

CITY OF FRANKLIN
COMMITTEE OF THE WHOLE MEETING
MONDAY, MAY 4, 2015, 6:30 P.M.
COMMON COUNCIL CHAMBERS, FRANKLIN CITY HALL
9229 W. LOOMIS ROAD, FRANKLIN, WISCONSIN
AGENDA*

- I. Call to Order and Roll Call.
- II. 2014 Comprehensive Annual Financial Report of the City of Franklin and the Required Communications Letter from Clifton Larson Allen, LLP.
- III. Adjournment.

*Notice is given that a majority of the Finance Committee may attend this meeting to gather information about an agenda item over which the Finance Committee has decision-making responsibility. This may constitute a meeting of the Finance Committee per State ex rel. Badke v. Greendale Village Board, even though the Finance Committee will not take formal action at this meeting.

[Note: Upon reasonable notice, efforts will be made to accommodate the needs of disabled individuals through appropriate aids and services. For additional information, contact the City Clerk's office at (414) 425-7500.]

APPROVAL <i>Slw Paul</i>	REQUEST FOR COUNCIL ACTION	MEETING DATE May 4, 2015
REPORTS & RECOMMENDATIONS	2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF FRANKLIN AND THE REQUIRED COMMUNICATIONS LETTER FROM CLIFTON LARSON ALLEN, LLP CPA'S	ITEM NUMBER <i>II.</i>

The 2014 Comprehensive Annual Financial Report (CAFR) will be presented by the Director of Finance & Treasurer along with Jacob Lenell, partner of our audit firm, Clifton Larson Allen, LLC CPA's.

The report was reviewed by the Finance Committee at their April 28, 2015 meeting. The Finance Committee unanimously recommends acceptance of the report.

The CAFR report and the required communication letter from Clifton Larson Allen, LLC are attached.

Jacob Lenell, partner, will be available to answer questions from Common Council members regarding the presentation or questions about the attached reports.

Upon acceptance of the report at the regular Common Council meeting, Clifton Larson Allen, LLC can complete their work and issue a final report.

COUNCIL ACTION REQUESTED

Motion to receive and place on file the 2014 Comprehensive Annual Financial Report (CAFR), and the required communications letter from Clifton Larson Allen, LLP, CPA's.

CITY OF FRANKLIN, WISCONSIN

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014



City of Franklin

*Draft, Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced*

PREPARED BY THE
DEPARTMENT OF FINANCE

DIRECTOR OF FINANCE & TREASURER
PAUL A ROTZENBERG, CPA

CITY OF FRANKLIN, WISCONSIN

TABLE OF CONTENTS December 31, 2014

INTRODUCTORY SECTION

	<u>Page</u>
Transmittal Letter	1
Organization Chart	6
List of Principal Officials	7
GFOA Certificate of Achievement	8

FINANCIAL SECTION

Independent Auditors' Report		9
Management's Discussion and Analysis		12
Basic Financial Statements		
	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Position	A	26
Statement of Activities	B	27
Fund Financial Statements:		
Balance Sheet – Governmental Funds	C	28
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	C.1	29
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds	D	30
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	31
General Fund – Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (on a Budgetary Basis)	F	32
Statement of Net Position – Proprietary Funds	G	33
Statement of Revenue, Expenses and Changes in Fund Net Position – Proprietary Funds	H	35
Statement of Cash Flows – Proprietary Funds	I	36
Statement of Fiduciary Net Position – Fiduciary Funds	J	38
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	K	39
Notes to Financial Statements		40
Required Supplementary Information		75
Schedule of funding progress – Public Works Employees Pension Plan – Post Employment Benefits Trust		

CITY OF FRANKLIN, WISCONSIN

TABLE OF CONTENTS

December 31, 2014

FINANCIAL SECTION (CONTINUED)

Combining and Individual Fund Financial Statements and Schedules:

	<u>Schedule</u>	<u>Page</u>
Combining Balance Sheet – Non-major Governmental Funds	1	76
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	2	78
Schedule of Revenue – Budget and Actual (on a Budgetary Basis) – General Fund	3	80
Schedule of Expenditures – Budget and Actual (on a Budgetary Basis) – General Fund	4	82
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Debt Service Fund	5	84
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Library Operating Fund	6	85
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Solid Waste Fund	7	86
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (on a Budgetary Basis) – Capital Projects	8	87
Combining Schedule of Changes in Assets and Liabilities – Agency Funds	9	90
TIF Districts Fund – Combining Balance Sheet	10	91
TIF Districts Fund – Schedule of TIF Districts Revenue, Expenditures And Changes in Fund Balances	11	92
Capital Assets Used in the Operation of Governmental Funds:		
Schedule by Source	12	93
Schedule by Function and Activity	12.1	94
Schedule of Changes by Function and Activity	12.2	95

CITY OF FRANKLIN, WISCONSIN

TABLE OF CONTENTS December 31, 2014

	<u>Table</u>	<u>Page</u>
STATISTICAL SECTION		
Net Position by Component – Last Ten Years	1	96
Changes in Net Position – Last Ten Years	2	97
Fund Balances, Governmental Funds – Last Ten Years	3	99
Changes in Fund Balances, Governmental Funds – Last Ten Years	4	100
Assessed Value and Estimated Actual Value of Taxable Property – Last Ten Years	5	101
Estimated Actual Property Value and Construction Data – Last Ten Years	6	102
Direct and Overlapping Property Tax Rates – Last Ten Years	7	103
Principal Property Taxpayers – Current Year and Nine Years Ago	8	104
Property Tax Levies and Collections – Last Ten Years	9	105
Property Tax Levies by Tax Jurisdiction – Last Ten Years	10	106
Ratios of Net General Bonded Debt Outstanding – Last Ten Years	11	107
Schedule of Direct and Overlapping Debt	12	108
Computation of Legal Debt Margin – Last Ten Years	13	109
Demographic and Economic Statistics – Last Ten Years	14	110
Principal Employers – Current Year and Nine Years ago	15	111
Full-time Equivalent City Government Employees by Function – Last Ten Years	16	112
Operating Indicators by Function/Program – Last Ten Years	17	113
Capital Asset Statistics by Function/Program – Last Ten Years	18	114

May 5, 2015

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, 2014, 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 CliftonLarsonAllen 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, 2014, 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. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended December 31, 2014, 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 35,702. Over the last ten years the City has experienced an average annual population increase of 1.5% per year. The city is a residential community (73.8%) with a commercial and industrial base (25.5%). 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 a city attorney. The City's Mayor is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government and for appointing the heads of the various departments. The Council is elected, by district, on a non-partisan basis. The Mayor and Council members serve staggered three-year terms. The City is organized into departments, headed by 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. These two areas therefore have been included as an integral part of the City's financial statements. The City also is financially accountable for a legally separate Community Development Authority (Authority). The Authority'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 outlay expenditures and determines by mid August the personnel and capital outlay expenditures that will be included in the initial departmental requested budgets. The departments take this information and submit their requested budgets by 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 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 lower in 2014 compared to 2013 as evidenced by reduced construction permit revenues. Prospects in 2015 for residential, commercial and industrial development are anticipated to be on a par to 2014, with growth dependent upon the development of new subdivisions and business parks.

Estimated actual property values have grown at an average annual rate of 2.1% since 2005. The new growth net of TIF Districts was \$46.8 million in 2014, \$34.6 million in 2013, and \$19.2 million in 2012. The growth in 2015 is expected to be in the \$15 to \$20 million dollar range reflecting the level of economic activity. The historical growth has allowed the City to maintain a relatively low municipal tax rate while still funding the increased cost of services required as a result of the City's growth.

Residential Growth

Over the past ten years, residential valuation has grown at an average annual rate of 1.8%. Lingering effects of the economic slowdown will keep growth from new construction in 2015 at about the same level as 2014. Longer range, the City has the most developable land in the County and remains attractive to builders and potential residents.

Commercial and Industrial Growth

Over the past ten years, commercial and industrial valuation has increased at an average annual rate of 3.2%.

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 \$73 and \$44 million, respectively.

Anticipated residential growth will continue to place demands on the commercial sector for goods and services that, in turn, is expected to continue the trend of commercial growth. Expansion of the commercial and industrial tax base is a goal of the City with respect to the overall tax rate. Currently 73.8% of the City's property value is residential compared to 75.7% ten years ago. Future tax relief will need to come from industrial and commercial tax base expansion.

Organizational and Service Growth

2014 was a year where overall revenue fell slightly short of projections. The one notable exception was investment earnings which benefited from increased market values due to generally falling interest rates. The growth in fund balance was achieved due to the under spending in approved budgets by departments.

2014 was not a City-wide property reassessment year. The last reassessment was done in 2010. A re-valuation was completed in 2013. 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

assessments after reassessments were 93.7% of fair value. The estimated actual value of City properties was approximately \$3.6 billion.

The challenge for the operating departments in 2014 was to continue to maintain service levels at a time of flat revenues and growth of 1.3% in new properties.

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, 2014 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 \$500,000, a single audit of grants is required. The City was not required to have a single audit of grants for 2014.

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 and ensure 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 policy, investment policies, budget forecasting policy and a capitalization policy. These policies, together with conservative management, has 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. The City tapped the debt markets in 2014, for the first time since 2008, to finance two major capital projects. Debt Service planning has permitted a steadily declining Debt Service levy since 2008.

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 Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2013. 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 22nd 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 2014 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

Mayor, Common Council and Citizens
May 5, 2015

extended to all other City employees who contributed to its preparation. We also thank the Mayor, Common Council, and Finance Committee for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

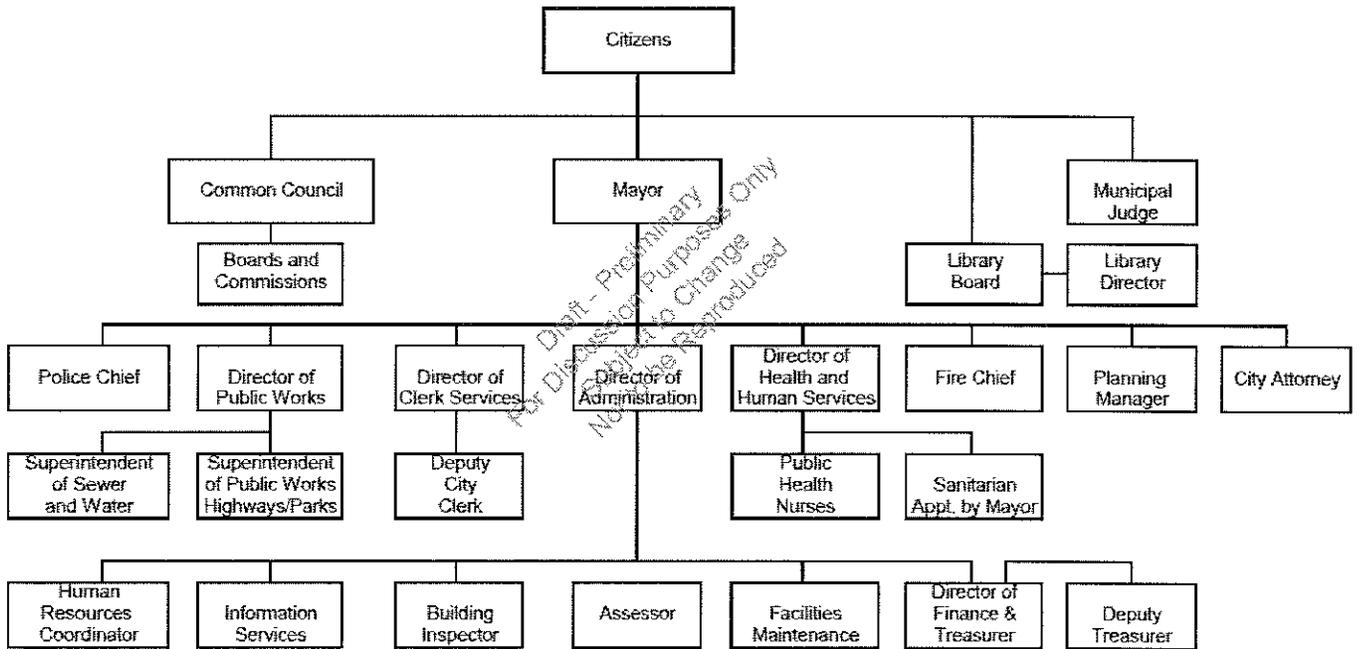
Respectfully submitted,

Paul Rotzenberg, CPA
Director of Finance & Treasurer

Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced

CITY OF FRANKLIN, WISCONSIN
Organization Chart

Page 9



CITY OF FRANKLIN, WISCONSIN
LIST OF PRINCIPAL OFFICIALS

Elected Officials

<u>Title</u>	<u>Name</u>
Mayor	Steve Olson
Aldermen:	
District No. 1	Mark Dandrea
District No. 2	Daniel Mayer
District No. 3	Kristen Wilhelm
District No. 4	Janet Evans
District No. 5	Doug Schmidt
District No. 6	Susanne Mayer
Municipal Judge	Fred Klimetz

Non-elected Officials

Assessor	Mark Link
Building Inspector	Fred Baumgart
City Attorney	Jesse Wesolowski
City Clerk	Sandi Wesolowski
City Engineer/Public Works Director	Glen Morrow
Director of Administration	Mark Luberda
Director of Finance & Treasurer	Paul Rotzenberg
Director of Health & Human Services	Bill Wucherer
Fire Chief	Adam Remington
Human Resources Coordinator	Dana Zahn
Library Director	Rachel Muchin Young
Planning Manager	Joel Dietl
Police Chief	Rick Oliva
Superintendent of Public Works	Jerry Schaefer
Superintendent of Sewer & Water	Mike Roberts

Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Franklin
Wisconsin

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Executive Director/CEO

INDEPENDENT AUDITORS' REPORT

Common Council
City of Franklin, Wisconsin
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, 2014, and the budgetary comparison for the General Fund for the year then ended, and the related notes to the financial statements, which collectively comprise the entity'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 entity'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 entity'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.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the City of Franklin, Wisconsin's 2013 financial statements and we expressed an unmodified audit opinion on those financial statements in our report dated May 5, 2014. In our opinion, the summarized comparative information presented for the Water Utility and Sanitary Sewer Utility Enterprise Funds presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress on pages 12-25 and 75 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin, Wisconsin's basic financial statements. The combining and individual fund financial statements and schedules, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the statistical tables have 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 them.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2015, on our consideration of the City of Franklin, Wisconsin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Franklin, Wisconsin's internal control over financial reporting and compliance.

Milwaukee, Wisconsin
May 5, 2015

Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced

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

As management of the City of Franklin (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-5 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2014, by \$215,605,434 (**net position**). Of this amount, \$12,864,290 (**unrestricted net position**) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by a net amount of \$5,214,378. Net investment in capital assets increased by \$781,968, while unrestricted net position increased by \$4,956,744 and restricted net position decreased by \$524,334. The increase in investment in capital assets was related to capital asset additions offset by increase in debt, net of unspent bond proceeds and accumulated depreciation. The unrestricted increase was mainly due to the repayment of noncapital debt. The restricted decrease was due to use of development revenues.
- The City's governmental funds reported, as of December 31, 2014, combined ending fund balances of \$18,030,657, a decrease of \$749,020 from the prior year.
- The Nonspendable fund balances were \$2,277,971 an increase of \$1,724,590 due to interfund advances from the General Fund to the Sewer Utility.
- The restricted fund balances in total was \$6,893,569 a decrease of \$6,491,754, including a decrease in restricted for debt service of \$6,255,707 and a decrease in Development Funds of \$881,829. Debt Service had a \$9,695,000 debt payment and the Development funds transferred \$873,727 to the Enterprise Funds.
- The assigned fund balances in total of \$4,906,729 had an increase of \$2,115,618 resulting from proceeds of a \$1,990,000 debt offering late in the year.
- The unassigned fund balance as of December 31, 2014 for the general fund was \$6,148,771 or approximately 24 percent of total anticipated 2015 general fund expenditures.
- The City's Governmental activities debt decreased by \$4,945,000. Repayments totaled \$10,265,000, while a new issue added \$5,320,000 in outstanding Governmental activity debt. The total general obligation debt that has to be repaid by the general taxpayer is less than one quarter of one percent of the City's equalized valuation. See table 11 for complete details.
- The City's Business-type activities approved the construction of an expanded Water & Waste Water Facilities Building in October, 2014. On December 18, 2014 the Water Fund sold \$1,290,000 of General Obligation 20 year Bonds to finance a portion of that \$3.2 million project.

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 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General, Debt Service and TIF Districts Funds, that are considered to be major funds. Data from the remaining 13 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, Library Operating Fund, Solid Waste Fund, Capital Outlay Fund, Equipment Replacement Fund, Street Improvement Fund, Capital Improvement Fund, 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 same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Franklin Water Utility, the Sanitary Sewer Fund and the Internal Service Fund.

The 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, an other agency fund to record that activity and a post employment benefits trust to hold funds until needed to pay designated health benefits for eligible current and future retirees.

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 – 74 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 pension obligations to its public works employees and its retiree health obligations to eligible full time employees. Required supplementary information can be found on page 75 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 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 76 – 95 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 \$215,605,434 and \$210,391,056 at the end of 2014 and 2013, respectively.

CITY OF FRANKLIN NET POSITION December 31, 2014 and 2013

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 49,638,585	\$ 49,495,862	\$ 5,144,767	\$ 4,470,841	\$ 54,783,352	\$ 53,966,503
Long term Note Rec			26,055,931	25,451,385	26,055,931	25,451,385
Capital assets	114,884,634	114,469,508	88,567,257	89,095,184	203,451,941	203,564,692
Total assets	<u>164,523,269</u>	<u>163,965,170</u>	<u>119,767,955</u>	<u>119,017,410</u>	<u>284,291,224</u>	<u>282,982,580</u>
Deferred Outflows	163,578	187,474	-	-	163,578	187,474
Current liabilities	3,781,961	2,190,414	3,230,972	1,441,237	7,012,933	3,631,651
Long-term liabilities	13,781,808	19,738,576	23,640,538	25,185,917	37,422,144	44,924,493
Total liabilities	<u>17,563,567</u>	<u>21,928,990</u>	<u>26,871,510</u>	<u>26,627,154</u>	<u>44,435,077</u>	<u>48,556,144</u>
Deferred Inflows	24,414,291	24,222,854	-	-	24,414,291	24,222,854
Net position:						
Net Investment in capital assets	106,031,877	104,721,982	88,567,257	89,095,184	194,599,134	193,817,166
Restricted	7,828,452	8,389,114	313,558	277,230	8,142,010	8,666,344
Unrestricted	8,848,660	4,889,704	4,015,630	3,017,842	12,864,290	7,907,546
Total net position	<u>\$ 122,708,939</u>	<u>\$ 118,000,800</u>	<u>\$ 92,896,445</u>	<u>\$ 92,390,256</u>	<u>\$ 215,605,434</u>	<u>\$ 210,391,056</u>

The largest portion of the City's net position (approximately 90 and 92 percent, in 2014 and 2013, 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 \$194,599,134 and \$193,817,164 in 2014 and 2013, respectively of the year end net position. The changes in capital assets were as follows:

	Net Capital Asset		Change in Capital	Net Increase
	Additions	Depreciation	Related Debt	(Decrease)
2014	\$ 4,715,188	\$ (4,827,939)	\$ 894,721	\$ 781,970
2013	\$ 3,188,328	\$ (4,698,277)	\$ 1,831,605	\$ 321,656

The major 2014 City projects were Pleasant View neighborhood park access and improvements, a water main extension on West St. Martin's Road, a snow plow and a police dispatch center.

The major 2013 City projects were an ambulance, snow plow, street improvements and the 76th Street sewer & water mains from Faith to Puetz. Debt repayments in 2013 resulted in a significant decrease in capital related debt.

Infrastructure by developers and others contributed to the capitalized infrastructure of the governmental activities of approximately \$284,994 in 2014 and \$122,295 in 2013.

Capital assets contributed to the business-type activities by the municipality were \$317,738 in 2014 and \$1,197,101 in 2013.

An additional portion of the City's net position (3.8% and 4.1% in 2014 and 2013, respectively) represent resources that are subject to external restrictions on how they may be used. There were \$8,142,010 and \$8,666,344 respectively in those net positions that were restricted to specific purposes.

The 2014 decrease of \$524,334 in restricted net position reported is due to transfers to the Enterprise funds from the Development fund.

The 2013 increase of \$425,132 in restricted net position reported is due principally to development activities.

The remaining balance in unrestricted net position of \$12,864,290 and \$7,907,546, in 2014 and 2013, 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 2014 \$4,956,744 increase in Unrestricted net position was the result of retirement of non-capital debt.

There was a 2013 increase of \$3,950,784 in unrestricted net position reported in connection with government-wide activities. The major component was the increase in funds that were used for debt retirement purposes.

Government-wide activities

The details of changes in net position follow:

City of Franklin Changes in Net Position For the Years Ending December 31, 2014 and 2013

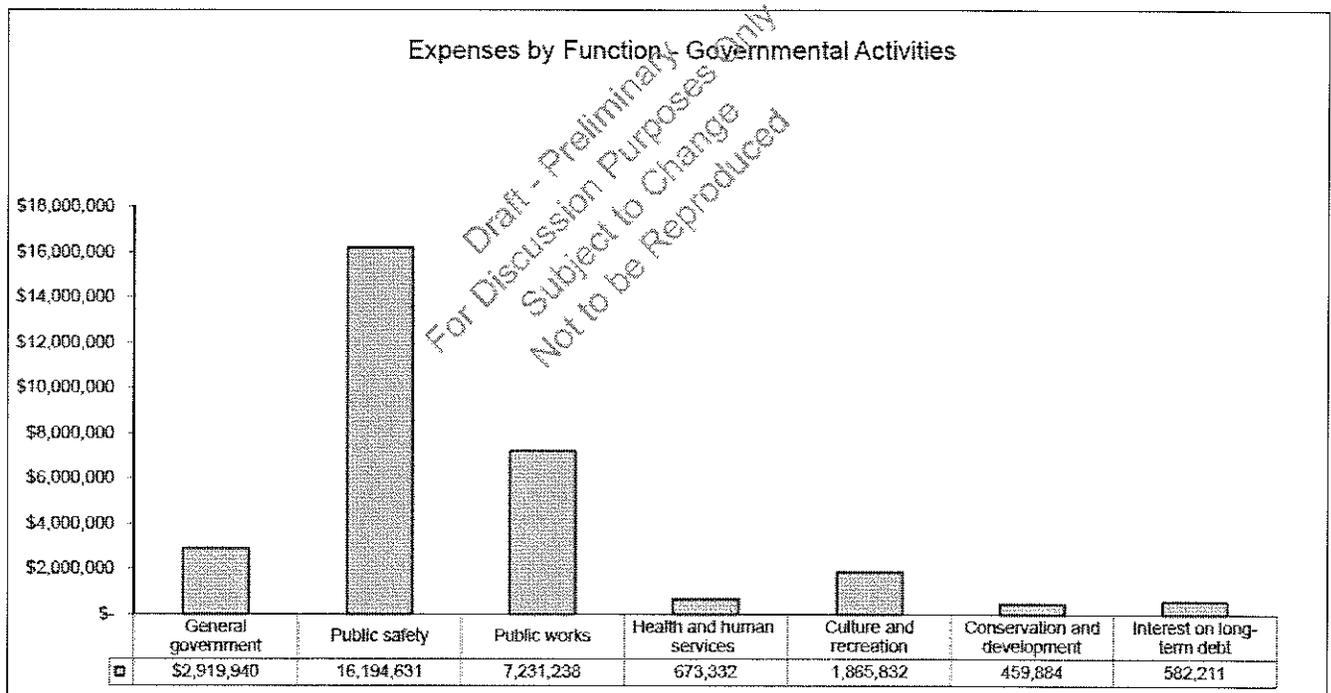
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue						
Program revenue:						
Charges for services	\$ 4,237,867	\$ 4,241,404	\$ 8,688,616	\$ 8,647,731	\$ 12,926,483	\$ 12,899,135
Operating grants & contributions	1,901,262	1,838,950	-	-	1,901,262	1,838,950
Capital grants & contributions	1,437,524	1,659,859	238,557	-	1,676,081	1,659,859
General revenue:						
Property taxes	24,200,884	24,097,812	-	-	24,200,884	24,097,812
Other taxes	726,774	723,985	-	-	726,774	723,985
Intergovernmental	1,519,848	1,620,331	-	-	1,519,848	1,620,331
Investment earnings	695,541	87,278	42,227	569,444	1,337,768	656,722
Other	60,158	69,215	50,878	40,398	111,036	108,613
Total revenue	<u>34,779,858</u>	<u>36,337,834</u>	<u>9,620,278</u>	<u>9,257,573</u>	<u>44,400,136</u>	<u>43,595,407</u>
Expenses:						
General government	2,919,940	2,915,267	-	-	2,919,940	2,915,267
Public safety	16,194,631	16,484,847	-	-	16,194,631	16,484,847
Public works	7,231,238	6,550,807	-	-	7,231,238	6,550,807
Health & human services	673,332	698,088	-	-	673,332	698,088
Culture & recreation	1,865,832	1,838,700	-	-	1,865,832	1,838,700
Conservation & development	459,884	422,095	-	-	459,884	422,095
Interest on long-term debt	582,211	802,562	-	-	582,211	802,562
Water	-	-	5,077,744	5,051,835	5,077,744	5,051,835
Sewer	-	-	4,180,946	4,133,632	4,180,946	4,133,632
Total expenses	<u>29,927,068</u>	<u>29,712,366</u>	<u>9,258,690</u>	<u>9,185,467</u>	<u>39,185,758</u>	<u>38,897,833</u>
Increase in net position before transfers	4,852,790	4,625,468	361,588	72,106	5,214,378	4,697,574
Transfers	<u>(144,601)</u>	<u>(66,726)</u>	<u>144,601</u>	<u>66,726</u>	<u>-</u>	<u>-</u>
Change in net position	4,708,189	4,558,742	506,189	138,832	5,214,378	4,697,574
Net position - beginning	<u>118,000,800</u>	<u>113,442,058</u>	<u>92,390,256</u>	<u>92,251,424</u>	<u>210,391,056</u>	<u>205,693,482</u>
Net position - ending	<u>\$ 122,708,989</u>	<u>\$ 118,000,800</u>	<u>\$ 92,896,445</u>	<u>\$ 92,390,256</u>	<u>\$ 215,605,434</u>	<u>\$ 210,391,056</u>

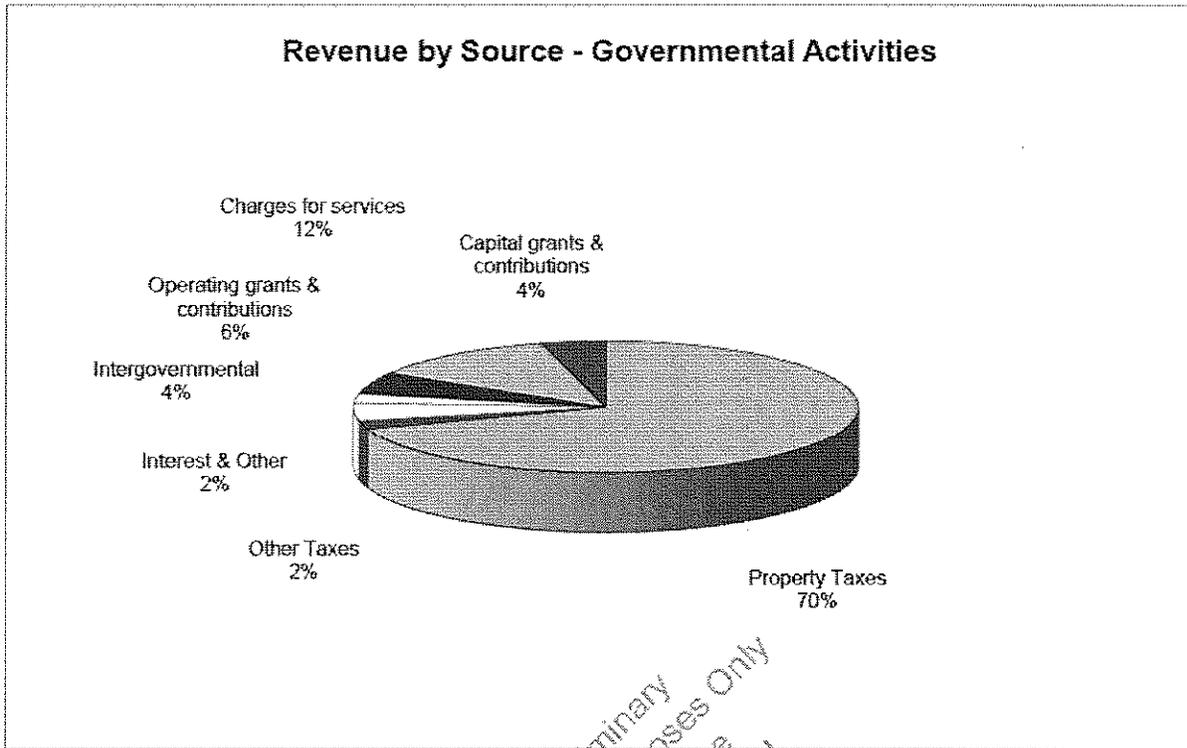
Governmental activities in 2014 increased the City's net position by \$4,708,189 or 90% of the total growth in the net position. Elements of this increase are:

- A \$908,184 surplus in General Government activity
- An increase from Debt Service of \$2,439,390
- Net increase from internal service activities of \$333,710
- Net decrease in development activities of \$734,488

Governmental activities in 2013 increased the City's net position by \$4,558,742 or 97% of the total growth in the net position. Elements of this increase are:

- A \$1,407,150 surplus in General Government activity
- Increase due to the decrease in Long term Debt of \$1,649,959
- Decrease in governmental activities capital assets net of depreciation of \$1,040,447
- Net increase in TIF District activities of \$2,307,794
- Net increase from internal service activities of \$77,500
- Net decrease from special assessment activities of \$51,651
- Net increase from development activities of \$437,437
- Net increase from non major funds activities of \$76,824





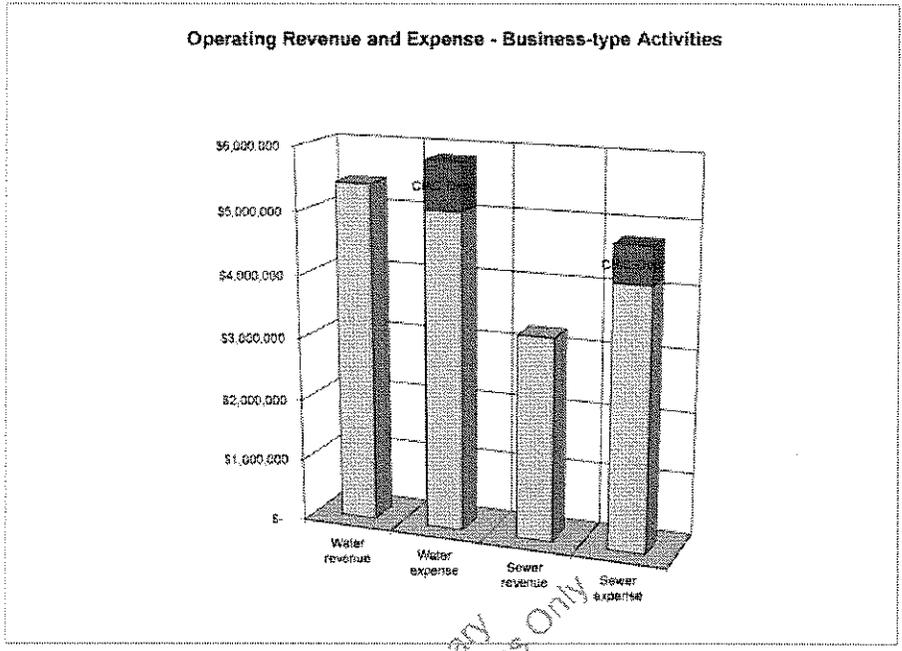
Business-type activities

In 2014, business-type activities increased the City's net position by \$506,189 or 10%. The key elements of this increase were contributions from developers.

In 2013, business-type activities increased the City's net position by \$138,832 or 3 percent from the prior year. The key elements of this increase follow:

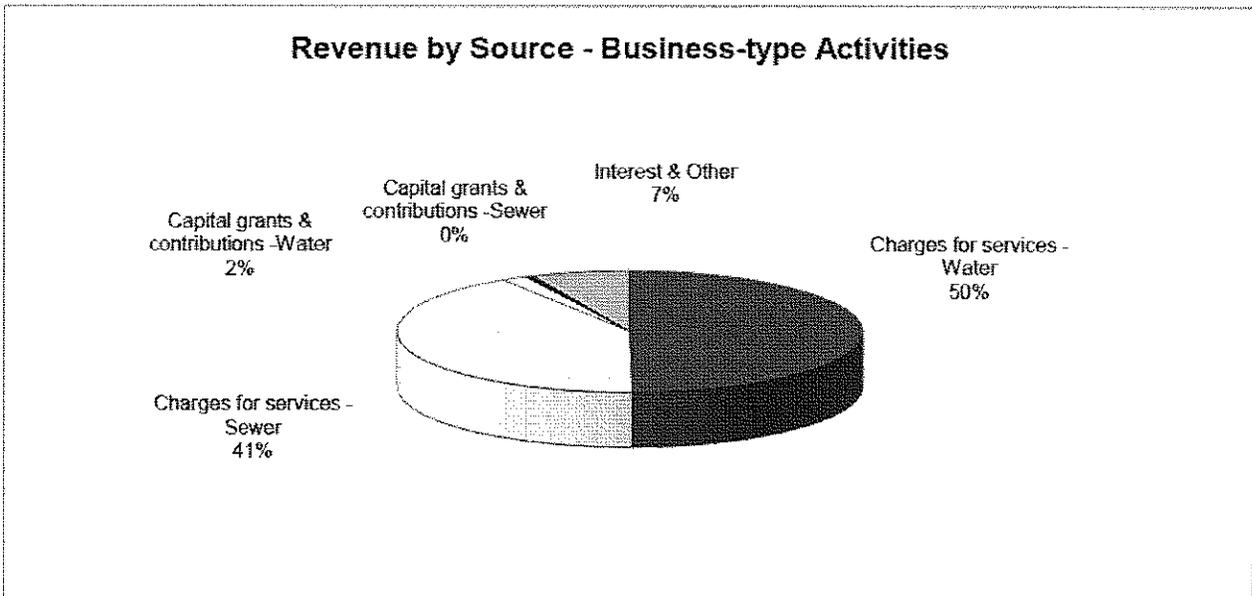
- The increase from operating activities (the change in net position excluding capital contributions and its related depreciation expense) was \$257,522. The goal of the business activities is to provide these services at least a break even basis to minimize the cost to the users. Both the water and sewer activities are currently meeting this goal.
- Depreciation expense related to contributed assets - \$1,315,791

The following graph compares the 2014 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 new infrastructure that has been installed in recent years is the reason for this policy. When maintenance and replacement costs increase, this policy may need to be reevaluated.

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



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's **governmental funds** is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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 \$18,030,657, a decrease of \$749,020 from the prior year. At year end the unassigned fund balance was \$3,952,388. Of this total \$6,148,771 was for general fund activities. This amount was offset by deficits in the Debt Service, TIF Districts and Nonmajor Governmental Funds. The Debt Service fund has an interfund loan with favorable financing and the deficit will diminish as revenue is received from future year property taxes to repay the financing. The TIF Districts deficit also have interfund loans with favorable financing and will diminish as revenue is received and used to repay the financing.

The City has assigned fund balances for activities of the Capital Projects of \$4,699,459. In addition, \$207,270 of General Fund Balance has been assigned for encumbrances into 2015.

Outside party restrictions have resulted in restricted fund balances:

- 1) to pay debt service - \$546,238,
- 2) for utility improvements - \$672,431,
- 3) for development purposes - \$4,170,339,
- 4) for TIF Districts of \$347,978
- 5) for library services \$596,277 and
- 6) for donations, grant funds, solid waste and recreational activities – totaling \$560,306.

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 (\$79,355) and for advances to other funds (\$2,198,616). The advances are scheduled for repayment in 2017.

The **General Fund** is the chief operating fund of the City. As of December 31, 2014, the total fund balance of the general fund was \$8,633,112 of which \$6,148,771 was unassigned. This unassigned fund balance represents approximately 25% of 2015 general fund budgeted expenditures.

The total fund balance of the General Fund increased by \$851,545 during fiscal year 2014. Actual revenue was more than budget revenue by \$73,279 or 0.3 percent. Changes in employee benefits reduced Public Safety costs significantly. Employees are paying a larger share of health benefit premiums and retirement costs. Also, an actuarial assumption change reduced the retiree health cost.

The **Debt Service Fund** has a total deficit fund balance of \$424,721, \$546,238 is restricted for the payment of debt service and a deficit of \$970,959 is related to advances made from

the Internal Services fund. The fund balance increase of \$1,068,046 related to the repayment of interfund advances.

The **TIF Districts Fund** has total deficit fund balance of \$865,894 and a restricted fund of \$347,978 and a deficit fund balance of \$1,213,872 related to interfund advances .

The **Nonmajor Governmental Funds** have a total fund balance of \$10,688,160. The fund balance increase of \$1,311,904 came principally from a new debt issue proceeds of \$1,990,000. The major fund balances relate to future development and planned replacement equipment expenditures.

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 \$1,464,723, an increase of \$830,499 from the prior year. The increase was a result of an \$873,727 transfer from the Development fund and debt issued.

Unrestricted net position of the Sanitary Sewer Fund at the end of the year amounted to \$2,550,907, an increase of \$167,289 from the prior year. Total net position increased due to operations.

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

General Fund Budgetary Highlights

Revenue exceeded the budget by \$73,279. Investment earnings exceeded budget by \$151,632 on unrealized gains related to falling market rates on fixed income investments. An insurance dividend caused Miscellaneous Revenue to exceed budget by \$68,314.

Actual expenditures were less than budgeted expenditures by \$1,870,998. The largest favorable variances were in General Government and Public Safety. The City established a \$950,000 restricted contingency reserve to preserve shared revenue from the State. That contingency was not needed. Within Public Safety, a change in actuarial assumptions reduced the retiree health costs from what had been in the budget. The combined impact was a significant reduction in expenditures.

A \$851,545 surplus compares favorably to the Originally budgeted \$950,000 deficit. Reduced expenditures are the driver behind these results.

Capital assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2014, amounts to \$203,451,941 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings and machinery and equipment.

City's Investment in Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 24,949,631	\$ 24,958,327	\$ 521,225	\$ 521,225	\$ 25,470,856	\$ 25,479,552
Buildings and Improvements	24,717,845	24,225,492	3,434,412	3,438,927	28,152,257	27,664,419
Improvements other than buildings	93,860,788	92,173,188	110,447,988	109,764,750	204,308,776	201,937,938
Machinery and and equipment	17,514,597	17,571,157	2,694,341	2,799,107	20,208,938	20,370,264
Construction in process	<u>423,313</u>	<u>152,923</u>	<u>351,610</u>	<u>57,942</u>	<u>774,923</u>	<u>210,865</u>
Total capital assets	161,466,174	159,081,087	117,449,576	116,581,951	278,915,750	275,663,038
Less Accumulated depreciation	<u>(46,581,490)</u>	<u>(44,611,579)</u>	<u>(28,882,319)</u>	<u>(27,436,767)</u>	<u>(75,463,809)</u>	<u>(72,098,346)</u>
Capital assets net of depreciation	<u>\$ 114,884,684</u>	<u>\$ 114,469,508</u>	<u>\$ 88,567,257</u>	<u>\$ 89,095,184</u>	<u>\$ 203,451,941</u>	<u>\$ 203,564,692</u>

The total decrease in the City's net investment in capital assets net of depreciation for the current fiscal year was \$112,751 or 0.05%.

For further details on capital asset activity, refer to Note 1(D)5 and Note 4(D) 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, 2014, the City had general obligation note and bond issues outstanding totaling \$37,711,522. The current legal debt limitation for the City is \$141,773,183. The City's current outstanding general obligation debt is 21% of the statutory debt limit. In the last 15 years the City has not exceeded 29% of the statutory debt limit.

By City policy, outstanding general obligation debt is limited to 2% of total equalized value or \$71,793,882. This represents 52% of the policy limit.

The City's present rating from Moody's for its general obligation debt is "Aa2".

In December 2014, a new \$5,320,000 ten year debt issue was sold. TIF District #3 sold \$3,330,000 for infrastructure costs on the 27th Street project, while the City will use \$1,990,000 for Capital Improvement projects. The Franklin Water Utility borrowed \$1,290,000 on a 20 year bond to finance construction of the Water & Waste Water Building. The utility's plan is to make future infrastructure improvements including water main replacement and new water service from current reserves and from City collected impact fees.

In January, 2012, the Franklin Sewer Fund signed a Clean Water Fund Note with a notional amount of \$27,562,754 to fund the construction of a sewer interceptor in the City. The note had a balance of \$23,486,522 at December 31, 2014. The Notes have a 20 year repayment schedule to May, 2031. The City has an intergovernmental agreement with the Metropolitan Milwaukee Sewer District to pay the City the required interest and principal with payments on the Clean Water Fund loan beginning in 2015.

	City of Franklin's Outstanding Debt (All purposes)					
	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
General obligation						
Bonds	\$ 7,615,000	\$ 8,185,000	\$ 24,776,522	\$ 24,565,423	\$ 32,391,522	\$ 32,750,423
Notes	5,320,000	9,695,000	-	-	5,320,000	9,695,000
Total	\$ 12,935,000	\$ 17,880,000	\$ 24,776,522	\$ 24,565,423	\$ 37,711,522	\$ 42,445,423

Additional information of the City's long-term debt can be found in note 4(F), Schedule 5 and Tables 11 – 13 in the statistical section of the report.

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. The actuarial computed annual required contribution under GASB #45 for 2014 was \$551,716 and for 2013 was \$523,342.

More detailed information can be found in footnote 5C.

Economic Factors, Tax Rates and Next Year's Budgets

- The unemployment rate as of December 31, 2014 for the City was 4.2%, Milwaukee County which includes the City, was 6.0%. This compares with an unemployment rate of 5.2% for the State of Wisconsin.
- The local tax rate decreased 0.2% for operations for the current and in the prior two years changed (0.30)%, and (7.04)%, respectively.

- The tax levy was un-changed the past two years and increased \$42,000 two years ago.

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.

*Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced*

BASIC FINANCIAL STATEMENTS

*Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced*

CITY OF FRANKLIN, WISCONSIN
Statement of Net Position
December 31, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 20,251,612	\$ 4,235,905	\$ 24,487,517
Receivables			
Accounts receivable	701,564	2,470,942	3,172,506
Interest receivable	58,267	-	58,267
Taxes receivable	24,672,828	300,182	24,973,010
Note receivable	-	-	-
Special assessments receivable	1,382,528	-	1,382,528
Internal balances	(18,687)	18,687	-
Due from other governments	255,002	4,109	259,111
Prepaid items	124,936	-	124,936
Inventories	11,919	-	11,919
Long term advances	2,198,616	(2,198,616)	-
Restricted cash and investments	-	313,558	313,558
Due from other governments - long term	-	26,055,931	26,055,931
Capital assets (net of accumulated depreciation)			
Land	24,949,631	521,225	25,470,856
Buildings and improvements	15,613,602	2,194,780	17,808,382
Machinery and equipment	6,626,273	1,061,170	7,687,443
Improvements other than buildings	67,271,965	84,438,472	151,710,337
Construction in progress	423,312	351,610	774,923
Total assets	164,523,269	119,767,955	284,291,224
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized refunding costs	163,578	-	163,578
LIABILITIES			
Accounts payable	1,140,160	1,650,608	2,790,768
Accrued liabilities	973,938	237,344	1,211,282
Due to other governments	115,089	-	115,089
Accrued interest	102,142	97,824	199,966
Special deposits	141,751	100	141,851
Noncurrent liabilities			
Due within one year	1,308,881	1,245,096	2,553,977
Due in more than one year	13,781,606	23,640,538	37,422,144
Total liabilities	17,563,567	26,871,510	44,435,077
DEFERRED INFLOWS OF RESOURCES			
Subsequent year property taxes	24,414,291	-	24,414,291
NET POSITION			
Net investment in capital assets	105,190,989	88,567,257	193,758,246
Restricted for			
Debt service	580,605	-	580,605
Utility improvements	1,918,450	-	1,918,450
Development	4,170,339	-	4,170,339
Library	598,752	-	598,752
Other	560,306	-	560,306
Sewer equipment replacement	-	313,558	313,558
Unrestricted	9,689,548	4,015,630	13,705,178
Total net position	\$ 122,708,989	\$ 92,896,445	\$ 215,605,434

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Statement of Activities
Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,919,940	\$ 213,328	\$ -	\$ -	\$ (2,706,612)	\$ -	\$ (2,706,612)
Public safety	16,194,831	2,268,334	233,471	34,064	(13,658,762)	-	(13,658,762)
Public works	7,231,238	1,470,630	1,439,024	1,307,834	(3,013,750)	-	(3,013,750)
Health and human services	673,332	115,650	11,601	68,626	(457,455)	-	(457,455)
Culture and recreation	1,865,832	118,008	217,166	7,000	(1,523,658)	-	(1,523,658)
Conservation and development	459,884	51,917	-	-	(407,967)	-	(407,967)
Interest on long term debt	582,211	-	-	-	(582,211)	-	(582,211)
Total governmental activities	<u>29,927,068</u>	<u>4,237,867</u>	<u>1,901,262</u>	<u>1,437,524</u>	<u>(22,350,415)</u>	<u>-</u>	<u>(22,350,415)</u>
Business-type activities:							
Water	5,077,744	5,421,719	-	176,676	-	520,651	520,651
Sewer	4,180,946	3,266,897	-	61,831	-	(852,168)	(852,168)
Total business-type activities	<u>9,258,690</u>	<u>8,688,616</u>	<u>-</u>	<u>238,557</u>	<u>-</u>	<u>(331,517)</u>	<u>(331,517)</u>
Total primary government	<u>\$ 39,185,758</u>	<u>\$ 12,926,483</u>	<u>\$ 1,901,262</u>	<u>\$ 1,676,081</u>	<u>(22,350,415)</u>	<u>(331,517)</u>	<u>(22,681,932)</u>
General revenue:							
Property taxes levied for general purposes					20,073,959	-	20,073,959
Property taxes levied for debt service					1,600,000	-	1,600,000
Property taxes levied for TIF Districts					2,526,925	-	2,526,925
Other taxes					726,774	-	726,774
Intergovernmental revenue not restricted to specific programs					1,519,848	-	1,519,848
Investment earnings					695,541	642,227	1,337,768
Miscellaneous revenue					43,170	50,878	94,048
Gain on sale of capital assets					16,988	-	16,988
Transfers					(144,601)	144,601	-
Total general revenue and transfers					<u>27,058,604</u>	<u>837,706</u>	<u>27,896,310</u>
Change in net position					4,708,189	506,189	5,214,378
Net position - beginning					118,000,800	92,390,256	210,391,056
Net position - ending					<u>\$ 122,708,989</u>	<u>\$ 92,896,445</u>	<u>\$ 215,605,434</u>

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Balance Sheet
Governmental Funds
December 31, 2014

	General	Debt Service	TIF Districts	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 6,924,141	\$ 578,269	\$ 3,778,805	\$ 7,561,443	\$ 18,842,658
Receivables					
Accounts receivable	581,538	-	-	108,329	689,867
Interest receivable	58,267	-	-	-	58,267
Taxes receivable	16,232,330	1,672,010	2,690,637	4,077,851	24,672,828
Special assessments receivable	-	136,509	-	1,246,019	1,382,528
Due from other funds	11,552	-	-	-	11,552
Due from other governments	65,505	-	17,866	171,631	255,002
Prepaid items	66,536	-	-	900	67,436
Inventories	11,919	-	-	-	11,919
Advances to other funds	2,198,616	-	-	3,325,000	5,523,616
TOTAL ASSETS	\$ 26,150,404	\$ 2,386,788	\$ 6,487,308	\$ 16,491,173	\$ 51,515,673
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 544,615	\$ -	\$ 74,565	\$ 648,103	\$ 1,267,283
Accrued liabilities	455,408	-	-	15,427	470,835
Due to other funds	11,230	-	-	19,009	30,239
Due to other governments	112,703	-	-	2,386	115,089
Special deposits	141,751	-	-	-	141,751
Advance from other funds	-	1,075,000	4,588,000	-	5,663,000
Total liabilities	1,265,707	1,075,000	4,662,565	684,925	7,688,197
DEFERRED INFLOWS OF RESOURCES					
Unearned & unavailable revenue	16,291,585	1,728,509	2,690,637	5,118,088	25,796,819
FUND BALANCES (DEFICIT)					
Nonspendable:					
Inventories and prepaid items	78,455	-	-	900	79,355
Advances to other funds	2,198,616	-	-	-	2,198,616
Restricted:					
Debt service	-	546,238	-	-	546,238
Utility improvements	-	-	-	672,431	672,431
Development	-	-	-	4,170,339	4,170,339
TIF Districts	-	-	347,978	-	347,978
Donations	-	-	-	122,550	122,550
Health services	-	-	-	175,220	175,220
Library services	-	-	-	596,277	596,277
Solid waste	-	-	-	216,385	216,385
Recreational services	-	-	-	46,151	46,151
Assigned:					
Purchases on Order	207,270	-	-	-	207,270
Capital projects	-	-	-	4,699,459	4,699,459
Unassigned (deficit)	6,148,771	(970,959)	(1,213,872)	(11,552)	3,952,388
Total fund balances (deficit)	8,633,112	(424,721)	(865,894)	10,688,160	18,030,657
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES (DEFICIT)	\$ 26,150,404	\$ 2,386,788	\$ 6,487,308	\$ 16,491,173	\$ 51,515,673

CITY OF FRANKLIN, WISCONSIN
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2014

Fund balances - total governmental funds	\$ 18,030,657
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	114,884,684
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	1,382,528
Internal Service Fund net position	3,440,171
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	(13,187,273)
Compensated absences	(1,824,334)
Net pension obligation	(78,880)
Unamortized refunding costs	163,578
Accrued Interest	<u>(102,142)</u>
Net change in net position of governmental activities	<u>\$ 122,708,989</u>

Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced

CITY OF FRANKLIN, WISCONSIN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2014

	General	Debt Service	TIF Districts	Nonmajor Governmental Funds	Total Governmental Funds
REVENUE					
Taxes	\$16,926,045	\$ 1,600,000	\$ 2,544,926	\$ 3,856,687	\$ 24,927,658
Intergovernmental revenue	2,536,187	-	432,128	439,760	3,408,075
Licenses and permits	808,302	-	-	-	808,302
Fines, forfeitures and penalties	421,976	-	-	-	421,976
Public charges for services	1,367,737	-	-	1,284,074	2,631,811
Special assessments	-	68,166	-	988,922	1,057,088
Intergovernmental charges for services	136,372	-	-	-	136,372
Investment earnings	290,132	21,966	108,838	318,994	739,930
Miscellaneous revenue	143,014	-	-	268,287	411,301
Total revenue	<u>22,629,765</u>	<u>1,690,132</u>	<u>3,085,892</u>	<u>7,136,724</u>	<u>34,542,513</u>
EXPENDITURES					
Current					
General government	2,786,740	-	-	-	2,786,740
Public safety	15,367,022	-	-	23,117	15,390,139
Public works	3,560,384	-	-	1,580,266	5,140,650
Health and human services	633,964	-	-	32,511	666,475
Culture, recreation and education	163,000	-	-	1,412,381	1,575,381
Conservation and development	355,354	-	105,827	-	461,181
Capital outlay	-	-	330,265	3,637,181	3,967,446
Debt service	-	-	-	-	-
Principal	570,000	-	9,695,000	-	10,265,000
Interest	845,644	-	385,644	-	731,288
Debt issuance costs	-	-	45,751	27,340	73,091
Total expenditures	<u>22,866,464</u>	<u>915,644</u>	<u>10,562,487</u>	<u>6,712,796</u>	<u>41,057,391</u>
Excess (deficiency) of revenue over expenditures	(236,699)	774,488	(7,476,595)	423,928	(6,514,878)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	-	39,894	39,894
Transfers in	1,112,244	226,811	-	785,952	2,125,007
Transfers out	(24,000)	-	-	(1,927,870)	(1,951,870)
General obligation debt issued	-	-	3,330,000	1,990,000	5,320,000
Premium (discount) on debt issued	-	66,747	166,080	-	232,827
Total other financing sources and uses	<u>1,088,244</u>	<u>293,558</u>	<u>3,496,080</u>	<u>887,976</u>	<u>5,765,858</u>
Net change in fund balances	851,545	1,068,046	(3,980,515)	1,311,904	(749,020)
Fund balances (deficit) - beginning	7,781,567	(1,492,767)	3,114,621	9,376,256	18,779,677
Fund balances (deficit) - ending	<u>\$ 8,633,112</u>	<u>\$ (424,721)</u>	<u>\$ (865,894)</u>	<u>\$ 10,688,160</u>	<u>\$ 18,030,657</u>

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Reconciliation of the Statement of Revenue
Expenditures and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Year Ended December 31, 2014

Net change in fund balances - total governmental funds \$ (749,020)

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	3,539,449
Depreciation	(3,068,623)
Net book value of assets disposed	(22,906)

Capital assets contributed from governmental activities to the water and sewer utility.	(317,738)
---	-----------

Contributed capital assets are reported as revenues in the statement of activities.	284,994
---	---------

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	10,265,000
Proceeds from long-term debt, net of premium/discount	(5,320,000)

Government funds report the effects of premiums, discounts and refunding losses when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of the differences in the treatment of these items.	(276,169)
---	-----------

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	(50,638)
Net pension obligation	6,000
Accrued interest payable	144,586

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	(20,248)
Accrued interest receivables	(40,268)

Internal service fund change in net position	333,770
--	---------

Net change in net position of governmental activities	\$ 4,708,189
--	---------------------

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balances -
Budget and Actual (on a Budgetary Basis)
Year Ended December 31, 2014

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with final budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUE				
Taxes	\$ 17,990,900	\$ 17,990,900	\$ 17,972,909	\$ (17,991)
Intergovernmental revenue	2,549,550	2,549,550	2,536,187	(13,363)
Licenses and permits	864,300	864,300	808,302	(55,998)
Fines, forfeitures and penalties	444,000	444,000	421,976	(22,024)
Public charges for services	1,416,400	1,416,400	1,367,737	(48,663)
Intergovernmental charges for services	125,000	125,000	136,372	11,372
Investment earnings (loss)	138,500	138,500	290,132	151,632
Miscellaneous revenue	74,700	74,700	143,014	68,314
Total revenue	<u>23,603,350</u>	<u>23,603,350</u>	<u>23,676,629</u>	<u>73,279</u>
EXPENDITURES				
Current				
General government	3,651,466	3,399,566	2,956,472	443,094
Public safety	16,113,922	16,188,422	15,365,096	823,326
Public works	3,526,318	3,679,218	3,585,021	94,197
Health and human services	667,604	664,904	633,964	30,940
Culture and recreation	172,082	191,082	188,345	2,737
Conservation and development	471,758	471,758	355,354	116,404
Total expenditures	<u>24,593,350</u>	<u>24,594,950</u>	<u>23,084,252</u>	<u>1,510,698</u>
Excess (deficiency) of revenue over (under) expenditures	(990,000)	(991,600)	592,377	1,583,977
OTHER FINANCING SOURCES (USES)				
Transfers in	400,000	400,000	65,380	(334,620)
Transfers out	(400,000)	(400,000)	-	400,000
Net change in fund balance - budgetary basis	(990,000)	(991,600)	657,757	1,649,357
Adjustments to generally accepted accounting principles basis				
2014 encumbrances	-	207,270	207,270	-
2013 encumbrances	-	(13,482)	(13,482)	-
Net change in fund balance - generally accepted accounting principles basis	(990,000)	(797,812)	851,545	1,649,357
Fund Balances - beginning	<u>7,781,567</u>	<u>7,781,567</u>	<u>7,781,567</u>	<u>-</u>
Fund Balances - ending	<u>\$ 6,791,567</u>	<u>\$ 6,983,755</u>	<u>\$ 8,633,112</u>	<u>\$ 1,649,357</u>

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Statement of Net Position
Proprietary Funds
December 31, 2014
 (with comparative information for December 31, 2013)

	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	\$ 2,403,805	\$ 54,122	\$ 1,832,100	\$ 1,696,169	\$ 4,235,905	\$ 1,408,954
Receivables						
Accounts receivable	1,281,230	1,308,706	1,189,712	889,673	2,470,942	11,697
Taxes receivable	189,877	181,829	110,305	133,253	300,182	-
Due from other funds	20,819	76,424	73,532	54,688	94,451	-
Due from other governments	-	-	4,109	-	4,109	-
Prepaid expenses	-	502	-	-	-	57,500
Advance to other funds	-	-	-	-	-	2,338,000
Total current assets	<u>3,895,831</u>	<u>2,519,283</u>	<u>3,209,758</u>	<u>2,773,793</u>	<u>7,105,589</u>	<u>3,816,151</u>
Noncurrent assets						
Restricted cash and investments			313,558	277,230	313,558	-
Due from other governments			26,055,931	25,451,385	26,055,931	-
Capital assets						
Land	162,885	162,885	358,340	358,340	521,225	-
Buildings and improvements	1,812,979	1,833,594	1,621,433	1,605,333	3,434,412	-
Improvements other than buildings	56,332,711	55,799,708	54,115,277	53,965,042	110,447,988	-
Machinery and equipment	1,923,630	2,018,893	770,711	780,214	2,694,341	-
Construction in progress	183,552	30,742	168,058	27,200	351,610	-
Less accumulated depreciation	(15,338,874)	(14,562,515)	(13,543,445)	(12,924,252)	(28,882,319)	-
Total capital assets (net of accumulated depreciation)	<u>45,076,883</u>	<u>45,283,307</u>	<u>43,490,374</u>	<u>43,811,877</u>	<u>88,567,257</u>	<u>-</u>
Total noncurrent assets	<u>45,076,883</u>	<u>45,283,307</u>	<u>69,859,863</u>	<u>69,540,492</u>	<u>114,936,746</u>	<u>-</u>
Total assets	<u>48,972,714</u>	<u>46,902,590</u>	<u>73,069,621</u>	<u>72,314,285</u>	<u>122,042,335</u>	<u>3,816,151</u>

Continued

CITY OF FRANKLIN, WISCONSIN
Statement of Net Position
Proprietary Funds
December 31, 2014
(with comparative information for December 31, 2013)

	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	\$ 810,929	\$ 735,649	\$ 839,679	\$ 583,618	\$ 1,650,608	\$ 5,480
Accrued liabilities	215,271	689	22,073	18,094	237,344	370,500
Accrued interest payable	1,451	-	96,373	100,687	97,824	-
Due to other funds	65,554	198,424	10,210	10,971	75,764	-
Special deposits	100	2,500	-	-	100	-
Current portion of long-term obligations	85,424	29,145	1,159,672	1,130,218	1,245,096	-
Total current liabilities	1,178,729	956,476	2,128,007	1,843,588	3,306,736	375,980
Noncurrent liabilities						
General obligation notes payable	1,221,494	-	22,357,276	23,464,351	23,578,770	-
Accrued compensated absences	30,885	28,581	30,883	28,581	61,768	-
Total noncurrent liabilities	1,252,379	28,581	22,388,159	23,492,932	23,640,538	-
Long-term advances	-	-	2,198,616	505,040	2,198,616	-
Total liabilities	2,431,108	985,059	26,714,782	25,841,560	29,145,890	375,980
NET POSITION						
Net investment in capital assets	45,076,883	45,283,307	43,490,374	43,811,877	88,587,257	-
Restricted for						
Sewer equipment replacement	-	-	313,558	277,230	313,558	-
Unrestricted	1,464,723	634,224	2,550,907	2,383,618	4,015,630	3,440,171
Total net position	\$ 46,541,606	\$ 45,917,531	\$ 46,354,839	\$ 46,472,725	\$ 92,896,445	\$ 3,440,171

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended December 31, 2014
 (with comparative information for December 31, 2013)

	Business-type Activities - Enterprise Funds				Current Year Totals	Governmental Activities - Internal Service Funds
	Water Utility	Water Utility	Sanitary Sewer	Sanitary Sewer		
	Current Year	Prior Year	Current Year	Prior Year		
OPERATING REVENUE						
Metered sales						
Residential	\$ 2,672,235	\$ 2,736,899	\$ 1,849,264	\$ 1,824,397	\$ 4,521,499	\$ -
Commercial	1,386,801	1,334,947	836,370	825,555	2,223,171	-
Industrial	389,416	342,385	398,238	380,382	785,654	-
Public authority	283,623	326,649	152,953	178,849	436,576	-
Total metered sales	4,732,075	4,740,880	3,234,825	3,209,163	7,966,900	-
Group health & dental charges	-	-	-	-	-	3,264,801
Unmetered sales	8,557	8,500	-	-	8,557	-
Public fire protection service	511,413	492,653	-	-	511,413	-
Private fire protection service	118,154	118,944	-	-	118,154	-
Forfeited discounts, penalties and other	51,520	50,837	32,072	34,554	83,592	-
Total operating revenue	5,421,719	5,485,994	3,266,897	3,243,737	8,688,616	3,264,801
OPERATING EXPENSES						
Cost of sales and services	3,521,334	3,498,853	2,730,849	2,683,240	6,252,183	3,047,834
Depreciation	1,097,571	1,097,315	661,745	650,060	1,759,316	-
Administration	437,630	450,536	201,292	217,143	638,232	-
Total operating expenses	5,056,535	5,046,704	3,593,796	3,550,443	8,649,731	3,047,834
Operating income (loss)	365,184	357,290	(326,899)	(306,706)	38,885	216,967
NONOPERATING REVENUE (EXPENSES)						
Investment earnings (loss)	(4,504)	(5,289)	646,731	574,733	642,227	116,803
Sundry	49,263	37,998	1,615	2,400	50,878	-
Interest expense	(21,809)	(5,131)	(587,150)	(583,189)	(608,959)	-
Total non-operating revenue (expenses)	22,950	27,578	61,196	(6,056)	84,146	116,803
Income (loss) before capital contributions and transfers	388,134	384,868	(265,703)	(312,762)	123,031	333,770
Capital contributions	406,060	487,927	150,235	709,174	556,295	-
Transfers in	873,727	-	-	-	873,727	-
Transfers out	(1,044,446)	(1,127,801)	(2,418)	(2,574)	(1,046,864)	-
Change in net position	624,075	(255,006)	(117,886)	393,838	506,189	333,770
Net position - beginning	45,917,531	46,172,537	46,472,725	46,078,887	92,380,256	3,106,401
Net position - ending	\$ 46,541,606	\$ 45,917,531	\$ 46,354,839	\$ 46,472,725	\$ 92,886,445	\$ 3,440,171

See accompanying notes to the financial statements.

Exhibit I

CITY OF FRANKLIN, WISCONSIN
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2014
 (with comparative information for the year ended December 31, 2013)

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water Utility	Water Utility	Sanitary Sewer	Sanitary Sewer	Current Year	
	Current Year	Prior Year	Current Year	Prior Year	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 5,224,511	\$ 5,103,328	\$ 2,991,421	\$ 3,268,947	\$ 8,215,932	\$ 3,356,195
Receipts for interfund services provided	269,324	257,452	-	-	269,324	-
Payments to suppliers	(3,151,993)	(3,496,671)	(2,170,464)	(3,867,158)	(5,322,457)	(3,157,613)
Payments to employees	(487,161)	(475,266)	(431,693)	(482,960)	(918,854)	-
Payments for interfund services used	(95,490)	(95,989)	(95,400)	(96,000)	(190,800)	-
Net cash flows provided by (used in) operating activities	1,759,281	1,292,844	293,864	(1,177,171)	2,053,145	198,382
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer out - paid for tax equivalent	(1,044,446)	(1,127,691)	(2,418)	(2,574)	(1,046,864)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	1,278,484	-	23,211	2,500,590	1,299,705	-
Transfers from other funds	873,727	-	-	-	873,727	-
Advances from other funds	-	-	1,693,576	505,040	1,693,576	-
Payments on capital debt	-	-	(1,102,112)	-	(1,102,112)	-
Advances to other governments	-	-	(604,546)	(1,451,437)	(604,546)	-
Interest on capital debt	(20,358)	(5,131)	(591,464)	(568,288)	(611,822)	-
Acquisition of capital assets	(490,511)	(156,066)	(184,583)	(91,309)	(675,094)	-
Net cash provided (used) by capital and related financing activities	1,639,382	(161,197)	(765,918)	894,596	873,434	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Payments received on advances to other funds	-	-	-	-	-	925,000
Advances to other funds	-	-	-	-	-	(1,100,000)
Investment earnings	(4,504)	(5,289)	646,731	574,733	642,227	116,803
Net cash provided (used) by investing activities	(4,504)	(5,289)	646,731	574,733	642,227	(58,197)
Net increase (decrease) in cash and cash equivalents	2,349,683	(1,443)	172,259	289,584	2,521,942	140,185
Cash and cash equivalents - Beginning	54,122	55,565	1,973,399	1,683,815	2,027,521	1,268,769
Cash and cash equivalents - Ending	\$ 2,403,805	\$ 54,122	\$ 2,145,658	\$ 1,973,399	\$ 4,549,463	\$ 1,408,954
Cash and Investments - Unrestricted	\$ 2,403,805	\$ 54,122	\$ 1,832,100	\$ 1,696,169	\$ 4,235,905	\$ 1,408,954
Cash and Investments - Restricted	-	-	313,558	277,230	313,558	-
	\$ 2,403,805	\$ 54,122	\$ 2,145,658	\$ 1,973,399	\$ 4,549,463	\$ 1,408,954

See accompanying notes to the financial statements.

Continued

CITY OF FRANKLIN, WISCONSIN
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2014
(with comparative information for the year ended December 31, 2013)

	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		
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	\$ 365,784	\$ 357,289	\$ (326,899)	\$ (306,706)	\$ 38,885	\$ 216,967
Adjustments to reconcile operating income (loss) to net cash flows provided by operating activities						
Depreciation	1,097,571	1,097,315	661,745	650,060	1,759,316	-
Depreciation allocated to other funds	5,424	5,528	(5,424)	(5,528)	-	-
Nonoperating revenues	49,269	37,998	1,615	2,400	50,379	-
(Increase) decrease in assets						
Accounts receivable	25,478	(50,055)	(300,039)	24,395	(274,563)	91,394
Taxes receivable	(8,048)	(30,685)	22,948	(1,585)	14,900	-
Prepaid expense	502	(502)	-	-	502	-
Due from other funds	55,295	(76,124)	(18,834)	(23,698)	36,371	-
Due from other governments	-	-	(4,109)	-	(4,109)	-
Increase (decrease) in liabilities						
Accounts payable	75,280	11,587	256,061	(1,534,108)	331,341	(101,379)
Accrued liabilities	214,582	(2,382)	3,979	1,676	218,561	(8,600)
Due to other governments	-	86,654	-	-	-	-
Due to other funds	(122,940)	(142,932)	(761)	10,971	(123,701)	-
Customer deposits	(2,400)	200	-	-	(2,400)	-
Compensated absences	3,582	4,952	3,582	4,952	7,164	-
Total adjustments	1,393,497	935,554	620,763	(870,465)	2,014,260	(18,585)
Net cash flows provided by (used in) operating activities	\$ 1,759,281	\$ 1,292,843	\$ 293,864	\$ (1,177,171)	\$ 2,053,145	\$ 198,382
Noncash Capital Activities						
Cost of Utility plant installed and/or financed by external parties or the City	\$ 406,060	\$ 487,927	\$ 150,235	\$ 709,174	\$ 556,295	\$ -

See accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2014

	Agency Funds	City of Franklin Post Employment Benefits Trust
ASSETS		
Cash	\$ 53,136,094	\$ 18,518
Investments:		
Fixed Income Securities - Corporate Bonds	-	1,015,797
Domestic Equities	-	3,065,498
International Equities	-	456,888
Total Cash & Investments	53,136,094	4,556,701
Accounts receivable	5,820	2,305
Taxes receivable	16,394,592	-
Due from Municipality	-	288
Total assets	\$ 69,536,506	\$ 4,559,294
LIABILITIES		
Accounts payable	206,292	\$ -
Accrued liabilities	-	57,482
Due to other governments	69,319,207	-
Due to municipality	-	83,573
Special deposits	11,007	-
Total liabilities	\$ 69,536,506	141,055
Total net position held in trust for post employment benefits		\$ 4,418,239

accompanying notes to the financial statements.

CITY OF FRANKLIN, WISCONSIN
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended December 31, 2014

	<u>City of Franklin Post Employment Benefits Trust</u>
ADDITIONS	
Contributions	
City of Franklin	\$ 551,716
Retirees	84,492
Net investment earnings	<u>312,888</u>
Total additions	<u>949,096</u>
DEDUCTIONS	
Incurring claims	264,279
Prescription drug claims	77,466
Claims fees	13,896
Stop loss premiums less claims received	<u>(18,600)</u>
Total deductions	<u>337,041</u>
Change in net position	612,055
NET POSITION HELD IN TRUST FOR POST EMPLOYMENT BENEFITS	
Beginning of year	<u>3,806,184</u>
End of year	<u>\$ 4,418,239</u>

Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the City of Franklin's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be reviewed as an integral part of the accompanying financial statements. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of the significant accounting policies follows:

A. REPORTING ENTITY

This report includes all of the funds of the City of Franklin. The reporting entity for the City consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Discretely presented component units would be reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. This report does not contain any discretely presented component units.

Blended Component Unit

The Community Development Authority (Authority) was created by the City in 1992 to serve as a financing vehicle for certain Tax Incremental Districts (TID) development within the City. The Authority is governed by a seven member board appointed by the Mayor and confirmed by the Common Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to finance and manage certain TID development projects for the benefit of the City. The Authority's operations are included in the governmental activities of the government-wide financial statements and in a TID capital projects fund. The Authority follows accounting policies of the City.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

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

The statement of activities demonstrates the degree that direct expenses of a given segment or function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate all indirect expenses to functions in the statement of activities.

Program revenue includes 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenue are reported as general revenue. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds with a fund considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, liabilities, deferred inflows, net position/fund equity, revenue and expenditures/expenses.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds with the latter being excluded from government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or nonmajor funds within the governmental and enterprise fund statements. An emphasis is placed on major funds within the governmental and enterprise categories.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements (continued)

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

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

Major Governmental Funds

General Fund – accounts for the City's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – accounts for resource accumulation from taxes, special assessments and other revenue along with payments made for principal and interest on long-term debt other than enterprise fund debt.

TID Fund – accounts for resource accumulation from tax increments and other revenue of the TID along with payments made for capital outlay, other expenditures, principal and interest on long-term debt obligations of the TIDs. Each TID is a sub fund of the TID Fund.

Major Enterprise Funds

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

Water Utility Fund – accounts for operations of providing water services to City residents and bills for those services.

Sanitary Sewer Fund – accounts for the operations of providing sanitary sewer services for City residents and bills for those services.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In addition the City reports:

NonMajor Governmental Funds

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

Capital Projects Funds – account for resources accumulated to be used for the purchase of equipment, street replacement, acquisition of land and the construction of capital improvement projects. The funds include Capital Outlay, Equipment Replacement, Capital Improvement, Street Improvement, Utility Improvement and Development.

Other Fund Types

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

Fiduciary funds – account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and/or governmental units. The fiduciary funds include a property tax fund, an other agency fund that records the agency activity for emergency government, monitoring and siting activities funded by others, an escrow fund and a post employment benefits trust fund for retiree group health costs.

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

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenue, expenses, gains, losses, assets, deferred inflows, liabilities and deferred outflows resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenue in the year that they are levied for.

Taxes receivable for the following year are recorded as receivables and deferred inflows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Receivables are recorded as revenue when services are performed.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-Wide Financial Statements (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's Water Utility and Sanitary Sewer fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recorded when it is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers grant revenue to be available if they are collected within 150 days of the end of the current fiscal period and all other revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences and pension expenditures which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded the year levied as receivable and deferred inflow and are recognized as revenue the next year when services financed by the levy are provided.

Intergovernmental aids and grants are recognized as revenue in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City are recorded as receivables. Amounts not available or received prior to the entitlement period are recorded as deferred inflow.

Special assessments levied for benefits to property owners for installation of sanitary sewers, water mains, roads, and other improvements are recorded as revenue when they become measurable and available. Annual installments due in future years are recorded as receivables and deferred inflows.

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

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-Wide Financial Statements (continued)

Fund Financial Statements (continued)

Deferred inflows are reported on the governmental funds balance sheet. Deferred inflows arise from taxes levied in the current year that are for subsequent year's operations. For governmental fund financial statements unearned revenues arise where potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue arises when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Agency fund financial statements are reported using the accrual basis of accounting and do not have a measurement focus.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal operations. The principal operating revenue of the Water and Sanitary Sewer funds are charges to customers for sales and services provided. The rates billed in the Water Utility are approved by the Public Service Commission. Sanitary sewer charges are billed at rates established by City policy based on the charges received from the Milwaukee Metropolitan Sewerage District and local operation and maintenance expenses. The principal operating revenue of the internal service fund is charges to other funds for group health coverage.

Operating expenses for proprietary funds include the cost of sales and services, administration and depreciation on capital assets. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

All Financial Statements

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

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET POSITION OR EQUITY

1. Cash and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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

- a. Requires a minimum rating at time of purchase of Aa3 by either Moody's or Standard & Poor's.
- b. Limits an issuer to 10% or less and asset classes to 35% or less of the fair value of the portfolio with the exception of U.S. Government Treasury and Agency securities that have the full faith guarantee of the U.S. Government.
- c. Specifies a minimum amount of cash equivalents be maintained, an average life of the portfolio not exceeding 6 years and no individual issue with a maturity exceeding seven years at the date of purchase to limit interest rate risk.
- d. Limits investments highly sensitive to market changes through its duration and diversification policies to limit interest rate risk.
- e. Prohibits the investment in foreign owned securities.
- f. Limits derivative investments to those with a final maturity of seven years or less.

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

- a. Time deposits in any credit union, bank, savings bank, trust company or loan association authorized to transact business in the state and maturing in three years or less.
- b. The Local Government Investment Pool (LGIP).
- c. Bonds or securities issued or guaranteed by the federal government.
- d. Bonds or securities of any county, city, drainage district, technical college district, village, town or school district of the State of Wisconsin. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority and the Wisconsin Aerospace Authority.
- e. Any security maturing in seven years or less and having the highest or second highest rating category assigned of a nationally recognized rating agency.
- f. Securities of an open-ended management investment company or investment trust subject to various conditions and investment options.
- g. Repurchase agreements with public depositories, with certain conditions.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Cash and Investments (continued)

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

- a. Requires the investment to be in a section 115 trust for retiree health purposes.
- b. Requires compliance with the "prudent person" standard.
- c. Requires asset allocation policy that considers the liability stream of benefits, the relationship to current and projected assets, the historical performance of capital markets and the perception of future economic conditions.
- d. Primary investment objectives are safety, diversification and return.
- e. Allows investment in various asset classes.
- f. Limits investment in equities after 2015 to 75% of total assets to be invested. Prior to January 1, 2016 equity investments may be up to 100% of the assets.

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

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

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost.

Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of various City Funds is allocated based on average investment balances.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw funds in total on one day's notice. At December 31, 2014, the fair value of the City's share of LGIP assets was substantially equal to the amount reported in these statements.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the municipality, taxes are collected for and remitted to the state government, county government, three local school districts, technical college district and metropolitan sewerage district. Taxes for all other governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying fiduciary funds statement of fiduciary net position.

Property tax calendar – 2014 tax roll:

Lien date and levy date	December 2014
Tax bills mailed	December 2014
Payment in full, or	January 31, 2015
First installment due	January 31, 2015
Second installment due	March 31, 2015
Third installment due	May 31, 2015
Personal property taxes in full	January 31, 2015
Final tax settlement with County	August 20, 2015
Tax deed by County – 2014	
Delinquent real estate taxes	October 2017

Accounts receivable have been shown net of an allowance for uncollectible accounts. No provision for uncollectible accounts receivable has been made for enterprise funds because of their right by law to place delinquent bills on the tax roll.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds". Long term interfund loans are reported as "advances from and to other funds".

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

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

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Inventories and Prepaid Items

Governmental fund inventory items, except fuel inventory, are charged to expenditures when purchased. The fuel inventory is recorded at cost on a first-in first-out basis using the consumption method of accounting. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. Year end inventory was not significant.

Proprietary fund inventories are generally used for construction and for operation and maintenance work. They are not for sale. Material and supplies on hand at year end are considered immaterial.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Restricted Assets

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

5. Capital Assets

Government-Wide Statements

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$1,000 for general capital assets and \$10,000 for infrastructure assets with estimated useful lives of two years or more. Capital assets are recorded at historical cost or estimated historical cost if actual amounts are not available. Donated capital assets are recorded at estimated fair value at the date of donation. Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant.

For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to the applicable function.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. Capital Assets (continued)

Government-Wide Statements (continued)

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

Buildings and improvements	10-50 Years
Machinery and Equipment	2-30 Years
Water and sewer systems	20-100 Years
Infrastructure	30-90 Years

Fund Financial Statements

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

6. Deferred Inflows/Outflows of Resources

Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year end for gains/losses is shown as an increase or decrease in the deferred outflow of resources section of the statement of net position.

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

7. Compensated Absences

Under terms of employment, employees may earn compensatory time and are granted sick leave, severance pay and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. All vested compensatory time, severance pay and vacation pay are accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. For example a liability, as a result of employee resignations or retirements are payable with expendable available resources.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. 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.

8. Long-term Obligations/Conduit Debt

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist of notes and bonds payable and accrued compensated absences.

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

The City has approved issuance of industrial development revenue bonds (IDRB) for the benefit of private business enterprises. IDRB's are secured by mortgages or revenue agreements on associated projects of the business enterprises. The IDRB's do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the financial statements.

9. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the government funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in governmental fund financial statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Equity Classifications

Government-Wide Statements

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

Fund Statements

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

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

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Equity Classifications (continued)

Fund Statements (continued)

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

11. Comparative Data

The basic financial statements include comparative data for the prior year for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in financial position and operations of these funds. This comparative data is not at the level of detail required for a presentation in conformity with general accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2013 from which the data was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1 C with the exception of encumbrances, transfers from the General Fund to Special Revenue Funds and tax equivalent from the Water Utility. Actual (budgetary basis) expenditures presented reflect actual (GAAP) expenditures adjusted for expenditures liquidated under the prior period budget and encumbrances expected to be liquidated under the current period budget. Actual (budgetary basis) revenue present the tax equivalent from the Water Utility as tax revenue while GAAP basis statements present this item as a transfer.

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

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

A. BUDGETARY INFORMATION (continued)

The budget amounts presented include any amendments made during the year. The City may authorize transfers of budget amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds vote of the Common Council. Supplemental appropriations during the year were not significant. Appropriations lapse at the end of the year unless specifically carried over. Carryovers to the following year were not material. Budgets are adopted for personnel and non-personnel expenditures at the function level.

B. LIMITATIONS ON THE CITY'S TAX LEVY

As part of Wisconsin's Act 40 (2011), legislation was passed that limited the City's future tax levies. Generally, the City is limited to its prior tax levy dollar amount (excluding TIF districts), increased by the greater of the percentage change in the City's equalized value due to new construction, or 0%. Limited amounts of unused tax levy may be carried forward into the following year. Changes in debt service from one year to the next are generally exempt from this limit.

C. EXCESS EXPENDITURES OVER APPROPRIATIONS

The City controls expenditures at the function level (e.g. public safety). For the year ended December 31, 2014 the General Fund did not exceed budgeted expenditures, except for street lighting.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

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

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

The City's bank accounts are also insured by the State of Wisconsin Deposit Guarantee Fund in the amount of \$400,000 per financial institution. However, although the fund had reserves available at December 31, 2014, the future availability of resources to cover the losses cannot be projected because provisions of the 1985 Wisconsin Act 35 provided that the amount in the fund will be used to repay public depositors for losses until the appropriation is exhausted at which time the fund is abolished.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

The City maintains a collateral arrangement with its main bank to provide collateralization in excess of deposits maintained at the bank. The collateral is maintained in the form of a letter of credit from the Federal Home Loan Bank of Cincinnati in the amount of \$42,000,000. Cash and investments as shown on the December 31, 2014 City of Franklin Statement of Net position are subject to the following risks:

	Carrying Value	Bank & Investment Balances	Risks
Local Government Investment Pool	\$ 382,137	\$ 382,137	Credit and interest rate
Money market funds	71,356	71,356	Credit and interest rate
Certificates of deposit	1,470,000	1,470,000	Custodial
U.S. treasuries	1,483,552	1,483,552	Interest rate
U.S. agencies	7,306,760	7,306,760	Credit, interest rate and concentration of credit
Corporate notes	<u>5,556,896</u>	<u>5,556,896</u>	Credit, interest rate and concentration of credit
Total fixed income investments	16,270,701	16,270,701	
Equity funds	3,522,387	3,522,387	Custodial
Fixed income funds	1,015,797	1,015,797	Custodial and credit
Cash and demand deposits	<u>54,470,737</u>	<u>54,470,737</u>	Custodial
Total	<u>\$ 82,493,870</u>	<u>\$ 75,279,622</u>	

Reconciliation to the financial statements is shown below:

Per Statement of Net Position

Primary Government:

Unrestricted cash and investments	\$ 24,487,517
Restricted cash and investments	313,558

Per Statement of Fiduciary Net Position - Agency Funds

- Post Employment Benefits Trust	53,136,094
----------------------------------	------------

	<u>4,556,701</u>
	<u>\$ 82,493,870</u>

Custodial Credit Risk For deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to the City. As of December 31, 2014, none of the City's total bank balances of \$54,470,737 were uninsured and uncollateralized and therefore exposed to custodial credit risk. For Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. All of the City's investments except the Local Government Investment Pool have a tri-party relationship with the investments held by a party independent of the party managing the investment.

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

Credit Risk Credit risk is the risk that an issuer or other counterparty will not fulfill its obligation. The City's policy requires a minimum credit rating of Aa3 at time of purchase. The City's fixed income investments subject to credit risk include agencies securities, corporate asset backed securities, corporate bonds, government repurchase agreements and money market funds and were rated by Moody's Investor Service.

As of December 31, 2014, 99.5% of the fixed income investments were in rated fixed income investments and subject to credit risk. The ratings as a percentage of the total investment portfolio were as follows: Aaa at 45.5%, Aa1 at 5.2%, Aa2 at 13.2%, Aa3 at 5.2%, and A1 at 5.2%. The portfolio makeup of fixed income investments was corporate securities at 28.7%, treasury and agency securities at 45.5%, and money market funds at 0.4%. The Local Government Investment Pool was 2.0% of the investments and is not rated but is subject to credit risk. Equities and fixed income mutual funds held in trust at 23.5% make up the remainder of the investments and are not rated.

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to a large investment position in a single issuer. As of the December 31, 2014 no issue other than U.S. Treasury and Agency securities that have the full faith guarantee of the U.S. government and the Local Government Investment Pool had a position of greater than ten percent of the portfolio.

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

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

As of December 31, 2014 the City's investments exposed to interest rate risk were as follows:

Investment type (in thousands)	Fair Value	Investment Maturity in years		
		Less than 1	1 - 5	5 - 7
Money market funds	\$ 71,356	\$ 71,356	\$ -	\$ -
Certificates of Deposit	1,470,000	980,000	490,000	-
U.S. treasuries and agencies	8,790,312	1,483,552	2,388,777	4,917,983
Corporate notes	5,556,896	1,013,739	4,543,157	-
Local government investment pool	382,137	382,137	-	-
Total	\$ 16,270,701	\$ 3,930,784	\$ 7,421,934	\$ 4,917,983

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

B. RECEIVABLES

Receivables consist of accounts, taxes, notes and special assessments from citizens and others. Receivables are reported net of uncollectible amounts. The reserve for bad debts, principally for personal property taxes and ambulance revenue, was \$48,328 at December 31, 2014. Other than the note receivable and special assessment receivables, all other receivables are expected to be collected within one year.

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

C. RESTRICTED ASSETS

In accordance with the City's ordinance enacting a sewer user charge system and regulations of the Department of Natural Resources, the Sanitary Sewer Fund – an Enterprise Fund, incorporated an equipment replacement charge as a component of the rate structure to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources. Revenue generated from this charge is accumulated and used for replacement of certain equipment. The balance in this account at December 31, 2014 is \$313,558.

Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

Governmental Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ 24,958,327	\$ 14,210	\$ 22,906	\$ 24,949,631
Construction in progress	152,923	720,606	450,216	423,313
Total capital assets not depreciated	<u>25,111,250</u>	<u>734,816</u>	<u>473,122</u>	<u>25,372,944</u>
Capital assets depreciated:				
Buildings & improvements	24,225,492	492,353	-	24,717,845
Machinery & equipment	17,571,157	1,042,152	1,098,712	17,514,597
Infrastructure	92,173,188	1,687,600	-	93,860,788
Total capital assets depreciated	<u>133,969,837</u>	<u>3,222,105</u>	<u>1,098,712</u>	<u>136,093,230</u>
Less: Accumulated depreciation for:				
Buildings & improvements	8,579,485	524,758	-	9,104,243
Machinery & equipment	11,004,502	982,534	1,098,712	10,888,324
Infrastructure	25,027,592	1,561,331	-	26,588,923
Total accumulated depreciation	<u>44,611,579</u>	<u>3,068,623</u>	<u>1,098,712</u>	<u>46,581,490</u>
Net capital assets depreciated	<u>89,358,258</u>	<u>153,482</u>	<u>-</u>	<u>89,511,740</u>
Governmental activities capital assets net of accumulated depreciation	<u>\$ 114,469,508</u>	<u>\$ 888,298</u>	<u>\$ 473,122</u>	<u>\$ 114,884,684</u>

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 127,803
Public safety	715,831
Public works	1,923,694
Health & human services	10,310
Culture & recreation	289,125
Conservation & development	1,860
Total governmental activities depreciation expense	<u>\$ 3,068,623</u>

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS (continued)

	Balance	Additions	Dispositions	Balance
Business-type Activities				
Capital Assets not depreciated:				
Land	\$ 521,225	\$ -	\$ -	\$ 521,225
Construction in progress	57,942	555,003	261,335	351,610
Total capital assets not depreciated	<u>579,167</u>	<u>555,003</u>	<u>261,335</u>	<u>872,835</u>
Capital assets depreciated:				
Buildings & improvements	3,438,927	16,099	20,614	3,434,412
Machinery & equipment	2,799,107	48,290	153,056	2,694,341
Infrastructure	109,764,750	869,830	186,592	110,447,988
Total capital assets depreciated	<u>116,002,784</u>	<u>934,219</u>	<u>360,262</u>	<u>116,576,741</u>
Less: Accumulated depreciation for:				
Buildings & improvements	1,151,324	108,922	20,614	1,239,632
Machinery & equipment	1,622,312	163,915	153,056	1,633,171
Infrastructure	24,713,131	1,486,479	190,094	26,009,516
Total accumulated depreciation	<u>27,486,767</u>	<u>1,759,316</u>	<u>363,764</u>	<u>28,882,319</u>
Net capital assets depreciated	<u>88,516,017</u>	<u>(825,097)</u>	<u>(3,502)</u>	<u>87,694,422</u>
Business-type Activities Capital Assets				
Net of Accumulated Depreciation	<u>\$ 89,095,184</u>	<u>\$ (270,094)</u>	<u>\$ 257,833</u>	<u>\$ 88,567,257</u>

Depreciation expense was charged to functions as follows.

Business-Type Activities:

Water	\$ 1,097,571
Sewer	<u>661,745</u>
	<u>\$ 1,759,316</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. In all cases amounts are repaid within one year.

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

The interfund receivables and payables at December 31, 2014 are as follows:

Payable Fund	Receivable Fund			Total
	General	Water Utility	Sanitary Sewer	
General	\$ -	\$ 3,252	\$ 7,978	\$ 11,230
Non-Major	11,552	7,457	-	19,009
Water Utility	-	-	65,554	65,554
Sanitary Sewer	-	10,210	-	10,210
Totals	\$ 11,552	\$ 20,919	\$ 73,532	\$ 106,003

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

Payable Fund	Receivable Fund			Total	Due within one year
	General	Self Insurance	Capital Projects Development		
TIF Districts	\$ -	\$ 2,338,000	\$ 2,250,000	\$ 4,588,000	\$ 2,888,000
Debt Service	-	-	1,075,000	1,075,000	1,075,000
Sanitary Sewer	2,198,616	-	-	2,198,616	-
	\$ 2,198,616	\$ 2,338,000	\$ 3,325,000	\$ 7,861,616	\$ 3,963,000

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

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

Transfers as presented on the fund financial statements during the year ended December 31, 2014 were as follows:

	Transfers Out			
	General Fund	Nonmajor Governmental Funds	Enterprise Funds	Fund Totals
Transfers In				
General Fund	\$ -	\$ 65,380	\$ 1,046,864	\$ 1,112,244
Debt Service Fund	-	226,811	-	226,811
Nonmajor Governmental Funds	24,000	761,952	-	785,952
Enterprise Funds	-	873,727	-	873,727
Total	<u>\$ 24,000</u>	<u>\$ 1,927,870</u>	<u>\$ 1,046,864</u>	<u>\$ 2,998,734</u>

A reconciliation of fund statement transfers to government wide transfers for the year ended December 31, 2014 is as follows:

	Governmental Funds	Enterprise Funds
Transfers In per fund statements	2,125,007	\$ 873,727
Transfers Out per fund statements	(1,951,870)	(1,046,864)
Net transfers per fund statements	173,137	(173,137)
Capital Contributions from governmental funds to enterprise funds	\$ (317,738)	\$ 317,738
Government Wide Transfers	<u>\$ (144,601)</u>	<u>\$ 144,601</u>

F. DEFERRED INFLOWS AND DEFERRED OUTFLOWS

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

	Unavailable	Unearned	Total
Governmental funds:			
Property taxes receivable	\$ -	\$ 24,414,291	\$ 24,414,291
Special assessments not yet due	1,382,528	-	1,382,528
Total deferred inflows for governmental funds	<u>\$ 1,382,528</u>	<u>\$ 24,414,291</u>	<u>\$ 25,796,819</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

G. LONG TERM OBLIGATIONS

General Obligation Debt

Long-term liabilities for the year ended December 31, 2014 were as follows:

	Balance 12/31/13	Additions	Deletions	Balance 12/31/14	Amounts due within one year
Governmental Activities					
General obligation debt	\$ 17,880,000	\$ 5,320,000	\$ 10,265,000	\$ 12,935,000	\$ 615,000
Net pension obligation	84,880	-	6,000	78,880	-
Premium	21,387	232,827	1,941	252,273	-
Sub-total	<u>17,986,267</u>	<u>5,552,827</u>	<u>10,272,941</u>	<u>13,266,153</u>	<u>615,000</u>
Compensated absences					
Accrued vacation pay	409,872	969,877	952,094	427,655	427,655
Accrued severance pay	1,188,035	54,890	54,332	1,188,583	58,130
Accrued compensatory time	175,789	248,169	215,862	208,096	208,096
Total compensated absences	<u>1,773,696</u>	<u>1,272,926</u>	<u>1,222,288</u>	<u>1,824,334</u>	<u>693,881</u>
Governmental activities					
Long-term liabilities	<u>\$ 19,759,963</u>	<u>\$ 6,825,753</u>	<u>\$ 11,495,229</u>	<u>\$ 15,090,487</u>	<u>\$ 1,308,881</u>

All general obligation notes and bonds payable are backed by the full faith and credit of the City. The notes and bonds will be retired by future property tax levies, special assessment collections and designated landfill revenue.

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

	Balance 12/31/13	Additions	Deletions	Balance 12/31/14	Amounts due within one year
Business-type Activities					
General obligation debt	\$ 24,565,423	\$ 1,313,211	\$ 1,102,112	\$ 24,776,522	\$ 1,184,246
Discount	-	(13,507)	-	(13,507)	-
Subtotal	<u>24,565,423</u>	<u>1,299,704</u>	<u>1,102,112</u>	<u>24,763,015</u>	<u>1,184,246</u>
Compensated absences					
Accrued vacation pay	45,780	39,309	40,930	44,159	44,159
Accrued severance pay	57,161	4,608	-	61,769	-
Accrued compensatory time	12,513	8,668	4,490	16,691	16,691
Business-type activities					
Long-term liabilities	<u>\$ 24,680,877</u>	<u>\$ 1,352,289</u>	<u>\$ 1,147,532</u>	<u>\$ 24,885,634</u>	<u>\$ 1,245,096</u>

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

G. LONG TERM OBLIGATIONS (continued)

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

Type	Issue	Rate	Payable	Payable	Amount	12/31
General obligation promissory notes	12/18/14	2.0-2.5	3/1/15-24	3/1 & 9/1	\$ 5,320,000	\$ 5,320,000 ¹
General obligation refunding bonds	1/3/07	3.80	3/1/08-21	3/1 & 9/1	9,925,000	<u>7,615,000</u>
Total Governmental Activities Debt						<u>\$ 12,935,000</u>
Business-type Activity Debt						
General obligation Clean Water Fund Loan	1/25/12	2.462	5/1/14-31	5/1 & 11/1	27,562,754	\$ 23,486,522 ²
	12/18/14	2.0-3.125	3/1/15-34	3/1 & 9/1	1,290,000	<u>1,290,000</u> ³
Total Business-type Activities Debt						<u>\$ 24,776,522</u>

¹ Issued 63% for capital TIF purposes and 33% for general capital purposes, ² Issued for a sewer extension on W Ryan Rd, ³ Issued for Water Building purposes.

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

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

Year Ending 31-Dec	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 615,000	\$ 377,061	\$ 1,184,246	\$ 588,938
2016	1,950,000	377,598	1,212,048	570,330
2017	3,010,000	297,388	1,240,535	540,393
2018	2,320,000	207,958	1,269,723	509,746
2019	1,365,000	143,988	1,299,629	478,371
2020-24	3,675,000	178,699	6,993,158	1,888,898
2025-29	-	-	7,899,313	965,255
2030-34	-	-	3,677,870	112,063
Total	<u>\$ 12,935,000</u>	<u>\$ 1,582,692</u>	<u>\$ 24,776,522</u>	<u>\$ 5,653,994</u>

The City's statutory debt limit and margin of indebtedness at December 31, 2014 are \$179,484,705 and \$141,773,183, respectively. By City debt policy, the debt limit and margin of indebtedness limit are \$71,793,882 and \$34,082,360, respectively.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

G. LONG TERM OBLIGATIONS (continued)

Conduit Debt Obligations

Eleven series of Industrial Revenue Bonds originally issued with an aggregate principal amount of \$104,992,000 are outstanding with a December 31, 2014 balance of \$94,344,454.

H. NET POSITION/FUND BALANCES

Governmental Activities

Governmental activities net position reported on the government-wide statement of net position at December 31, 2014 include the following:

Net investment in capital assets	
Land	\$ 24,949,631
Construction in process	423,313
Other capital assets, net of accumulated depreciation	89,511,740
Less: related long term debt outstanding	<u>(8,852,807)</u>
Net investment in capital assets	<u>106,031,877</u>
Restricted for:	
Debt service	580,605
Utility improvement	1,918,450
Development	4,170,339
Library	598,752
Other	560,306
Total restricted	<u>7,828,452</u>
Unrestricted	<u>8,848,660</u>
 Total governmental activities net position	 <u>\$ 122,708,989</u>

Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

H. NET POSITION/FUND BALANCES (continued)

Governmental Fund Balances

Reported on the fund financial statements at December 31, 2014 include the following:

Nonspendable fund balances	
General Fund - Inventories and prepaid items	\$ 78,455
General Fund - Advances	2,198,616
Library Fund - prepaid items	<u>900</u>
Total nonspendable	<u>\$ 2,277,971</u>
Restricted fund balances	
Debt Service	\$ 546,238
Utility Improvements	672,431
Development	4,170,339
TIF Districts	347,978
Donations	122,550
Health services	175,220
Library services	596,277
Solid Waste	216,385
Recreational services	<u>46,151</u>
Total restricted	<u>\$ 6,893,569</u>
Assigned Fund balances:	
Capital Projects:	
Capital Outlay	\$ 303,348
Equipment Replacement	2,189,673
Capital Improvement	1,975,601
Street Improvement	230,837
Purchases on Order	<u>207,270</u>
Total Assigned fund balances	<u>\$ 4,906,729</u>
Unassigned fund balances	
General Fund	\$ 6,148,771
Debt Service - Deficit	(970,959)
St Martin's Fair - Deficit	(11,552)
TIF Districts - Deficit	<u>(1,213,872)</u>
Total Unassigned fund balances	<u>\$ 3,952,388</u>

Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced

CITY OF FRANKLIN, WISCONSIN
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

H. 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, 2014 include the following:

Net investment in capital assets	
Land	\$ 521,225
Construction in process	351,610
Other capital assets, net of accumulated depreciation	87,694,422
Less: related long term debt outstanding, net of unspent bond proceeds	<u> -</u>
Net investment in capital assets	<u>88,567,257</u>
Restricted for:	
Other	<u>313,558</u>
Unrestricted	<u>4,015,630</u>
Total business-type activities net position	<u>\$ 92,896,445</u>

Draft - Preliminary
 For Discussion Purposes Only
 Subject to Change
 Not to be Reproduced

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 - OTHER INFORMATION

A. DEFINED BENEFIT PENSION PLANS

Wisconsin Retirement System

All eligible protective (public safety) City of Franklin employees participate in the Wisconsin Retirement System ("System"), a cost-sharing multiple-employer defined benefit public employee retirement system ("PERS"). All such permanent employees expected to work over 600 hours a year, for employees hired prior to July 1, 2011 and 1200 hours a year for employees hired prior after that date are eligible to participate in the System. Covered employees in the protective occupations category are required by statute to contribute 7.0% to the plan both for protective occupations with social security, and for protective occupations without social security.

Employers may not make these contributions to the plan on behalf of the protective occupation employees unless provided for by an existing collective bargaining agreement. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for employees covered by the System for the year ended December 31, 2014 was \$8,071,472 and the employer's total payroll was \$14,442,042. The total required contribution for the year ended December 31, 2014 was \$1,457,708, or 18.06% of covered payroll. \$565,003 was paid by employees while \$892,705 was paid by the employer. Of the total required contribution, 100% was contributed for the current year. Total contributions for the years ended December 31, 2013, and 2012 were \$1,653,944 and \$1,660,118, respectively which equal the required contributions for each year.

The System provides that protective employees who retire at or after age 53 with 25 years or more of service or age 54 with less than 25 years of service are entitled to receive retirement benefits. Protective employees may retire at age 50 and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service and (3) a formula factor. Final Average Earnings is the average of the protective employee's three highest year's earnings. Protective employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefits. For employees beginning participation after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of the Wisconsin Statutes. The System issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

PUBLIC WORKS EMPLOYEES PENSION PLAN

Plan Description

The City is also a participant in the City of Franklin Public Works Employees' Pension Plan, a single employer defined benefit pension plan covering eligible public works employees. The assets of this Plan are administered by Principal Life Insurance Company. An annual financial report may be obtained by writing to the plan administrator at Principal Financial Group, P.O. Box 9693, Des Moines, IA 50306-9396.

Employees attaining the age of 60 are entitled to annual benefits of 1.98% of average compensation multiplied by the number of years of service subsequent to January 1, 1956. Average compensation is defined as the monthly total pay plus salary deferrals, compensation and overtime received for the three consecutive years out of the ten latest years which gives the highest average. Employees may retire early and receive reduced benefits at age 55 with at least ten years of service.

Disability benefits equivalent to expected benefits at normal retirement date are paid until normal retirement date, death or recovery. If an active employee dies, his or her beneficiary receives a lump-sum cash payment equal to the participant's accumulation at date of death or an annuity benefit deferred until participant's earliest retirement date.

If an employee terminates his or her employment with the City, the employee has the option of accepting either normal retirement benefits at normal retirement date, or a lump-sum cash payment of participant's vested accumulations. An employee becomes 50% vested after five years of service and 100% vested after ten years.

Employees make a non-elective and non-discretionary pension contribution that in 2014 was 8.2% of payroll. The City contributes all remaining amounts necessary to fund the pension plan. Starting in 2010, the City uses the entry age normal actuarial cost method.

Funding Policy

The City's funding policy has been to provide yearly contributions at actuarially determined rates that, expressed as a percentage of covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Annual Pension Cost

For 2014, the City's required contribution of \$293,632 was determined during a January 1, 2014 actuarial valuation using the entry age normal cost method. The City began to require employee contributions, totaling \$146,999 in 2014. During the year ended December 31, 2014, combined contributions totaling \$293,632 were accrued. This resulted in the net pension obligation being reduced by \$6,000. The required employer contribution amount represented 16.4% of current year payroll compared to the 18.4% anticipated in the 2012 actuarial report.

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 4 - OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

PUBLIC WORKS EMPLOYEES PENSION PLAN (continued)

Annual Pension Cost (continued)

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

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2014	\$ 287,632	102.9%	\$ 78,880
12/31/2013	\$ 303,994	102.1%	\$ 84,880
12/31/2012	272,480	102.2%	91,336

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

Annual required contribution	\$ 293,632
Interest on net pension obligation	6,366
Adjustment to annual required contribution	(12,366)
Annual pension expense	287,632
Contributions made	(293,632)
Decrease in net pension obligation	(6,000)
Net pension obligation - beginning of year	84,880
Net pension obligation - end of year	<u>\$ 78,880</u>

Annual Pension Cost

	Funding progress					
	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) - Aggregate	Unfunded AAL (UAAL) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2014	\$ 6,175,311	\$ 7,061,519	\$ 886,208	87%	\$ 1,619,766	55%

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

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 4 - OTHER INFORMATION (continued)

B. DEFINED CONTRIBUTION PLAN

Based on City ordinances all eligible City of Franklin non-protective employees (except public works employees) participate in the City of Franklin Defined Contribution Plan (the "Plan"). The Plan assets are administered by the Principal Life Insurance Company.

Employees after completing six months of service with the City are eligible to participate. The Plan requires the City to make periodic contributions to each participant's account equal to 10% of such participant's annual compensation. Employees 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 2014, total contributions of \$388,969 or 10% of covered payroll were made. The City contributed \$196,607 and employees \$192,362. The City may make amendments to the Plan.

C. POST EMPLOYMENT HEALTH CARE BENEFITS

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

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

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

<u>Employee Group</u>	<u>#</u>	<u>City Amount</u>	<u>Age</u>	<u>Years Service</u>
Non-represented	35	75% of Premium at Retirement	62	20
Police	55	75% of Premium at Retirement	53	15
Dispatch	13	75% of 2005 Premium	62	20
Fire	43	75% of Premium at Retirement	53	20
DPW	29	75% of Premium at Retirement	60	15

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 - OTHER INFORMATION (continued)

C. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)

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

Annual required contribution	\$ 551,716
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB expense	551,716
Contributions made	(551,716)
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ -

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 551,716	100.0%	\$ -
12/31/2013	523,342	100.0%	-
12/31/2012	837,535	100.0%	-

Funding progress:

(A)	(B)	(C)	(D)	(E)	(F)	
Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Projected unit credit	Unfunded AAL (UAAL) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2014	\$3,908,637	\$ 7,095,993	\$ 3,187,356	55%	\$ 12,155,777	26%

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

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 - OTHER INFORMATION (continued)

C. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)

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

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

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

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

The following significant assumptions were made:

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

The ARC was calculated using the level percentage of payroll method, amortizing costs over a closed period of 30 years. The remaining amortization period at December 31, 2014 was 23 years.

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

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

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

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

CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 - OTHER INFORMATION (continued)

C. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)

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

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

Rates of retirement, mortality and termination for reasons other than retirement and death are from the "Wisconsin Retirement System 2009-2011 Experience Study".

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

D. CONTINGENCIES AND COMMITMENTS

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

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

The City has \$2,122,647 in outstanding contractual commitments relating to various Public Works projects and equipment purchases at December 31, 2014. The City has encumbered \$207,270 at year end due to valid contracts or purchase orders in place and the related services committed and not yet received.

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

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

E. RISK MANAGEMENT

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

**CITY OF FRANKLIN, WISCONSIN
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 4 - OTHER INFORMATION (continued)

E. RISK MANAGEMENT (continued)

The City also offers a group medical and dental insurance plan to employees for which the City is self-insured. This activity is accounted for in the City's Self Insurance Internal Service Fund. Group medical and dental costs are charged to City departments and retirees participating in the program. A third party administrator handles claims payments. The City carries stop loss insurance for claims in excess of \$60,000 per year per individual. Liabilities are reported when it is probable that claims have occurred and the amount of the claim can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported ("IBNR").

Changes in the balance of claims payable for the two years ended December 31, 2014 are as follows:

	Balance Beginning of Year	Current Claims and Changes in Estimates	Claims Payments	Balance End of Year
2014	\$ 379,100	\$ 3,047,834	\$ 3,047,834	\$ 379,100
2013	\$ 352,000	\$ 3,608,103	\$ 3,781,003	\$ 379,100

Draft - Preliminary
For Discussion Purposes Only
Subject to Change
Not to be Reproduced

**CITY OF FRANKLIN, WISCONSIN
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
December 31, 2014**

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

Actuarial Valuation Date	Three Year Trend Information					
	(A) Actuarial Asset Value	(B) Actuarial Accrued Liability (AAL) - Aggregate	(C) Unfunded AAL (UAAL) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2014	\$ 6,175,311	\$ 7,061,519	\$ 886,208	87%	\$ 1,619,766	55%
1/1/2013	5,383,619	6,408,402	1,024,783	84%	1,689,291	61%
1/1/2012	5,096,223	5,749,942	653,719	89%	1,665,439	39%

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

Actuarial Valuation Date	Actuarial Asset Value	Accrued Liability (AAL) Projected unit credit	Unfunded AAL (UAAL) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	Percentage of Covered Payroll [(C)/(E)]
1/1/2014	\$3,908,637	\$ 7,095,993	\$ 3,187,356	55%	\$ 12,155,777	26%
1/1/2012	2,399,455	8,184,388	5,784,933	29%	11,553,445	50%
1/1/2010	1,254,758	6,016,221	4,761,463	21%	11,523,032	41%

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources (other than debt service or major capital projects) that are restricted for specified purposes.

Library Operating Fund – This fund accounts for the budgetary operation of the Library.

Library Auxiliary Fund – This fund accounts for Library donations, fines and forfeitures.

Solid Waste Collection Fund – This fund accounts for solid waste collection activities.

Donation Fund – This fund accounts for donations received for specific purposes.

St Martin's Fair Fund – This fund accounts for activities related to the farmers/flea market held the first Monday of the spring and summer months and the Labor Day weekend.

Civic Celebrations Fund – This fund accounts for activity related to the City's Fourth of July and other celebrations.

Grant Fund – The City reports its grant activities in this fund. Grant activities include Fire Department, Police Department, Health Department, Community Development Block Grants and miscellaneous grants received by the City that are not accounted for elsewhere.

Capital Projects Funds

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Capital Outlay Fund – This fund accounts for the departmental capital outlays. These expenditures are funded by the tax levy, normally are less than \$25,000 and are under the direction of the department supervisor.

Equipment Replacement Fund – This fund accounts for the rolling stock replacement program that accumulates annual funding (from property taxes) for replacement of vehicles and similar equipment in lieu of using borrowed monies.

Capital Improvement Fund – This fund accounts for land acquisitions, building projects and all public works projects and are usually funded with landfill siting revenues, borrowed money or funding from some other source other than the tax levy.

Street Improvement Fund – This fund accounts for the activities of the local road improvement program. Funding is provided by the tax levy and an every other year local road improvement grant from the State, and landfill siting revenues.

Utility Improvement Fund – This fund is used to account for water and sewer connection fees and special assessments that are used for water and sewer construction projects.

Development Fund – This fund is used to account for impact fees restricted for use to capital improvements.