101	1,703
Due to other funds	(55,014)	(15,885)	(20,908)	416	(75,922)
Pension obligations	50,586	(63,391)	43,688	(56,663)	94,274
Post employment retirement benefit	4,562	(2,993)	4,562	(2,993)	9,124
Total adjustments	1,610,515	1,251,950	1,893,255	2,366,266	3,503,770
Net cash flows provided by (used in) operating activities	\$ 2,095,427	\$ 1,915,622	\$ 121,383	\$ 457,978	\$ 2,216,810
Noncash Capital Activities					
Cost of Utility plant installed and/or financed by external parties or the City	\$ -	\$ 14,461	\$ -	\$ 28,780	\$ -

CITY OF FRANKLIN, WISCONSIN
Statement of Fiduciary Net Position
Fiduciary Funds
As of December 31, 2018

	Agency Funds	City of Franklin Post Employment Benefits Trust
ASSETS		
Cash	\$ 54,907,946	\$ 216,935
Investments:		
Fixed Income Securities - Corporate Bonds	-	1,797,222
Domestic Equities	-	2,629,710
International Equities	-	675,710
Total Cash & Investments	54,907,946	5,319,577
Taxes receivable	18,039,794	-
Accounts receivable	418,830	40,582
Prepaid expense	-	345
Total assets	\$ 73,366,570	\$ 5,360,504
LIABILITIES		
Accounts payable	\$ 604,796	\$ -
Accrued liabilities	-	131,100
Due to other governments	72,745,426	-
Special deposits	16,348	-
Total liabilities	\$ 73,366,570	131,100
Total net position restricted for post employment benefits		\$ 5,229,404

CITY OF FRANKLIN, WISCONSIN
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2018

	City of Franklin Post Employment Benefits Trust
ADDITIONS	
Contributions	
City of Franklin	\$ 444,364
Retirees	128,294
Net investment earnings (losses)	(294,824)
Total additions	277,834
 DEDUCTIONS	
Incurring claims	456,297
Prescription drug claims	114,458
Claims fees	19,323
Stop loss premiums less claims received	32,115
Total deductions	622,193
Change in net position	(344,359)
 NET POSITION HELD IN TRUST FOR POST EMPLOYMENT BENEFITS:	
Beginning of year	5,573,763
End of year	\$ 5,229,404

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

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, 2018

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. That District was closed in 2012. 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 2018, 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

Government-Wide Financial Statements

The statement of net position (Exhibit A) and statement of activities (Exhibit B) display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenue and other non-exchange revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services provided.

The statement of activities demonstrates the degree that direct expenses of a given segment or function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate all indirect expenses to functions in the statement of activities. Program revenue includes 1) charges to customers or applicants, who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenue are reported as general revenue. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds with a fund considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows 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.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

- a. Total assets and deferred outflows, liabilities and deferred inflows, revenue, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the City believes is important to financial statement users may be reported as a major fund.

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.

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Major Enterprise Funds (continued)

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, another 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, 2018

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, 2018, there were \$378,649 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
As of and for the Year Ended December 31, 2018

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, 2018

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
As of and for the Year Ended December 31, 2018

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, 2018, 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, 2018

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 – 2018 tax roll:

Lien date and levy date	December 2018
Tax bills mailed	December 2018
Payment in full, or	January 31, 2019
First installment due	January 31, 2019
Second installment due	March 31, 2019
Third installment due	May 31, 2019
Personal property taxes in full	January 31, 2019
Final tax settlement with County	August 20, 2019
Tax deed by County – 2018	
Delinquent real estate taxes	October 2021

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, 2018

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
As of and for the Year Ended December 31, 2018

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 \$25,000 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, and overhead..

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

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

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
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

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. IDRB's are secured by mortgages or revenue agreements on associated projects of the business enterprises. The IDRB's do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the financial statements. Four series of Industrial Revenue Bonds originally issued with an aggregate principal amount of \$10,375,000 are outstanding with a December 31, 2018 balance of \$5,516,535.

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
As of and for the Year Ended December 31, 2018

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.
- 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	\$ 113,400,761	\$ 85,170,183	\$ (1,697,000)	\$ 196,873,944
Unrestricted	(4,974,645)	4,861,140	1,697,000	1,583,495

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, 2018

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, 2018, the City exceeded the 30% upper level by 2.2%.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

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, 2017 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, Tourism, Capital Outlay, Equipment Replacement, Capital Improvement, Street Improvement, Utility Improvement, Development, Sanitary Sewer and Water Utility funds..

The budget amounts presented include any amendments made during the year. The City may authorize transfers of budget amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds vote of the Common Council. Supplemental appropriations during the year were not significant. Appropriations lapse at the end of the year unless specifically carried over. Carryovers to the following year amounted to approximately \$76,000. 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, 2018**

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, 2018 the following fund functions had expenditures exceeding budget:

Fund/Function	Budget Expenditures	Actual Expenditures	Excess Expenditures Over Budget
General Fund			
Fire Dept - Non-personnel	\$ 471,560	\$ 473,195	\$ 1,635
Engineering - Non-Personnel	28,700	428,704	400,004
Library Auxiliary Fund			
Culture, recreation, and education	46,100	46,693	593

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 institutions 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, 2018

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, 2018, 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.

The City maintains both Non-FDIC insured and collateralized balances with an investment manager that deposits funds with US Banks. The funds are held in accounts 'As Agent for its Customers'.

Cash and investments as shown on the December 31, 2018 statement of net position are subject to the following risks:

	Carrying Value	Bank & Investment Balances	Risks
Local Government Investment Pool	\$ 2,740,187	\$ 2,740,187	Credit
Money market funds	286,725	286,725	Custodial credit
U.S. treasuries	2,966,562	2,966,562	Custodial credit and interest rate
U.S. agencies	12,899,945	12,899,945	Credit, custodial credit, interest rate and concentration of credit
Corporate notes	998,480	998,480	Credit, custodial credit, interest rate and concentration of credit
Total fixed income investments	19,891,899	19,891,899	
Equity funds	3,305,420	3,305,420	Custodial credit
Fixed income funds	1,797,222	1,797,222	Credit and interest rate
Cash and demand deposits	80,687,197	81,069,658	Custodial credit
Total	<u>\$ 105,681,738</u>	<u>\$ 106,064,199</u>	

Reconciliation to the financial statements is shown below:

Per Statement of Net Position	
Primary Government:	
Unrestricted cash and investments	\$ 45,454,215
Per Statement of Fiduciary Net Position - Fiduciary Funds	
Agency Fund	54,907,946
City of Franklin Post Employment Benefits Trust	5,319,577
	<u>\$ 105,681,738</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

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, 2018, none of the City's total bank balances 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, 2018, 68.6% 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 5.8%, The portfolio makeup of fixed income investments was treasury and agency securities at 92.5%, corporate securities at 5.8%, Local Government Investment Pool at 11.0% and money market funds at 1.1%. The Local Government Investment Pool is not rated. Equities and fixed income mutual funds held in trust at 20.4% 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, 2018 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, 2018**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

As of December 31, 2018, 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	\$ 15,866,507	\$ 2,964,025	\$ 10,396,556	\$ 2,505,926	\$ -
Corporate notes	998,480	998,480	-	-	-
Fixed income funds	1,797,222	172,797	392,365	363,920	868,139
Total	\$ 18,662,209	\$ 4,135,302	\$ 10,788,921	\$ 2,869,846	\$ 868,139

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, 2018:			
	Level 1	Level 2	Level 3	Total
US treasuries and agencies	\$ -	\$ 15,866,507	\$ -	\$ 15,866,507
Corporate notes	-	998,480	-	998,480
Total	-	16,864,987	-	16,864,987
Equity funds	3,305,420	-	-	3,305,420
Fixed income funds	1,797,222	-	-	1,797,222
Total	\$ 5,102,642	\$ 16,864,987	\$ -	\$ 21,967,629

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 \$ 54,109 at December 31, 2018. 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, 2018

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	\$ -	\$ 24,807,564	\$ 24,807,564
Special assessments not yet due	720,187	-	720,187
Total deferred inflows of resources for governmental funds	\$ 720,187	\$ 24,807,564	\$ 25,527,751

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
2019	\$ 1,244,629	\$ 447,534
2020	1,275,272	416,514
2021	1,306,669	384,730
2022	1,338,839	352,164
2023	1,371,802	318,796
2024-2028	7,382,555	1,063,988
2029-2033	4,880,204	182,174
Total	\$ 18,799,970	\$ 3,165,900

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 \$ 0 .

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

E. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

Governmental Activities	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ 25,072,951	\$ 36,600	\$ -	\$ 25,109,551
Construction in progress	442,805	6,886,665	717,759	6,611,711
Total capital assets not depreciated	<u>25,515,756</u>	<u>6,923,265</u>	<u>717,759</u>	<u>31,721,262</u>
Capital assets depreciated:				
Buildings & improvements	26,860,342	373,370	-	27,233,712
Machinery & equipment	18,562,309	788,953	456,270	18,894,992
Infrastructure	104,393,846	1,193,248	238,663	105,348,431
Total capital assets depreciated	<u>149,816,497</u>	<u>2,355,571</u>	<u>694,933</u>	<u>151,477,135</u>
Less: Accumulated depreciation for:				
Buildings & improvements	10,909,452	701,675	-	11,611,127
Machinery & equipment	11,538,077	1,021,320	456,270	12,103,127
Infrastructure	30,960,846	1,853,911	238,663	32,576,094
Total accumulated depreciation	<u>53,408,375</u>	<u>3,576,906</u>	<u>694,933</u>	<u>56,290,348</u>
Net capital assets depreciated	<u>96,408,122</u>	<u>(1,221,335)</u>	<u>-</u>	<u>95,186,787</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 121,923,878</u>	<u>\$ 5,701,930</u>	<u>\$ 717,759</u>	<u>\$ 126,908,049</u>

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 147,538
Public safety	702,144
Public works	2,231,284
Health & human services	1,707
Culture & recreation	492,853
Conservation & development	1,380
Total governmental activities depreciation expense	<u>\$ 3,576,906</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

E. CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Dispositions	Ending Balance
Business-type Activities				
Capital Assets not depreciated:				
Land	\$ 888,479	\$ -	\$ -	\$ 888,479
Construction in progress	-	63,054	-	63,054
Total capital assets not depreciated	<u>888,479</u>	<u>63,054</u>	<u>-</u>	<u>951,533</u>
Capital assets depreciated:				
Buildings & improvements	6,682,442	19,774	373,975	6,328,241
Machinery & equipment	5,749,838	768,903	514,674	6,004,067
Infrastructure	134,189,113	179,905	958	134,368,060
Total capital assets depreciated	<u>146,621,393</u>	<u>968,582</u>	<u>889,607</u>	<u>146,700,368</u>
Less: Accumulated depreciation for:				
Buildings & improvements	1,716,965	207,205	-	1,924,170
Machinery & equipment	3,897,629	280,991	514,496	3,664,124
Infrastructure	34,181,442	2,851,365	-	37,032,807
Total accumulated depreciation	<u>39,796,036</u>	<u>3,339,561</u>	<u>514,496</u>	<u>42,621,101</u>
Net capital assets depreciated	<u>106,825,357</u>	<u>(2,370,979)</u>	<u>375,111</u>	<u>104,079,267</u>
Business-type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 107,713,836</u>	<u>\$ (2,307,925)</u>	<u>\$ 375,111</u>	<u>\$ 105,030,800</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Water	\$ 1,204,485
Sewer	2,135,076
Total business-type activities depreciation expense	<u>\$ 3,339,561</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

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 \$ 199,948 for the year ended December 31, 2018. Future minimum lease payments receivable in conjunction with the leases are as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
2019	\$ 47,178	\$ 47,178	\$ 94,356
2020	20,778	20,778	41,556
2021	1,913	1,913	3,826
2022	-	-	-
Totals	<u>\$ 69,869</u>	<u>\$ 69,869</u>	<u>\$ 139,738</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.

There were no interfund receivables and payables at December 31, 2018.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

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 and Water Utility. 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. The balances at December 31, 2018 were:

Payable Fund	Receivable Fund		Due within one year
	General	Total	
TIF Districts	\$ 117,695	\$ 117,695	\$ 117,695
Water Fund	139,700	139,700	16,500
	<u>\$ 257,395</u>	<u>\$ 257,395</u>	<u>\$ 134,195</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, 2018 were as follows:

	Transfers Out			
	General Fund	Nonmajor Governmental Funds	Enterprise Funds	Fund Totals
Transfers In				
General Fund	\$ -	\$ -	\$ 1,011,392	\$ 1,011,392
Debt Service Fund	-	332,254	-	332,254
Nonmajor Governmental Funds	84,000	311,039	-	395,039
Total	<u>\$ 84,000</u>	<u>\$ 643,293</u>	<u>\$ 1,011,392</u>	<u>\$ 1,738,685</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, 2018

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, 2018 is as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Transfers in per fund statements	\$ 1,738,685	\$ -
Transfers out per fund statements	(727,293)	(1,011,392)
Government Wide Transfers	<u>\$ 1,011,392</u>	<u>\$ (1,011,392)</u>

H. LONG TERM OBLIGATIONS

General Obligation Debt

Long-term liabilities for the year ended December 31, 2018 were as follows:

	<u>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	\$ 8,845,000	\$ 23,480,000	\$ 2,315,000	\$ 30,010,000	\$ 11,405,000
Premium	217,622	-	67,539	150,083	-
Sub-total	<u>9,062,622</u>	<u>23,480,000</u>	<u>2,382,539</u>	<u>30,160,083</u>	<u>11,405,000</u>
Compensated absences					
Accrued vacation pay	427,497	1,067,065	1,068,476	426,086	426,085
Accrued severance pay	1,411,246	141,755	145,535	1,407,466	73,200
Accrued compensatory time	<u>183,360</u>	<u>262,929</u>	<u>270,688</u>	<u>175,601</u>	<u>175,600</u>
Total compensated absences	2,022,103	1,471,749	1,484,699	2,009,153	674,885
Net pension obligation - WRS	692,662	-	692,662	-	-
Net pension obligation - City of Franklin Defined Benefit Retirement Plan	1,597,461	-	1,343,628	253,833	-
Net OPEB obligation	<u>1,994,297</u>	<u>461,276</u>	<u>-</u>	<u>2,455,573</u>	<u>-</u>
Total benefit obligations	<u>6,306,523</u>	<u>1,933,025</u>	<u>3,520,989</u>	<u>4,718,559</u>	<u>674,885</u>
Governmental activities Long-term liabilities	<u>\$ 15,369,145</u>	<u>\$ 25,413,025</u>	<u>\$ 5,903,528</u>	<u>\$ 34,878,642</u>	<u>\$ 12,079,885</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

H. LONG TERM OBLIGATIONS (continued)

General Obligation Debt (continued)

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts due within one year
Business-type Activities					
General obligation debt	\$ 21,139,693	\$ -	\$ 1,269,723	\$ 19,869,970	\$ 1,299,629
Discount	(10,425)	-	(1,072)	(9,353)	-
Subtotal	<u>21,129,268</u>	<u>-</u>	<u>1,268,651</u>	<u>19,860,617</u>	<u>1,299,629</u>
Compensated absences					
Accrued vacation pay	46,149	45,086	43,053	48,182	48,182
Accrued severance pay	75,248	6,380	4,661	76,967	8,612
Accrued compensatory time	<u>28,646</u>	<u>5,392</u>	<u>8,468</u>	<u>25,570</u>	<u>25,570</u>
Total compensated absences	150,043	56,858	56,182	150,719	82,364
Net OPEB obligation	39,454	9,124		48,578	-
Net pension obligation - City of Franklin Defined Benefit Retirement Plan	<u>779,713</u>	<u>-</u>	<u>655,818</u>	<u>123,895</u>	<u>-</u>
Total Benefit Obligations	<u>969,210</u>	<u>65,982</u>	<u>712,000</u>	<u>323,192</u>	<u>82,364</u>
Business-type activities					
Long-term liabilities	<u>\$ 22,098,478</u>	<u>\$ 65,982</u>	<u>\$ 1,980,651</u>	<u>\$ 20,183,809</u>	<u>\$ 1,381,993</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

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, 2018 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	\$ 3,385,000
General obligation promissory notes	12/18/14	2.0% - 2.5%	3/1/15-24	3/1 & 9/1	5,320,000	1,515,000 ¹
General Obligation Notes	12/21/17	2.5% - 3.0%	3/1/19-27	3/1 & 9/1	1,630,000	1,630,000 ⁴
Note Anticipation Note	5/1/18	2.5% - 3.2%	3/1/19 - 23	3/1 & 9/1	23,480,000	23,480,000 ⁵
Total Governmental Activities Debt						<u>\$ 30,010,000</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	\$ 18,799,970 ²
General obligation Bonds	12/18/14	2.0% - 3.125%	3/1/15-34	3/1 & 9/1	1,290,000	1,070,000 ³
Total Business-type Activities Debt						<u>\$ 19,869,970</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. ⁵ Issued for capital TID 5 infrastructure and developer grant 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
2019	\$ 11,405,000	\$ 690,497	\$ 1,299,629	\$ 478,371
2020	1,325,000	537,397	1,330,272	446,251
2021	1,345,000	509,748	1,366,669	413,019
2022	560,000	488,679	1,398,839	378,651
2023	14,045,000	258,618	1,431,802	343,484
2024-28	1,330,000	57,600	7,707,555	1,159,151
2029-33	-	-	5,255,204	224,411
2034	-	-	80,000	1,250
Total	<u>\$ 30,010,000</u>	<u>\$ 2,542,539</u>	<u>\$ 19,869,970</u>	<u>\$ 3,444,588</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

H. LONG TERM OBLIGATIONS (continued)

The City's statutory debt limit and margin of indebtedness at December 31, 2018 are \$201,147,070 and \$151,267,100, respectively. By City debt policy, the debt limit and margin of indebtedness limit are \$ 80,458,828 (40% of the limit prescribed by law) and \$30,578,858, respectively.

In 2018, the City issued a municipal revenue obligation (MRO) as part of a development agreement. The amount of the obligation was \$2 million, and is payable to the developer solely from tax increments collected from a development in TID #3. A \$109,000 payment was made in 2018. The MRO bears interest at 4.5% payable March 1 annually. The balance of the MRO was \$1,891,000 at December 31, 2018.

In 2018, the City issued a municipal revenue obligation (MRO) as part of a development agreement. The amount of the obligation was \$3.5 million, and is payable to the developer solely from tax increments collected from a development in TID #5. The MRO bears interest at 5.5% payable March 1 annually. No payments have been made on the MRO. The balance of the MRO was \$3.5 million at December 31, 2018.

The obligations do not constitute a charge upon any funds of the City. In the event that future tax increments are not sufficient to pay off the obligations, the obligations terminate with no further liability to the City. Since the amount of future payments is contingent on the collection of future TID increments, the obligation are not reported as a liability in the accompanying financial statements. The balance of the outstanding MRO principal at year end was \$5,391,000.

I. NET POSITION/FUND BALANCES

Governmental Activities

Governmental activities net position reported on the government-wide statement of net position at December 31, 2018 include the following:

Net investment in capital assets	
Land	\$ 25,109,551
Construction in process	6,611,711
Other capital assets, net of accumulated depreciation	95,186,787
Less: related long term debt outstanding, net of unspent bond proceeds	<u>(13,507,288)</u>
Net investment in capital assets	<u>\$ 113,400,761</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

I. NET POSITION/FUND BALANCES (continued)

Business-type Activities

Business-type activities net position reported on the government-wide statement of net position at December 31, 2018 include the following:

Net investment in capital assets	
Land	\$ 888,479
Construction in process	63,054
Other capital assets, net of accumulated depreciation	104,079,267
Less: related long term debt outstanding	<u>(19,860,617)</u>
Net investment in capital assets	<u>\$ 85,170,183</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

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, 2018 include the following:

Nonspendable fund balances	
General Fund - advances	\$ 123,200
General Fund - prepaid items and inventory	57,423
Total nonspendable fund balance	<u>\$ 180,623</u>
Restricted fund balances	
Debt service	\$ 982,719
Utility improvements	1,712,538
Development	6,140,196
TIF Districts	12,430,497
Donations	150,606
Health services	192,510
Library services	630,290
Solid waste	430,747
Recreational services	75,743
Tourism Commission	376,069
Total restricted fund balance	<u>\$ 23,121,915</u>
Assigned Fund balances:	
General Fund - purchases on order	\$ 271,970
Capital Projects:	
Capital outlay	425,043
Equipment replacement	2,645,695
Capital improvement	3,323,373
Street improvement	399,388
Total assigned fund balances	<u>\$ 7,065,469</u>
Unassigned fund balances	
General Fund	\$ 6,883,684
TIF Districts (Deficit)	(13,344)
Total unassigned fund balances	<u>\$ 6,870,340</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

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, 2018

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 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest annual earning periods. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

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

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:

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Wisconsin Retirement System (continued)

General Information about the Pension Plan (continued)

Year	Core Fund Adjustment	Variable Fund Adjustment
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)
2017	2.0	4.0

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for General category employees and Executives and Elected Officials. Starting January 1, 2016, the Executives and Elected Officials category was merged into the General Employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized \$951,221 in contributions from the employer.

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

Contribution rates as of December 31, 2018 are:

Employee Category	Employee	Employer
Protective with Social Security	6.8%	10.6%

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Wisconsin Retirement System (continued)

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

At December 31, 2018, the City reported an asset of \$2,607,342 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. 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 asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the City's proportion was 0.08781536%, which was an increase of 0.00377874%, from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the City recognized pension expense of \$1,366,396, which includes amounts paid to WRS related to duty disability payments.

At December 31, 2018, 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	\$ 3,312,693	\$ 1,549,568
Changes in assumptions	515,159	-
Net differences between projected and actual earnings on pension plan investments	-	3,583,550
Changes in proportion and differences between employer contributions and proportionate share of contributions	43,842	22,161
Employer contributions subsequent to the measurement date	1,119,560	-
Total	\$ 4,991,254	\$ 5,155,279

\$1,119,560 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset 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:

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Wisconsin Retirement System (continued)

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

<u>Year ended December 31:</u>	
2019	\$ 300,985
2020	(12,744)
2021	(899,273)
2022	(678,789)
2023	6,239
Thereafter	-

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

Actuarial Valuation Date:	December 31, 2016
Measurement Date of Net Pension Liability (Asset)	December 31, 2017
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	Fair 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, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 actuarial valuation.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Wisconsin Retirement System (continued)

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

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

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

Core Fund Asset Class	Current Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50%	8.2%	5.3%
Fixed Income	24.5	4.2	1.4
Inflation Sensitive Assets	15.5	3.8	1.0
Real Estate	8	6.5	3.6
Private Equity/Debt	8	9.4	6.5
Multi-Asset	4	6.5	3.6
Total Core Fund	110	7.3	4.4
<u>Variable Fund Asset Class</u>			
US Equities	70	7.5	4.6
International Equities	30	7.8	4.9
Total Variable Fund	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.

CITY OF FRANKLIN, WISCONSIN
 NOTES TO FINANCIAL STATEMENTS
 As of and for the Year Ended December 31, 2018

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Wisconsin Retirement System (continued)

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

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 3.31%. 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.

Sensitivity of the city's proportionate share of the net pension liability (asset) to changes in the discount rate. 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)	\$ 6,746,084	\$ (2,607,342)	\$ (9,716,235)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

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.

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.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

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)

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

Active employees	30
Terminated vested participants	7
Retirees	<u>25</u>
Total	<u>62</u>

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 \$1,133,559 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, 2018, the City reported a liability of \$377,732 for its net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. 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, 2018**

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, 2017	\$ 9,964,954	\$ 7,587,775	\$ 2,377,179
Changes for the year:			
Service cost	182,107	-	182,107
Interest	651,297	-	651,297
Difference between expected and actual experience	(154,963)	-	(154,963)
Changes of assumptions	(203,418)	-	(203,418)
Contributions - employer	-	1,133,559	(1,133,559)
Net investment income	-	1,372,321	(1,372,321)
Benefit payments	(370,146)	(370,146)	-
Administrative Expense	-	(31,410)	31,410
Balance at December 31, 2018	<u>\$ 10,069,831</u>	<u>\$ 9,692,099</u>	<u>\$ 377,732</u>

Plan fiduciary net position as a percentage of the total pension liability 96.25%

At December 31, 2018, 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	\$ 257,216	\$ 198,661
Changes in assumptions	214,349	-
Net differences between projected and actual earnings on pension plan investments	-	317,660
Employer contributions subsequent to measurement date	85,000	-
Total	<u>\$ 556,565</u>	<u>\$ 516,321</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

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 \$85,000 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, 2019. 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:

2019	\$ 190,341
2020	88,586
2021	(165,627)
2022	(158,056)

Actuarial assumptions - The pension liability in the December 31, 2017 actuarial valuation was determined use the following actuarial assumptions, applied to all periods in the measurement:

Actuarial Valuation Date:	December 31, 2017
Measurement Date of Net Pension Liability (Asset):	December 31, 2017
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Market Value
Long-Term Expected Rate of Return:	6.75%
Discount Rate:	6.75%
Salary increase - Inflation:	2.00%
Salary increase - Seniority/Merit:	3.00%
Mortality:	2017 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, 2017 is based upon the liability calculated from the December 31, 2016 actuarial valuation.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

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%	40.11%
US Equity - Mid Cap	8.10%	4.66%
US Equity - Small Cap	8.55%	2.31%
Non-US Equity	8.10%	14.37%
Core Bonds	3.75%	34.58%
High Yield	6.70%	3.97%

Discount rate - A discount rate of 6.75% 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 6.75% and a long term bond rate of 3.74%. 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, 2018**

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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease to Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase to Discount Rate (7.75%)
City's net pension liability (asset)	\$ 1,490,489	\$ 377,732	\$ (570,696)

For the year ended December 31, 2018, the City recognized pension expense of \$287,423.

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 2018, total contributions of \$423,524 or 10% of covered payroll were made. The City contributed \$211,762 and employees \$211,762. 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, 2018

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, 2018, 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>203</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	37	75% of Premium at Retirement	62	20
Police	70	75% of Premium at Retirement	53	15
Dispatch	11	75% of 2005 Premium	62	20
Fire	52	75% of Premium at Retirement	53	20
DPW	33	75% of Premium at Retirement	60	15

CITY OF FRANKLIN, WISCONSIN
 NOTES TO FINANCIAL STATEMENTS
 As of and for the Year Ended December 31, 2018

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 2018 was -5.2%. 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, 2018

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, 2018, 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, 2018 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, 2018

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)
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance at December 31, 2017	\$ 7,607,514	\$ 5,573,763	\$ 2,033,751
Changes for the year:			
Service cost	238,261	-	238,261
Interest	509,975	-	509,975
Contributions - employer	-	444,364	(444,364)
Contributions - employees	-	128,294	(128,294)
Net investment income	-	344,332	(344,332)
Benefit payments	(622,193)	(622,193)	-
Estimated Balance at December 31, 2018	<u>\$ 7,733,557</u>	<u>\$ 5,868,560</u>	<u>\$ 1,864,997</u>
Difference between estimated and actual Plan Fiduciary Net Position	<u>-</u>	<u>(639,156)</u>	<u>639,156</u>
Actual Balance at December 31, 2018	<u>\$ 7,733,557</u>	<u>\$ 5,229,404</u>	<u>\$ 2,504,153</u>

Plan fiduciary net position as a percentage of the total OPEB liability 67.62%

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%)
	<u>(5.5%)</u>	<u>(6.5%)</u>	<u>(7.5%)</u>
City's net OPEB liability	\$ 3,232,934	\$ 2,504,154	\$ 1,848,057

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

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 \$	1,907,193	\$ 2,504,153	\$ 3,179,959

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

For the year ended December 31, 2018, the City recognized negative OPEB expense of \$168,754. At December 31, 2018, the City reported deferred outflows of resources \$511,325 related to the net difference between projected and actual earnings. The City reported no deferred inflows of resources related to OPEB.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	Deferred Outflow of Resources and Deferred Inflows of Resources (net)
2019	\$ 127,831
2020	127,831
2021	127,831
2022	127,831
2023	-
Thereafter	-

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018**

NOTE 4 - OTHER INFORMATION (continued)

C. POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

Payable to the OPEB Plan

At December 31, 2018, 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, 2018.

D. CONTINGENCIES AND COMMITMENTS

The City at times is party to claims and legal proceedings. Although the outcome of such matters is not presently determinable, it is the opinion of City management and the City attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

D. CONTINGENCIES AND COMMITMENTS (continued)

The City receives impact fees for new development projects. The fees are to be used to fund specific projects within a specific period of time. In the event the projects are not completed or the time period elapses, the City will be required to refund the impact fees to the current owners of properties that the fees were originally collected.

Funding for the operating budget of the City comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits and other miscellaneous revenue. The State of Wisconsin provides a variety of aid and grant programs that benefit the City. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget process. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on future operating results of the City.

E. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, natural disasters, and workers' compensation claims that the City carries commercial insurance. No significant reductions in insurance coverage occurred for any risk of loss in the past year, and settled claims have not exceeded commercial coverage in any of the past three fiscal years.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE 4 - OTHER INFORMATION (continued)

E. RISK MANAGEMENT (continued)

The City also offers a group medical and dental insurance plan to employees for which the City is self-insured. This activity is accounted for in the City's Self Insurance Internal Service Fund. Group medical and dental costs are charged to City departments and retirees participating in the program. A third party administrator handles claims payments. The City carries stop loss insurance for claims in excess of \$60,000 per year per individual 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, 2018 and 2017 are as follows:

Fiscal Year	Balance Beginning of Year	Current Claims and Changes in Estimates	Claims Payments	Balance End of Year
2018	\$ 290,700	\$ 3,412,999	\$ 3,412,999	\$ 290,700
2017	270,500	3,944,749	3,924,549	290,700

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2018

NOTE 4 - OTHER INFORMATION (continued)

F. 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. 87, *Leases*
- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests –an amendment of GASB Statements No. 14 and No. 61*

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

H. SUBSEQUENT EVENT

On February 20, 2019 the City issued taxable general obligation bonds in the amount of \$13,685,000 with interest rates of 3.00% and 3.50%. The . The bonds refunded Note Anticipation Notes issued in 2018 used to finance project costs in TID 5 and a development grant in TID 3.

On February 20, 2019, the City issued tax exempt general obligation bonds in the amount of \$6,365,000 with interest rates of 3.25% to 4.00%. The Bonds are being used to finance project costs in TID 6.