CITY OF FRANKLIN, KENTUCKY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2016

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, Commissioners and City Manager
City of Franklin, Kentucky

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, Kentucky (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 auditor's 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, Kentucky, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 20, General Fund budgetary comparison schedule on pages 73 - 76, infrastructure condition and maintenance data on page 77, OPEB schedules of funding progress and employer contributions on pages 78 - 79, and pension schedules on pages 80 - 81 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's basic financial statements. The combining and individual funds statements and schedules on pages 82 - 93 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and proprietary funds budgetary comparison 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated February 9, 2017, on our consideration of the City's internal control over financial reporting and 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 results 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 the City's internal control over financial reporting and compliance.

Kerby & Moore LLP

Bowling Green, Kentucky
February 9, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 for the fiscal year ended June 30, 2016. The information contained in this MD&A should be considered in conjunction with the information contained in the Accountants' Reports and Financial Statements and Supplementary information.

Financial Highlights

- Total assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $33,934,951 and $32,274,375 for the prior fiscal year.

- As of the close of the current fiscal year, the City's governmental activities reported ending net position of $15,680,230 which includes unrestricted net position of $1,091,671. Respectively for the prior fiscal year, $12,333,721 of net position and ($1,428,749) of unrestricted net position. In FY2015, the most significant cause for the change in unrestricted net position was the implementation of GASB 68, regarding the recording of the City's net pension liability, discussed in length in Note 9 of the Financial Statements. In FY2016, the most significant cause for the increase in unrestricted net position was the sale of the City's Fiber Optics Program to the Franklin Electric Plant Board for $2,500,000.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $4,677,623 with $2,572,104 for the prior fiscal year.

- For the year ended June 30, 2016, total debt decreased by a net amount of $863,562 during the year. For the prior fiscal year, total debt decreased by $857,467 during the year due to principal reductions.

- The City had total revenues of $13,833,558 for the year ended June 30, 2016 which includes: program revenues (charges for service) of $7,071,001, operating grants and contributions of $436,832, and general revenues of $6,325,725. The City had total expenses of $11,949,941 for the year ended June 30, 2016. Comparatively, the City had total revenues of $12,858,683 for the year ended June 30, 2015 which includes: program revenues (charges for service) of $6,569,197, operating grants and contributions of $330,598, capital grants and contributions of $50,000 and general revenues of $5,908,888. The City had total expenses of $11,503,379 for the year ended June 30, 2015.

- The City's total capital outlays were $2,498,482 for the current fiscal year and $926,997 for the prior fiscal year. For the Governmental Funds, capital outlays were $560,436 for the current fiscal year and $138,435 for the prior fiscal year. For the Proprietary Funds, capital outlays for the current fiscal year were $1,938,046 and the prior fiscal year of $788,562.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to the financial statements.

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 and liabilities, with the difference between the two 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.

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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, *e.g.*, depreciation and earned but unused vacation leave.

The government-wide financial statements are divided into two categories, governmental and business-type activities. The governmental activities of the City include general government, administrative services, financial services, police, fire, public works, community development and cemetery. The business-type activities of the City include water, wastewater, sewer collection and rehabilitation, sanitation, fiber optic services and related support departments which comprise the Utility Fund. The City does not have any component units, *e.g.,* where the City has control over the income and expenses of the entity.

The government-wide financial statements can be found on pages 21 and 22 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources which 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

Most of the City's basic services are included in the governmental fund type. These funds use the modified accrual accounting basis, which measures cash and all other financial assets that can readily be converted to cash. The general fund, special revenue funds and permanent funds are all governmental type funds.

Proprietary Funds

Proprietary funds, in general, charge customers for the services that are provided. These funds use a long-term financial accounting approach, full accrual basis and provide additional information in the statement of cash flows.

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 can be found on pages 31 through 72 of this report.

Government-wide Analysis

The Governmental Accounting Standards Board (GASB) Statement 34 reporting model was implemented in fiscal year 2004.

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 $33,934,951 for the current fiscal year and $32,274,375 at the close of the prior fiscal year.

By far the largest portion of the City's net position (85%) is its investment in capital assets, *e.g.*, land, buildings, machinery and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Only the unrestricted net position of the City may be used to meet the government's ongoing obligations to citizens and creditors.

	2016 Net Position		
	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 10,778,437	$ 5,557,013	$16,335,450
Capital assets	14,274,350	19,295,552	33,569,902
Total assets	25,052,787	24,852,565	49,905,352
Deferred amount on refunding bonds	—	115,227	115,227
CERS pension contributions	945,494	293,657	1,239,151
Total deferred outflows	945,494	408,884	1,354,378
Long-term liabilities outstanding	4,453,692	4,762,450	9,216,142
Net CERS pension liability	5,218,013	1,490,118	6,708,131
Other liabilities	612,597	744,347	1,356,944
Total liabilities	10,284,302	6,996,915	17,281,217
CERS net pension investment difference	33,749	9,813	43,562
Total deferred inflows	33,749	9,813	43,562
Net position			
Net investment in capital assets	13,903,901	15,243,615	29,147,516
Restricted			
Expendable - Highways & Streets	175,277	—	175,277
Expendable - Debt service & capital activity	—	1,188,997	1,188,997
Nonexpendable - Perpetual Care	509,381	—	509,381
Unrestricted	1,091,671	1,822,109	2,913,780
Total net position	$ 15,680,230	$ 18,254,721	$33,934,951

	2015 Net Position		
	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 7,600,671	$ 5,124,813	$12,725,484
Capital assets	14,090,693	21,826,638	35,917,331
Total assets	21,691,364	26,951,451	48,642,815
Deferred amount on refunding bonds	—	121,762	121,762
CERS pension contributions	523,845	149,647	673,492
Total deferred outflows	523,845	271,409	795,254
Long-term liabilities outstanding	4,858,141	5,150,271	10,008,412
Net CERS pension liability	4,033,692	1,152,309	5,186,001
Other liabilities	562,641	857,640	1,420,281
Total liabilities	9,454,474	7,160,220	16,614,694
CERS net pension investment difference	427,014	121,986	549,000
Total deferred inflows	427,014	121,986	549,000
Net position			
Net investment in capital assets	12,754,883	17,333,358	30,088,241
Restricted	1,007,587	1,181,055	2,188,642
Unrestricted	(1,428,749)	1,426,241	(2,508)
Total net position	$ 12,333,721	$ 19,940,654	$ 32,274,375

	2016 Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	$ 1,256,930	$ 5,814,071	$ 7,071,001
Operating grants and contributions	436,832	–	436,832
Capital grants and contributions	–	–	–
General revenues			
Property taxes	992,101	–	992,101
Occupational fees	2,182,981	–	2,182,981
Insurance premium fees	1,518,542	–	1,518,542
Franchise fees	86,834	–	86,834
Business license fees	745,088	–	745,088
Interest income	34,579	5,841	40,420
Miscellaneous income	384,970	113,044	498,014
Gain (loss) on the sale of assets	(40,278)	302,023	261,745
Transfers	2,500,000	(2,500,000)	–
Total revenues and transfers	10,098,579	3,734,979	13,833,558
Expenses			
General government	1,829,143	–	1,829,143
Public safety	2,524,387	–	2,524,387
Public services	1,417,270	–	1,417,270
Community and cultural	678,036	–	678,036
Interest expense on long-term debt	122,380	129,513	251,893
Water and wastewater	–	4,380,694	4,380,694
Sanitation	–	868,518	868,518
Fiber Optic	–	–	–
Total expenses	6,571,216	5,378,725	11,949,941
Change in net position	3,527,363	(1,643,746)	1,883,617
Net position, beginning of year	12,333,721	19,940,654	32,274,375
Prior period adjustment	(180,854)	(42,187)	(223,041)
Net position, beginning of year, restated	12,152,867	19,898,467	32,051,334
Net position, end of year	$ 15,680,230	$ 18,254,721	$ 33,934,951

	2015 Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	$ 1,024,368	$ 5,544,829	$ 6,569,197
Operating grants and contributions	330,598	–	330,598
Capital grants and contributions	–	50,000	50,000
General revenues			
Property taxes	940,720	–	940,720
Occupational fees	2,073,342	–	2,073,342
Insurance premium fees	1,513,805	–	1,513,805
Franchise fees	100,096	–	100,096
Business license fees	740,107	–	740,107
Interest income	4,378	6,663	11,041
Miscellaneous income	412,492	113,719	526,211
Gain on the sale of assets	2,561	1,005	3,566
Transfers	(246,108)	246,108	–
Total revenues and transfers	6,896,359	5,962,324	12,858,683
Expenses			
General government	1,590,309	–	1,590,309
Public safety	2,210,640	–	2,210,640
Public services	1,272,622	–	1,272,622
Community and cultural	686,836	–	686,836
Interest expense on long-term debt	133,341	138,555	271,896
Water and wastewater	–	4,053,413	4,053,413
Sanitation	–	860,018	860,018
Fiber Optic	–	557,645	557,645
Total expenses	5,893,748	5,609,631	11,503,379
Change in net position	1,002,611	352,693	1,355,304
Net position, beginning of year	15,472,916	20,771,155	36,244,071
Change in accounting principle- GASB#68	(4,141,806)	(1,183,194)	(5,325,000)
Net position, beginning of year, restated	11,331,110	19,587,961	30,919,071
Net position, end of year	$ 12,333,721	$ 19,940,654	$ 32,274,375

Financial Analysis of the Government's Funds

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, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported an ending fund balance of $6,847,510 compared to $3,598,592 for the prior fiscal year. The City's major sources of revenues are insurance premium fees, payroll occupational fees and property taxes. The fund balances primarily represents the accumulation of revenues in excess of expenditures not reimbursed by funding sources.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were approximately $288,652 increase in revenue and $206,570 decrease in appropriations which can be briefly summarized as follows:

- Both insurance fees and occupational fees were slightly stronger than anticipated in the original budget. This is due, in part, to an increase in overall employment within our municipality. Unemployment has decreased from 4.6% in November 2015 to 3.5% in November 2016. Budget to actual comparisons reveal that, of the City's top thirty employers, twenty one performed better than anticipated, based on three year historical trends. The City collected $87,000 more occupational taxes than budgeted, $63,000 of which was generated from our top thirty employers. Similar circumstances were noted regarding the City's Insurance Premium fees. Of the City's top thirty insurance remitters, twenty one produced more premiums than anticipated, again based on three year historical trends. The City collected $82,000 more than budgeted, almost all of which related and increase in remittances from the City's top insurance remitters. Property tax revenues were $70,000 more than budgeted, almost all of which related to a decrease in our bad debt. The City has expanded its collection efforts and, as a result, our bad debt was substantially less than anticipated. Additionally, the City's alcohol beverage sales, and related regulatory fees, continue to increase quarter over quarter. Given how relatively new this regulatory fee is, it is extremely difficult to trend these fees, especially given the continued curve upwards in alcohol sales.

- Risk management expenses were increased as a result of the City's increase in legal contractual services, specifically related to unreimbursed consultant expenses regarding the City's most recent Comcast Franchise Fee negotiation.

- The Police Department experienced another year of significant personnel turnover. As a result, the personnel budget reflected significant variances, as this turnover was unanticipated. Additionally, the process to hire police personnel continues to increase in length, thus creating a significant time gap between officer turnover and correlating officer replacement.

- The City's Capital Outlay appropriations were increased as a direct result of the increase in above mentioned revenues. Appropriations for capital equipment were approved. Additionally, approximately $50,000 of budgeted capital expenditures were deferred to FY2017, relating specifically to the timing of required services and product delivery, thus causing a variance between budget to actual expenditures.

Total revenues for the year were within acceptable parameters (within 4% of budget), in total, with final budgetary estimates while expenses were slightly less than final budgetary estimates (by 3.1%). This relates primarily to personnel changeover within the police department and a deferral of capital purchases into Fiscal Year 2017.

Proprietary Funds

Operating revenues of the City's proprietary funds increased 4.8% from the prior year to $5,814,071. The City approved a 5% Water & Sewer rate increase, effective January 1, 2016, due to the completion of a capital needs Utility Rates Study, discussed below under Economic Factors. The City also implemented a 1.60% cost of living increase in the Sanitation Fund, pursuant to the City's garbage hauler contract. Operating revenues from Water and Wastewater increased by 9.4% to $4,938,870 while operating revenues from Sanitation services increased 0.4% to $875,201. Operating expenses for Water & Wastewater increased by 8.0% to $4,376,587 while operating expenses for Sanitation services increased by .9% to $868,518. This decrease relates directly to the structure of the garbage hauler contract, the current garbage hauler bills commercial customers directly, as the prior contract required the City to bill all residential and commercial customers.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, the City's investment in capital assets net of related debt for its governmental and business-type activities was $29,147,516 and $30,088,241 as of June 30, 2015. This investment in capital assets includes land, buildings, improvements, machinery and equipment and streets.

Major capital asset purchases during the current fiscal year include the following:

- General Fund
    - Capital Expenditures of $40,800 to repair/replace windows at City Hall as well as replace carpet.
    - Purchase of cruisers and related equipment for the Police Department of $148,117.
    - Purchase of a Dump Truck by the City's Public Works Department, $120,000.
    - Investment in office equipment, finance department, furniture at the police department, and city wide job costing software totaling $49,900.
- Franklin Municipal Utilities
    - Capital expenditures of $21,000 to repave the parking lot at the Water Treatment Plant.

- Capital expenditures for the installation of 5 new fire hydrants on 31W South, $26,000.

- Capital expenditures of $456,900 for the replacement of a water main and related service taps, specifically entitled the "Strawberry Lane" project. This project took approximately 3.5 years to complete.

- Capital expenditures of $788,000 for improvements and additions to the City's waste water system, specifically related to the 31W South Sewer Line Expansion.

- Capital expenditures of $218,800 for equipment and vehicles for the City's water and wastewater system (repairs to the wastewater treatment plant's belt press, a service truck and backhoe for water distribution, new SCADA system for the collections department, a streaming current monitor for the water treatment plant, etc.).

Major capital asset purchases during the prior fiscal year include the following:

- Capital expenditures of $53,617 to install a new roof on the Water Treatment Plant's Pump House and to complete significant repairs and overhauls to the Plant's High Service Pumps.

- Capital expenditures of $641,199 for improvements and additions to the City's water and waste water system.

- Capital expenditures of $32,420 for equipment at the City's Waste Water Treatment Plant.

- Equipment used by Street department of $22,060.

- Vehicles for the Public Works Department of $17,306.

- Cruisers for the Police Department of $34,864.

- Capital expenditures of $25,599 for improvements and additions to the City's storm water infrastructure.

Long-term Debt

The City had $8,663,725 in revenue bonds and capital lease obligations outstanding as of June 30, 2016, which is a decrease of $863,562 from the previous year. The City made principal payments of $861,769 during fiscal year 2016. In the previous year, the City had $9,405,525 in revenue bonds and capital lease obligations outstanding as of June 30, 2015, which is a decrease of $85,933 from the previous year. The City made principal payments of $855,674 during fiscal year 2015.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of $6,847,510 at June 30, 2016, excluding capital assets and long-term debt. Included in this year's total change in fund balance is an increase of $3,204,344 in the City's General Fund. For the previous year, the City's governmental funds reported a combined fund balance of $3,598,592 at June 30, 2015, excluding capital assets and long-term debt. Included in last year's total change in fund balance was an increase of $640,576 in the City's General Fund.

Modified Approach to Infrastructure

The condition of the City's roads is determined using its Road Management and Inspection Program (RMIP). The road condition is rated from 1 to 100 (OCI), with 100 being new or recently paved.

It is the City's policy to assess the condition of the roads every three years for cracks, potholes, misalignment, drainage condition and number of specific safety hazards. There were no roads severely deficient in condition at June 30, 2016.

The City has not changed the measurement scale used to assess and report the condition of its roads for the past 10 years.

The City's goal is to have all roads at 90-100 OCI rating.

Eligible infrastructure assets are not depreciated, additions and improvements thereto are capitalized and all other outlays made for such assets are expensed in the period incurred only if requirements regarding asset management system and preservation at condition level are met.

Economic Factors and Next Year's Budgets and Rates

In 2008 the City of Franklin was awarded a $1,000,000 grant from the U.S. Department of Commerce, Economic Development Administration to aid in the costs of the construction of a fiber optic project. The purpose of the project was to enhance economic development and City services by providing a reliable, advanced telecommunication service. During fiscal year 2011-2012, the City contracted for the purchase and installation of equipment, the construction of the fiber cable and the splicing and testing of the system. As of June 30, 2015, the program was operating within its third year and the program reflected total investment in capital assets, including infrastructure, buildings and equipment, of $2,501,249.

Effective July 1, 2015, however, the Board of Commissioners determined that it was in the best interest of the City of Franklin, Kentucky to convey for Two Million Five Hundred Thousand Dollars ($2,500,000.00), to the Electric Plant Board the City of Franklin's fiber optic system. The intended use of the fiber optic system is to enhance the communities' businesses and promote economic development to the benefit of all of the residents of Franklin, Simpson County, Kentucky. Further, the Electric Plant Board of the City of Franklin has personnel and equipment better suited for the maintenance and operations of the fiber optic system.

Given the significant costs related to a Municipality operating a Fiber Optics Program, our bond rating agency, Moody's Investment Services, felt concern over the financial risk that the Fiber Program presented. As a result, in October 2014, Moody's downgraded the City's General Obligation Debt from an A1 to an A3 and assigned a negative outlook. As a result of the above mentioned business sale, moving the fiber program to an entity more suited to the fiber optics business, the City was able to confer with Moody's and was granted the removal of the negative outlook in September of 2015. It is anticipated that, given the financial performance of the City during FY2016, Moody's will reevaluate our financial risk, or lack thereof, and reinstate our original rating of A1.

The City continues to operate within a time of change and anticipated growth. The City's leaders have spent a lot of time and effort focusing on the sustainability of the City's infrastructure, such as what capital investments are required to maintain and rehabilitate our current infrastructure as well as what areas of growth there are that the City needs to expand our existing water and sewer systems. In Fiscal Year 2014 the City kicked off an in-depth Utility Rate Study where we analyzed the pressing needs of each department within our Utility Division: Water Production, Water Distribution, & Waste Water Treatment. Within this study we identified all capital investments necessary to rehabilitate the City's current water and sewer lines, its treatment plants, and related equipment. Each Department Head identified areas of need and these capital improvements were incorporated into this study so the City could adequately identify the most pressing areas of intense need. The Utility Rate Study was incredibly valuable from many different perspectives, from infrastructure needs, to equipment needs, to a more detailed analysis of our revenue base and related operating expenditures. During FYE 2015, the City concluded this study and ultimately adopted a five year capital improvement plan, as well as identified annual financial resources to be allocated to each department for infrastructure rehabilitation and line replacements. This study effectively correlated our needs and the related financial impact and identified the need for a utility rate increase. The City's elected body decided to implement these rates increases in gradual, incremental amounts, over a five year period, in efforts not to overly burden the City's customer base. These rate changes were adopted by Ordinance in February 2015. These rates are scheduled to increase by 5% per year, effective January 1 of each calendar year.

Below is a brief summary of some of the areas of expansion and rehabilitation that the City has identified thus far:

- The City has recently completed a project related to the expansion of its existing sewer lines. This project is providing service to an area that was annexed into the City south of Franklin in fiscal year 2013, extending all the way to the KY/TN line, well past Exit 2 on Interstate 65. This project, including all engineering work, was completed for a total cost of $775,000.

- The City's Waste Water Treatment Department has identified a lift station and sub-basin that needs significant rehabilitation work. The expectation is that this investment and improvement will decrease some of the water's run off infiltration into the sewer systems as well as improve the overall systems operating capacity for the citizens using the sewer system within that sub-basin. This project is being completed in two phases. Phase I was completed subsequent to year end, for a total cost of $400,040. Phase II is expected to be completed in FY2017 with an estimated cost, including all engineering work, of $399,500. Additionally, the City has been awarded a Federal Grant, in the amount of $97,000, to apply toward the cost of this Phase II project.

- The City has experienced some growth toward the South of Franklin, related to its recent annexation of land all the way to the KY/TN line. Initially, during the City's Utility Rate Study, there were expectations that the south area of Franklin will experience significant growth and expansion over the next several years. If this were to occur, the City's analysis indicates that the current size of the sewer line does not provide the capacity necessary to accommodate the kind of growth the City is anticipating. Therefore the City began reviewing and entering into preliminary engineering discussions regarding replacement of the current sewer lines, down the 31-W corridor, with newer, larger lines that will be able to handle and service any growth within that particular area of town. This project, including all engineering work, has an estimated project cost of $9,000,000 to $12,000,000.

  With that said, however, the City is experiencing significant growth throughout the entire City. Although the original rate study was focused on anticipated infrastructure needs toward the south of town, as discussed above, the City now feels it would be prudent to complete a Municipal Growth Study to better anticipate growth patterns in our area, in conjunction with economic development patterns. This study could shift the entire direction of the City's utility infrastructure needs and investments. This study is expected to be completed within the next 3-5 years.

- The City's Water Distribution Department is working within its fourth year of a substantial water main replacement initiative. Currently, the City is working toward replacing all of its **2"** galvanized water lines with new, sustainable water lines. The expectation is that the replacement of this old and corroded line will provide better water service to the City's customers as well as reduce some of the annual water loss that the City experiences. Additionally the City has begun replacing these lines in-house, rather than contracting the projects out. This allows the City to take advantage of its own synergy and cooperation among the City's departments, because what one department does always directly impacts another, therefore it provides for more timely reaction to any project related incidences. Additionally there is a major cost savings realized by completing the project in-house rather than paying a premium for contracted services. The distribution department's most recent project, the Strawberry Lane Project, was completed at a cost of $456,900. The City has three smaller line replacement projects expected to be completed by FY2018.

- Along the same lines as the City's Water Distribution Water Line Replacement Initiative, the City is currently reviewing its Waste Water Collection System's maintenance and replacement needs with the intention of beginning to reserve funds, of approximately $300,000 annually, for an annual maintenance and replacement initiative within the Wastewater Treatment Department.

Outside of the City's Water Utility Departments there are many areas of growth and expansion being experienced within the City. Below is some discussion regarding the most significant economic changes that are significantly impacting the City and our community as a whole.

- During Fiscal Year 2013, the City initiated a City-Wide Beautification Program. The program began July 2012 with the hiring of a full time Code Enforcement Officer, and has since been extremely proactive in the effort to make noticeable improvements to the City with regards to blighted and dilapidated structures. To date, thirty nine blighted and dilapidated properties have been condemned by the City with thirty one of these properties having been subsequently demolished and the lots cleared of all material and debris. There are currently five properties which have been condemned and are pending action. These actions are the result of a combined effort by the City's Code Enforcement Officer and the City/County Planning and Zoning Office.

  In efforts to elaborate on our property condemnation process, we would like to note that once these dilapidated structures were removed from the property, then the City typically files a lien against the property for the costs involved with the removal. Once a lien is filed against the property, then the City has the ability to foreclose on the lien. Many times this leads to the City acquiring the property. In years past, the City has sold vacant lots through an auction type process or donated the lots to organizations to construct new houses. Even though the lots were sold or transferred, many times the City would continue to incur costs related to the property related to mowing and maintaining the property.

  In FY2016, in an effort to reduce the City's responsibility in maintaining vacant properties, a program was developed to put these properties back into productive use and once again provide a tax base for City revenue. The program was titled a "Surplus Property Re-Use Program."

  Approximately two times per year, a list of City owned properties will be evaluated and can be declared as "surplus property" by the Franklin City Commission. Once the lots are deemed as surplus, then the City begins the publication process by posting on the website, posting signs on the surplus property lots, advertising in the local newspaper and announcing at the City Commission meeting.

  Community members are able to inquire about a property and an information packet is sent out to the community member by the Community Development Director or the proposal information can be downloaded from the city website.

  The community member puts together a proposal for the property they are interested in, following the guidelines as stated in the packet. Once the deadline has passed, the proposals are gathered, evaluated for completeness and included on the agenda for the next Code Enforcement Board meeting.

The transfer of property will be based on the best evaluated use of the property, time frame to complete improvements and compliance with applicable codes. To be considered for these properties, the community member submitting the proposal must be current on City taxes and have no existing liens on any property currently owned in the City of Franklin. They cannot have had any code violations that resulted in a citation being issued on any properties within the City of Franklin within the last two years. The City of Franklin reserves the right to reject any or all proposals submitted.

At the Code Enforcement Board meeting the proposal is discussed and scoring criteria is completed by the Board. A recommendation will be made by the Code Enforcement Board to the City Commission. The City Commission will adopt a resolution authorizing the transfer of property.

Once a determination is made by the City Commission, the Community Development Director will contact the community member and work with them to transfer the deed.

Once a deed is transferred, the Community Development Director will monitor the progress of the property improvements and ensure the new owner maintains the property and builds as described in their proposal.

If a property owner does not follow through on the development of the property as stated in their proposal then the Code Enforcement Board will review the situation and have the option to take the ownership of the property.

This initiative is unique to the City and it's cutting edge, the first of its type. The City is excited to the implementing this program and is excited to see how this changes our community development and clean up efforts.

- For the past several years, City management has identified the need for the City to rehabilitate its stormwater system. City's stormwater system is provided to protect the waterways and land in the City of Franklin by managing flooding and to benefit the natural environment. The City felt as if the cost of designing, developing, improving, operating, maintaining, and monitoring the stormwater system required in the City of Franklin should therefore be allocated to the extent practicable to all property owners and/or occupants of land based on their impact on the stormwater system. In order to provide revenue to fund those costs and to fairly allocate those costs, a Stormwater Management Fund was established and adopted into Ordinance, and was implemented effective July 1, 2015. All revenues collected for the purpose of stormwater management from user fees, grants, permit fees, and other charges collected under this program, will be deposited into this fund and all disbursements from the Fund will be for the purposes of the following:

    i. The acquisition by gift, purchase, or condemnation of real property, and interests therein, necessary to construct, operate, and maintain stormwater management facilities.

ii. All costs of administration and implementation of the stormwater management program, including the establishment of reasonable operation and capital reserves to meet budgeted, unanticipated or emergency stormwater management requirements.
iii. Engineering and design, debt service and related financing expenses, construction costs for new facilities, and enlargement or improvement of existing facilities.
iv. Operation and maintenance of the stormwater system.
v. Monitoring, surveillance, and inspection of stormwater control devices.
vi. Water quality monitoring and water quality programs.
vii. Retrofitting developed areas for pollution control.
viii. Inspection and enforcement activities.
ix. Costs of public education related to stormwater and related issues.
x. Billing and administrative costs.
xi. Other activities which are reasonably required.

As of June 30, 2016, the City has accumulated a fund balance of $130,000 within this program.

- There has been significant activity within our Franklin-Simpson Industrial Authority throughout the year. During the past year there were four industrial or commercial businesses that expanded their existing operations, investing over $8,400,000 in capital and creating more than 115 new jobs. Additionally, there were seven industrial or commercial businesses that located their business in our Industrial Parks, investing over $38,700,000 in capital and are expecting to create over 244 new jobs. In FY2015 a German-owned automotive parts maker, Fritz Winter North America LP, announced that it planned to build a $193.7 million foundry and production facility in Franklin, bringing 343 jobs to Simpson County, Kentucky. Company executives are currently building a 240,000 square-foot facility in the Wilkey North Industrial Park. Construction started early in 2016 and casting and machining of disc brake rotors is expected to begin in the summer of 2017.

- For many years the City has participated along with the Commonwealth of Kentucky in the state's Kentucky Business Incentive (KBI) Program. This program provides state income tax credits of 3% of each qualified employee's wages (i.e. ½ of the state's income tax) to new and existing agribusinesses, regional and national headquarters for certain business operations, manufacturing companies, and non-retail service or technology related companies that locate or expand operations in Kentucky by rebating this money back to the company to assist with starting or expanding the business. This credit is available to the company for ten (10) years. As part of this participation, the local government which is the situs for the business is required to forego collection of a total of 1% occupational taxes on, essentially, the base number of jobs created under the KBI program for each qualified employee, for a period of 10 years. In other words, the state contributes 3%, and one or more local government(s) separately or together must contribute a total of 1%. Alternatively, the local government can make a one time "in lieu of" contribution in an amount that approximates the 1% contribution and aids the company, such as providing water and sewer improvements, etc. The City of Franklin and County of Simpson have agreed to participate in the KBI program. Although this has been a wonderful program for industrial and commercial expansion within the Commonwealth, the City's has, to date, exclusively provided the local 1% "match," which is beginning to create some financial hardship on the City given that basically all industrial growth and expansion will not generate any new occupational fee revenue for the City for a period of up to ten (10) years while causing the City to provide services as regular costs. In the last year, the City reached an agreement with the Simpson County Fiscal Court, via an interlocal agreement, wherein the Fiscal Court will begin to provide its entire .75% occupational fee per employee (with the City providing .25%) in an effort to lessen the financial impact on the City and share this burden. When the City and the County have reached an equal total contribution amount in the KBI program as a whole (including the amounts the City has contributed in the past), the City and County will thereafter each contribute an equal .50% per qualified employee per local governmental entity. At that point, the City will realize a net .50% occupational fee for the ten (10) year participation period, instead of receiving nothing. Obviously, this will have a positive economic impact on the City going forward.

- During FY2017, the City received notice that its third largest employer, Harman International Industries, was changing its business model and reducing its workforce by 1/3. This restructuring could reduce annual occupational tax revenue by over $100,000 annually. Current remittances haven't reflected a reduction in salaries, so the final financial impact is yet to be determined.

- As mentioned above, the City is experiencing tremendous growth throughout our corporate city limits. The housing/construction market is experiencing activity that this City hasn't seen in over ten years. Currently, as of February 2017, the following housing related construction projects are underway:

    - Three subdivisions are under development, all of which will allow for approximately 286 homes to be constructed (the Retreat at Fox Chase Subdivision, Fox Chase Phase II Subdivision, Pleasant Valley Subdivision, and the development of eight homes on West Madison Street by Bullington-Patton Enterprises.)

    - One upscale apartment complex offering 125 units and many amenities, located just past Exit 6 off of I65.

    - One moderate apartment complex, offering 24 units, off of Witt Road, Franklin, KY.

- Overall, all leaders within our community are excited for growth and expansion. The end result, primarily, is the desire for our community to have the capacity and availability to provide jobs to our citizens. City leaders are noting that several industrial management teams are shifting their workforce from temporary labor to full time labor which is interpreted as an overall sign of stabilization within our local economy. We are excited to see our community's unemployment rates maintain a stable level, rates decreasing slightly – from 4.6% in November 2015 to 3.5% in November 2016; however, this rate is still below the state rate of 4.0% and the national rate of 4.4%.

Contacting the City's Financial Management

The financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 117 West Cedar Street, P. O. Box 2805, Franklin, KY 42135.

BASIC FINANCIAL STATEMENTS

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF NET POSITION
June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 4,438,299	$ 2,687,688	$ 7,125,987
Certificates of deposit	439,221	—	439,221
Receivables (net of allowance for uncollectibles):			
Accounts	29,628	650,019	679,647
Taxes	996,649	—	996,649
Notes	3,426,056	—	3,426,056
Intergovernmental	41,178	—	41,178
Internal balances	2,649	(2,649)	—
Inventory	—	375,981	375,981
Prepaid items	72,728	163,001	235,729
Restricted assets:			
Cash and cash equivalents	1,332,029	599,255	1,931,284
Certificates of deposit	—	1,083,718	1,083,718
Capital assets, net of accumulated depreciation:			
Nondepreciable	12,383,447	383,391	12,766,838
Depreciable capital assets	1,890,903	18,574,223	20,465,126
Construction in progress	—	337,938	337,938
Total assets	25,052,787	24,852,565	49,905,352
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding bonds	—	115,227	115,227
CERS pension contributions	945,494	293,657	1,239,151
Total deferred outflows	945,494	408,884	1,354,378
LIABILITIES			
Accounts payable	333,291	335,309	668,600
Other accrued liabilities	171,582	366,506	538,088
Accrued interest payable	13,404	10,404	23,808
Accrued vacation	94,320	32,128	126,448
Noncurrent liabilities:			
Customer deposits	—	434,577	434,577
OPEB liability	27,578	90,263	117,841
Net pension liability	5,218,013	1,490,118	6,708,131
Due within one year	3,386,426	444,240	3,830,666
Due in more than one year	1,039,688	3,793,370	4,833,058
Total liabilities	10,284,302	6,996,915	17,281,217
DEFERRED INFLOWS OF RESOURCES			
CERS net pension investment difference	33,749	9,813	43,562
NET POSITION			
Net investment in capital assets	13,903,901	15,243,615	29,147,516
Restricted for:			
Expendable:			
Highways and streets	175,277	—	175,277
Debt service and capital activity	—	1,188,997	1,188,997
Nonexpendable:			
Perpetual care	509,381	—	509,381
Unrestricted	1,091,671	1,822,109	2,913,780
Total net position	$ 15,680,230	$ 18,254,721	$ 33,934,951

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Function/Programs							
Primary Government							
Governmental activities:							
General government	$ 1,829,143	$ 863,760	$ –	$ –	($ 965,383)	$ –	($ 965,383)
Public safety	2,524,387	27,782	139,825	–	(2,356,780)	–	(2,356,780)
Public services	1,417,270	320,542	193,407	–	(903,321)	–	(903,321)
Community and cultural	678,036	44,846	103,600	–	(529,590)	–	(529,590)
Interest on long-term debt	122,380	–	–	–	(122,380)	–	(122,380)
Total governmental activities	6,571,216	1,256,930	436,832	–	(4,877,454)	–	(4,877,454)
Business-type activities:							
Water and wastewater	4,510,207	4,938,870	–	–	–	428,663	428,663
Sanitation	868,518	875,201	–	–	–	6,683	6,683
Fiber optic	–	–	–	–	–	–	–
Total business-type activities	5,378,725	5,814,071	–	–	–	435,346	435,346
Total primary government	$ 11,949,941	$ 7,071,001	$ 436,832	$ –	(4,877,454)	435,346	(4,442,108)
General revenues:							
Property taxes					992,101	–	992,101
Occupational taxes					2,182,981	–	2,182,981
Insurance premium taxes					1,518,542	–	1,518,542
Franchise taxes					86,834	–	86,834
Business license taxes					745,088	–	745,088
Interest income					34,579	5,841	40,420
Miscellaneous					384,970	113,044	498,014
Gain (loss) on sale of assets					(40,278)	302,023	261,745
Transfers					2,500,000	(2,500,000)	–
Total general revenues and transfers					8,404,817	(2,079,092)	6,325,725
Change in net position					3,527,363	(1,643,746)	1,883,617
Net position, beginning of year					12,333,721	19,940,654	32,274,375
Prior period adjustment					(180,854)	(42,187)	(223,041)
Net position, beginning of year, restated					12,152,867	19,898,467	32,051,334
Net position, end of year					$ 15,680,230	$ 18,254,721	$ 33,934,951

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 4,034,786	$ 403,514	$ 4,438,300
Certificates of deposit	–	439,221	439,221
Receivables (net of allowance for uncollectibles):			
Accounts	4,171	25,457	29,628
Taxes	996,650	–	996,650
Notes	3,426,055	–	3,426,055
Intergovernmental	22,017	19,162	41,179
Due from other funds	34,333	51,597	85,930
Prepaid items	70,639	2,089	72,728
Restricted assets			
Cash and cash equivalents	1,261,029	71,000	1,332,029
Total assets	$ 9,849,680	$ 1,012,040	$ 10,861,720
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 171,921	$ 161,372	$ 333,293
Due to other funds	50,993	32,288	83,281
Accrued expenses	163,419	8,162	171,581
Total liabilities	386,333	201,822	588,155
Deferred inflows:			
Unavailable revenue	3,426,055	–	3,426,055
Fund balances:			
Nonspendable:			
Prepaid items	70,639	2,089	72,728
Perpetual care	–	509,381	509,381
Restricted:			
Highways and streets	–	42,832	42,832
Committed:			
Stormwater	–	129,210	129,210
Assigned to:			
Debt service	1,212,807	–	1,212,807
Retirement benefits	40,463	–	40,463
Drug enforcement	7,760	–	7,760
Other purposes	–	126,706	126,706
Encumbrance reserve	28,000	–	28,000
Unassigned	4,677,623	–	4,677,623
Total fund balances	6,037,292	810,218	6,847,510
Total liabilities, deferred inflows and fund balances	$ 9,849,680	$ 1,012,040	$ 10,861,720

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2016

Total fund balances - governmental funds		$ 6,847,510
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		14,274,350
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		3,426,056
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable	($ 4,426,114)	
Compensated absences	(94,320)	
Accrued interest on long-term obligations	(13,405)	
Net pension and OPEB liabilities	(5,245,592)	(9,779,431)
Contributions to the CERS pension plan have been deferred in the Statement of Net Position		945,494
Investment earnings on pension plan assets have been deferred in the Statement of Net Position		(33,749)
Net position of governmental activities		$ 15,680,230

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes:			
Property	$ 992,101	$ –	$ 992,101
Occupational	2,182,981	–	2,182,981
Insurance premium	1,518,542	–	1,518,542
Franchise	86,834	–	86,834
Business license	745,088	–	745,088
Intergovernmental	182,718	172,871	355,589
Charges for sales and services	–	317,542	317,542
Interfund charges	903,446	–	903,446
Fines and forfeitures	79,683	–	79,683
Contributions and donations	–	10,100	10,100
Investment income	31,340	2,614	33,954
Miscellaneous	534,669	625	535,294
Total revenues	7,257,402	503,752	7,761,154
Expenditures			
Current:			
General government	$ 1,693,033	$ –	$ 1,693,033
Public safety	2,245,964	–	2,245,964
Public services	877,324	463,246	1,340,570
Community services	428,626	247,503	676,129
Capital outlay	504,671	31,425	536,096
Debt service:			
Principal	429,244	–	429,244
Interest	122,701	–	122,701
Total expenditures	6,301,563	742,174	7,043,737
Excess (deficiency) of revenues over (under) expenditures	955,839	(238,422)	717,417
Other financing sources (uses):			
Transfers in	2,500,000	285,996	2,785,996
Transfers out	(282,996)	(3,000)	(285,996)
Sale of capital assets	31,501	–	31,501
Total other financing sources (uses)	2,248,505	282,996	2,531,501
Net change in fund balances	3,204,344	44,574	3,248,918
Fund balances, beginning of year	2,832,948	765,644	3,598,592
Fund balances, end of year	$ 6,037,292	$ 810,218	$ 6,847,510

See Notes to Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

		Total Governmental Funds
Net change in fund balances - total governmental funds		$ 3,248,918
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 those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		255,436
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(71,779)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		427,533
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 governmental funds:		
Compensated absences	$ 8,144	
OPEB expense	(32,071)	
Accrued interest on long-term debt	2,032	
Pension expense	(188,553)	
		(210,448)
Principal collections on notes receivable are included in governmental funds. Principal collections reduce long-term notes receivable in the government-wide statement of net position.		(122,297)
Change in net position of governmental activities		$ 3,527,363

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2016

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,348,686	$ 339,002	$ –	$ 2,687,688
Accounts receivable, net	578,524	71,495	–	650,019
Due from other funds	5,350	–	–	5,350
Inventory	375,981	–	–	375,981
Prepaid items	162,529	472	–	163,001
Restricted assets:				
Cash and cash equivalents	599,255	–	–	599,255
Certificates of deposit	1,083,718	–	–	1,083,718
Total current assets	5,154,043	410,969	–	5,565,012
Noncurrent assets:				
Capital assets:				
Land	343,277	40,114	–	383,391
Depreciable capital assets, net	18,574,223	–	–	18,574,223
Construction in progress	337,938	–	–	337,938
Total noncurrent assets	19,255,438	40,114	–	19,295,552
Total assets	24,409,481	451,083	–	24,860,564
DEFERRED OUTFLOWS				
Deferred amount on refunding bonds	115,227	–	–	115,227
CERS pension contributions	293,657	–	–	293,657
Total deferred outflows	408,884	–	–	408,884

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2016

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 227,160	$ 108,149	$ –	$ 335,309
Accrued liabilities	66,219	300,287	–	366,506
Accrued interest	10,404	–	–	10,404
Accrued vacation	32,128	–	–	32,128
Due to other funds	2,649	5,350	–	7,999
Current maturities of notes payable	144,240	–	–	144,240
Payable from restricted assets:				
Current maturities of revenue bonds payable	300,000	–	–	300,000
Customer deposits	434,577	–	–	434,577
Total current liabilities	1,217,377	413,786	–	1,631,163
Noncurrent liabilities:				
OPEB liability	48,621	41,642	–	90,263
Net pension liability	1,490,118	–	–	1,490,118
Revenue bonds payable	3,793,370	–	–	3,793,370
Total noncurrent liabilities	5,332,109	41,642	–	5,373,751
Total liabilities	6,549,486	455,428	–	7,004,914
DEFERRED INFLOWS				
CERS net investment difference	9,813	–	–	9,813
NET POSITION				
Net investment in capital assets	15,203,501	40,114	–	15,243,615
Restricted for debt service and capital activity	1,188,997	–	–	1,188,997
Unrestricted (deficit)	1,866,568	(44,459)	–	1,822,109
Total net position	$ 18,259,066	($ 4,345)	$ –	$ 18,254,721

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
Year Ended June 30, 2016

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Operating revenues				
Charges for services	$ 4,799,615	$ 850,110	$ –	$ 5,649,725
Fines and forfeitures	139,255	25,091	–	164,346
Total operating revenues	4,938,870	875,201	–	5,814,071
Operating expenses				
Salaries, wages and benefits	1,465,903	8,567	–	1,474,470
Maintenance	256,707	650,451	–	907,158
Utilities	325,616	–	–	325,616
Administrative	554,100	209,500	–	763,600
Supplies	539,310	–	–	539,310
Other	191,759	–	–	191,759
Depreciation	1,043,192	–	–	1,043,192
Total operating expenses	4,376,587	868,518	–	5,245,105
Operating income (loss)	562,283	6,683	–	568,966
Nonoperating revenues (expenses):				
Investment income	5,508	333	–	5,841
Miscellaneous revenue	113,044	–	–	113,044
Interest expense	(130,087)	–	–	(130,087)
Amortization expense	(3,031)	–	–	(3,031)
Administrative fees	(502)	–	–	(502)
Gain (loss) on disposal of assets	(2,684)	–	304,707	302,023
Total nonoperating revenues	(17,752)	333	304,707	287,288
Income (loss) before transfers	544,531	7,016	304,707	856,254
Transfers out	–	–	(2,500,000)	(2,500,000)
Change in net position	544,531	7,016	(2,195,293)	(1,643,746)
Net position (deficit), beginning of year	17,756,722	(11,361)	2,195,293	19,940,654
Prior period adjustment	(42,187)	–	–	(42,187)
Net position (deficit), beginning of year, restated	17,714,535	(11,361)	2,195,293	19,898,467
Net position (deficit), end of year	$ 18,259,066	($ 4,345)	$ –	$ 18,254,721

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2016

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Cash flows from operating activities				
Cash received from customers	$ 5,123,065	$ 874,087	$ –	$ 5,997,152
Cash payments to employees and retirees	(1,449,155)	(8,770)	–	(1,457,925)
Cash payments to suppliers	(1,505,792)	(650,882)	–	(2,156,674)
Payments for administrative overhead	(554,100)	(209,500)	–	(763,600)
Net cash provided by operating activities	1,614,018	4,935	–	1,618,953
Cash flows from noncapital financing activities				
Transfers out to other funds	–	–	(2,500,000)	(2,500,000)
Cash flows from capital and related financing activities				
Proceeds from the sale of capital assets	1,358	–	2,500,000	2,501,358
Purchase of capital assets	(700,233)	–	–	(700,233)
Principal paid on bonds, notes and lease obligations	(432,525)	–	–	(432,525)
Interest paid on bonds, notes and lease obligations	(130,833)	–	–	(130,833)
Administrative fees paid	(502)	–	–	(502)
Net cash provided by (used in) capital and related financing activities	(1,262,735)	–	2,500,000	1,237,265
Cash flows from investing activities				
Purchases of certificates of deposit	(2,877)	–	–	(2,877)
Interest received	5,508	333	–	5,841
Net cash provided by investing activities	2,631	333	–	2,964
Net increase in cash and cash equivalents	353,914	5,268	–	359,182
Cash and cash equivalents, beginning of year	2,594,027	333,734	–	2,927,761
Cash and cash equivalents, end of year	$ 2,947,941	$ 339,002	$ –	$ 3,286,943
Reflected in the Statement of Fund Net Position - Proprietary Funds as:				
Cash and cash equivalents	$ 2,348,686	$ 339,002	$ –	$ 2,687,688
Restricted cash and cash equivalents	599,255	–	–	599,255
Total	$ 2,947,941	$ 339,002	$ –	$ 3,286,943

See Notes to Financial Statements (Continued)

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2016

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 562,283	$ 6,683	–	$ 568,966
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,043,192	–	–	1,043,192
Nonoperating revenues	113,044	–	–	113,044
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	23,110	(1,114)	–	21,996
(Increase) decrease in due from other funds	(4,346)	2,404	–	(1,942)
(Increase) decrease in inventory and prepaid items	(131,682)	228	–	(131,454)
Increase in deferred outflows of resources	(186,197)	–	–	(186,197)
Decrease in accounts payable	(50,351)	(5,929)	–	(56,280)
Decrease in accrued liabilities	(14,096)	(2,484)	–	(16,580)
Decrease in accrued vacation	(8,964)	–	–	(8,964)
Increase in customer deposits	48,041	–	–	48,041
Increase (decrease) in due to other funds	(6,021)	5,350	–	(671)
Increase (decrease) in OPEB liability	369	(203)	–	166
Increase in pension liability	337,809	–	–	337,809
Decrease in deferred inflow of resources	(112,173)	–	–	(112,173)
Net cash provided by operating activities	$ 1,614,018	$ 4,935	–	$ 1,618,953

See Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Franklin, Kentucky (City) is a municipal corporation and political subdivision of the Commonwealth of Kentucky. The City operates under a Commission-Manager form of government. The City provides a full range of municipal services including general government services, police and fire protection, public works, parks and recreation, and cemetery operations. In addition, the City owns and operates a water and sewer system.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The accompanying government-wide financial statements present the financial statements of the City. There are no component units, legally separate entities for which the City is considered to be financially accountable. Accountability is defined as the City's substantive appointment of the majority of the component unit's governing board. Furthermore, to be financially accountable, the City must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to or impose specific financial burdens on the City.

Related Organizations and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Electric Plant Board and the Housing Authority of Franklin are considered related organizations of the City.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A regional government or other multi-governmental arrangement is governed by representatives from each of the governments that created the organization, but is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the Franklin-Simpson Industrial Authority, Franklin-Simpson Planning and Zoning Commission, and Franklin-Simpson Planning and Zoning Adjustment Board are considered jointly governed organizations of the City.

Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participates retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based on these criteria, the Franklin-Simpson Parks Board and the Simpson County 911 Advisory Board are considered joint ventures of the City.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements as follows:

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the City's own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that can not be specifically identified to a particular function are charged to funds based on time spent for that function and are included in the functional categories. Program revenues

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

include: (a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or identifiable activity, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions.

Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund – governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds, if any, are aggregated and reported as nonmajor funds.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental fund:

General Fund

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law, ordinance or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The City's five nonmajor special revenue funds account for specific revenues that are restricted to expenditures for operating the Greenlawn-Shady Rest Cemetery (Greenlawn-Shady Rest Cemetery Fund), governmental housing, community and economic development projects (Community Development Fund), public works (Municipal Aid Fund), economic development activities (Economic Development Revolving Loan Fund), and stormwater system (Stormwater Fund).

Permanent Funds

Permanent funds are used to report resources that are legally restricted to allow only the earnings and not the principal to be used for purposes that support the reporting government's programs. The City reports two nonmajor permanent funds (Francis Harris Cemetery Perpetual Fund and Greenlawn-Shady Rest Cemetery Perpetual Fund) which account for assets held in trust for the permanent maintenance and beautification of Greenlawn-Shady Rest cemetery.

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – 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 determinations or revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City reports the following major enterprise funds:

Water and Wastewater Fund

The Water and Wastewater Fund accounts for the operations of the City's water and wastewater system.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sanitation Fund

The Sanitation Fund accounts for the operations of the City's sanitation system.

Fiber Optic Fund

The Fiber Optic Fund accounts for the operations of the City's fiber optic system. In June, 2015, the City Commission voted by resolution to sell and transfer all of the tangible and intangible assets of the fiber optic network to the Franklin Electric Plant Board. The Board assumed day-to-day operations of the fiber optic network on July 1, 2015.

C. Measurement Focus and Basis of Accounting

Government-wide and Proprietary Funds

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. With this measurement focus, all assets and all liabilities including long-term assets, as well as long-term debt and obligations, are included in Statement of Net Position. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

In proprietary funds, operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items. 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.

Nonexchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes, grants, entitlements and similar items and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period in which the taxes are levied. Franchise fees, licenses and permits, fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants, entitlements and donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts received before all eligibility requirements have been met are reported as deferred revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year end. Principal revenue sources considered susceptible to accrual include taxes, licenses and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the City. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences and obligations for worker's compensation, which are recognized as expenditures when payment is due. Pension expenditures are recognized when amounts are due to a plan.

The City reports unearned revenue on its combined balance sheet. Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue also arises when resources are received by the City before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents

The City considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016, cash equivalents consisted primarily of certificates of deposit and short-term instruments with local financial institutions.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on property as of January 1 each year. Property values are assessed on January 1 of each year, taxes are levied annually by ordinance and are payable on December 31. The City bills and collects its own property taxes. City property tax revenues are recognized when levied to the extent that they are both measurable and available.

Inventories

Inventories are valued at cost, which approximate market, using the first-in/first-out (FIFO) method. The costs of inventory items are recognized as expenditures or expenses when used.

Prepaid Items

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Certain proceeds of bonds, as well as certain resources set aside for their payment, are classified as restricted assets on the balance sheet since their use is limited by applicable bond indentures. Construction fund accounts are used to report proceeds of general obligation and revenue bonds and notes that are restricted for use in construction and capital acquisitions. Depreciation and Maintenance accounts are the resources set aside to provide reasonable reserves for renewals, replacements, improvements, extensions, extraordinary major repairs and contingencies related to bond obligation projects. Sinking Fund accounts are the resources accumulated for debt service payments.

Investments and Investment Income

Investments include certificates of deposit or government obligations carried at fair value. Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Unbilled Revenue

The City bills customers for water and sewer services after usage based upon meter readings made during the month. The City records a receivable for unbilled revenue at June 30 for usage for which bills have not been sent.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The City maintains a capitalization threshold of $2,000. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets, excluding infrastructure, are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Utility plant	25 - 50
Building and improvements	25 - 40
Furniture and equipment	10
Vehicles	4

The City utilizes the modified approach for reporting eligible infrastructure assets. Eligible infrastructure assets are not depreciated, additions and improvements thereto are capitalized and all other outlays made for such assets are expensed in the period incurred only if requirements regarding asset management system and preservation at condition level are met.

Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

Compensated Absences

The City grants vacation and sick pay to all full-time employees based on length of service time. The cost of vacation and sick pay is accrued when earned in the government wide and proprietary fund financial statements and reported as accrued liabilities. In fund financial statements, only amounts that are expected to be liquidated with available financial resources are reported as expenditures and included in accrued liabilities.

Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities, business-type activities or proprietary fund Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as expenses in the period incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Unearned Revenue

The City defers revenue recognition for assets recognized before revenue recognition criteria has been satisfied.

Grants and entitlements received before eligibility requirements are met are unearned. In addition, in governmental fund financial statements, notes and lease receivables at fiscal year-end are recorded as unearned revenue because potential revenue does not meet the "available" criteria for recognition in the current period.

Deferred Inflows of Resources and Deferred Outflows of Resources

With the implementation of GASB Statements 65 and 68, the City's Statement of Net Position includes deferred inflows (or deferred outflows) of resources when appropriate. Deferred outflows of resources represent a consumption of net position that applies to a future period(s). Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). These amounts will not be recognized as expense or revenue until the applicable period.

Deferred Outflows - include the differences between reacquisition price and the net carrying amount of refunded debt obligations that is recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. In addition, it includes contributions to pension plans made subsequent to the City's measurement date of June 30, 2015.

Deferred Inflows - include differences between projected and actual earnings on investments in pension plans.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance—amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City ordinance). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Commission or by an official or body to which the City Commission delegates the authority.

- Unassigned fund balance—in the General fund, resources not otherwise reported as nonspendable, restricted, committed, or assigned. This classification is also used to report negative fund balance amounts in other governmental funds.

The City Commission establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Commission through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

In the government-wide statements, the difference between the City's total assets and total liabilities represents net position.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

Net position is reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

Interfund Activity

Transfers between governmental and proprietary activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Estimates

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

G. Budgetary Information

Budget Policy

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, and enterprise funds. A budget is not prepared for the City's permanent funds. All annual appropriations lapse at fiscal year end.

Legal Compliance

All agencies of the City submit requests for appropriation to the City manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the part year, current year estimates, and requested appropriations for the next fiscal year.

Before June 1st, the proposed budget is presented to the City Commission for review. The City Commission holds public hearings to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of an ordinance. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Commission. During the year, several supplementary appropriations were necessary.

NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; letters of credit issued by federal home loan banks; bonds, notes, letters of credit or other obligations of the U. S. Treasury, U. S. agencies or instrumentalities or the state of Kentucky; bonds of any city of the first, second, and third classes, county, school district or educational institution of the state of Kentucky; or surety bonds having an aggregate current face value or current quoted market value at least equal to the amount of the deposits in excess of amounts insured by the FDIC.

At June 30, 2016, $7,884,840 of the City's bank balances of $9,979,318 was exposed to custodial credit risk as follows, while $2,094,477 was covered by the FDIC:

Uninsured and collateral held by pledging financial institution	$ 6,719,340
Uninsured and uncollateralized	1,165,500
Total deposits exposed to custodial credit risk	$ 7,884,840

Investments

In accordance with Kentucky Revised Statutes (KRS) 66.480, the City may legally invest in obligations of the U. S. Treasury, U. S. agencies and instrumentalities, including obligations subject to repurchase agreements, bankers' acceptances, commercial paper, obligations of the Commonwealth of Kentucky and its agencies and instrumentalities, shares of mutual funds or interest bearing deposits of insured national or state banks.

At June 30, 2016, the City had the following investments and maturities:

Type	Fair Value	Maturities In Years Less than 1
U. S. obligations	$ 658,908	$ 658,908

NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN (Continued)

Interest Rate Risk - The City recognizes that some level of risk is inherent in any investment transaction. Losses may be incurred due to issuer default, market price changes, or closing investments prior to maturity due to unanticipated cash flow needs. While the City has adopted an investment policy that recommends controlling interest rate risk through maturity diversification, the policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than ten years from the date of purchase.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to limit its investments in securities issued by a state or local government or any U. S. agency or instrumentality to the top three ratings issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2016, investments in U. S. agency obligations not directly guaranteed by the U. S. government were rated AAA by Standard & Poor's.

Concentration of Credit Risk - The City's funds must be diversified by security type and institution with the exception of fully insured or fully collateralized investments and except for authorized investment pools, no more than 30% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution. At June 30, 2016, 100% of the City's investments were in U. S. Obligation Mutual Funds.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

Carrying value:	
Deposits	$ 9,921,303
Investments	658,907
	$10,580,210

NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN (Continued)

Included in the following balance sheet captions:

Government-wide Statement of Net Position	
Cash and cash equivalents	$ 7,125,987
Certificates of deposit	439,221
Restricted assets:	
Cash and cash equivalents	1,931,284
Certificates of deposit	1,083,718
Total	$ 10,580,210

Investment Income

Investment income for the year ended June 30, 2016 consisted of:	
Interest and dividend income	$ 40,420

NOTE 3. NOTES RECEIVABLE

Notes receivable at June 30, 2016 consists of the following:

General Fund:

Franklin-Simpson Industrial Authority promissory note receivable, dated December 3, 2010; receivable in 240 monthly installments of $33,333, including interest at 7.95%; secured by real estate mortgage.	$ 3,426,056

NOTE 4. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2016:

	Cash	Certificates of Deposit	Interest Receivable	Total
Governmental activities:				
General Fund:				
Retiree Life fund	$ 40,462	$ –	$ –	$ 40,462
Police fund	7,760	–	–	7,760
City of Franklin 2009 Bond Fund	1,212,807	–	–	1,212,807
Total General Fund	1,261,029	–	–	1,261,029
Special Revenue Fund				
Community Development	71,000	–	–	71,000
Total governmental activities	1,332,029	–	–	1,332,029
Business-type activities:				
Enterprise Fund				
Water and Wastewater Fund:				
Customer deposits	139,503	354,474	–	493,977
Debt service reserve	459,752	307,776	–	767,528
Depreciation reserve	–	278,760	–	278,760
Maintenance and replacement reserve	–	142,708	–	142,708
Total business-type activities	599,255	1,083,718	–	1,682,973
Total restricted assets	$ 1,931,284	$ 1,083,718	$ –	$ 3,015,002

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,585,418	$ 159,860	$ –	$ 1,745,278
Streets and sidewalks	10,638,169	–	–	10,638,169
Construction in progress	16,915	7,425	(24,340)	–
Total capital assets, not being depreciated	12,240,502	167,285	(24,340)	12,383,447
Capital assets being depreciated:				
Buildings and improvements	1,944,682	40,852	(24,457)	1,961,077
Vehicles	2,027,453	289,273	(952,478)	1,364,248
Furniture, fixtures and equipment	1,476,120	63,026	(356,054)	1,183,092
Total capital assets, being depreciated	5,448,255	393,151	(1,332,989)	4,508,417
Less accumulated depreciation:				
Buildings and improvements	(664,648)	(66,260)	11,263	(719,645)
Vehicles	(1,713,622)	(140,343)	899,951	(954,014)
Furniture, fixtures and equipment	(1,219,794)	(74,056)	349,995	(943,855)
Total accumulated depreciation	(3,598,064)	(280,659)	1,261,209	(2,617,514)
Total capital assets, being depreciated, net	1,850,191	112,492	(71,780)	1,890,903
Governmental activities capital assets, net	$ 14,090,693	$ 279,777	($ 96,120)	$ 14,274,350
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 374,238	$ 10,353	($ 1,200)	$ 383,391
Construction in progress	1,186,162	384,629	(1,232,853)	337,938
Total capital assets, not being depreciated	1,560,400	394,982	(1,234,053)	721,329
Capital assets being depreciated:				
Utility plant	38,164,036	1,279,562	(1,662,457)	37,781,141
Buildings	446,875	26,000	(374,137)	98,738
Furniture and equipment	3,622,870	164,258	(572,316)	3,214,812
Vehicles	535,120	52,691	(39,504)	548,307
Land improvements	22,166	20,553	(2,861)	39,858
Total capital assets being depreciated	42,791,067	1,543,064	(2,651,275)	41,682,856
Less accumulated depreciation:				
Utility plant	(19,307,016)	(840,406)	165,294	(19,982,128)
Buildings	(123,888)	(762)	57,843	(66,807)
Furniture and equipment	(2,627,995)	(155,832)	201,707	(2,582,120)
Vehicles	(463,009)	(44,029)	34,544	(472,494)
Land improvements	(2,921)	(2,163)	–	(5,084)
Total accumulated depreciation	(22,524,829)	(1,043,192)	459,388	(23,108,633)
Total capital assets, being depreciated, net	20,266,238	499,872	(2,191,887)	18,574,223
Business-type activities capital assets, net	$ 21,826,638	$ 894,854	($ 3,425,940)	$ 19,295,552

NOTE 5. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	$ 63,054
Public safety	162,853
Public works	53,644
Community and cultural	1,108
Total depreciation expense - governmental activities	$ 280,659
Business-type activities:	
Water and wastewater	$ 1,043,192
Fiber Optic	–
Total depreciation expense - business-type activities	$ 1,043,192

NOTE 6. LONG-TERM LIABILITIES

Revenue bonds and other directly related long-term liabilities, which are intended to be paid from proprietary funds, are included in the accounts of such funds. All other long-term indebtedness is accounted for in the Governmental column of the Government-wide Statement of Net Position.

Changes in long-term liabilities for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due in One Year
Governmental activities:					
Bonds payable	$ 1,550,000	$ –	($ 245,000)	$ 1,305,000	$ 250,000
Less: unamortized discount	(17,022)	–	1,710	(15,312)	–
Bonds payable, net	1,532,978	–	(243,290)	1,289,688	250,000
Notes payable	3,320,670	–	(184,244)	3,136,426	3,136,426
Total governmental activities	$ 4,853,648	$ –	($ 427,534)	$ 4,426,114	$ 3,386,426

NOTE 6. LONG-TERM LIABILITIES (Continued)

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due in One Year
Business-type activities:					
Revenue bonds	$ 4,310,000	$ –	($ 290,000)	$ 4,020,000	$ 300,000
Unamortized discounts, premiums, net	76,874	–	(3,504)	73,370	–
Bonds payable, net	4,386,874	–	(293,504)	4,093,370	300,000
Notes payable	286,765	–	(142,525)	144,240	144,240
Total business-type activities	$ 4,673,639	$ –	($ 436,029)	$ 4,237,610	$ 444,240
Total governmental and business-type activities	$ 9,527,287	$ –	($ 863,563)	$ 8,663,724	$ 3,830,666

Governmental activities:

The City enters into general obligation bonds, lease purchase agreements and notes payable to finance the acquisition and construction of various public projects. These long-term liabilities pledge the full faith and credit of the City.

Governmental activities long-term debt of the City consisted of the following at June 30, 2016:

General Obligation Bonds:

$2,695,000 City of Franklin, Kentucky General Obligation Public Project Refunding and Improvement Bonds, Series 2009, dated October 13, 2009; fully registered bonds in the denomination of $5,000 or any integral multiple thereof; maturing on October 1 in annual installments of $160,000 to $365,000 through 2024; interest at 2% to 4% payable semi-annually on April 1 and October 1; issued to refund five general obligation lease purchase agreements and one general obligation note payable (outstanding principal balances totaling $1,505,311) and to finance the costs of the acquisition of five police cruisers and a portion of the construction and installation costs of a City fiber optic loop project; secured by the full faith, credit and taxing power of the City.	$ 1,305,000

NOTE 6. LONG-TERM LIABILITIES (Continued)

Notes payable:

$3,572,008 Franklin Bank & Trust Company General Obligation Refunding Note, Series 2013, dated December 20, 2013; interest at 2.25% payable quarterly beginning March 20, 2014; the final payment of the entire unpaid outstanding principle balance plus accrued interest will be due December 20, 2016; issued to refund the outstanding principal plus interest of the City of Franklin General Obligation Note, Series 2010 in the original principal amount of $4,000,000, dated June 30, 2010 ("Refunded Note"); secured by the full faith, credit and taxing power of the City, assignment to Franklin Bank & Trust Company of all of City's right, title and interest in and to (i) the Interlocal Agreement Regarding Industrial Development, dated March 8, 2010, by and among the County of Simpson, Kentucky, the City and the Franklin-Simpson Industrial Authority and (ii) the Assignment of Leases and Rents, dated March 31, 2010 from the Franklin-Simpson Industrial Authority to the City.	$ 3,136,426

Business-type activities:

Notes payable:

Water and Wastewater Fund:

$2,572,240 Kentucky Infrastructure Authority assistance agreement note, dated July 1, 1996; principal and interest at 1.2% payable semi-annually on June 1 and December 1 through June, 2017; proceeds used to finance upgrades to wastewater treatment plant.	$ 144,240

Revenue bonds

Revenue bonds are comprised of various issues for the purpose of acquiring, constructing, equipping, renovating, expanding and refurbishing additions and improvements to the City's system. The City pledges income derived from the acquired or constructed assets to pay debt service.

NOTE 6. LONG-TERM LIABILITIES (Continued)

Water and Wastewater Fund:

Revenue bonds outstanding at June 30, 2016 were as follows:

	Interest Rates	Final Maturity Date	Principal at June 30, 2016
Revenue bonds, Series 2009 (A)	2.00 - 4.375%	December 1, 2024	$ 730,000
Revenue bonds, Series 2012 (B)	2.00 - 3.75%	December 1, 2033	3,290,000
			4,020,000
Unamortized discounts, premiums, net			73,370
Total revenue bonds payable - business-type activities			$ 4,093,370

(A) $1,545,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009, dated October 13, 2009; fully registered bonds in the denomination of $5,000 or any integral multiple thereof; maturing on December 1 in annual installments of $125,000 to $160,000 through 2024; interest payable semi-annually on June 1 and December 1; issued to currently refund certain outstanding lease purchase obligations and finance the construction of improvements to City's water and sewer system; secured by water and sewer system revenues.

(B) $3,860,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding Bonds, Series 2012, dated July 24, 2012; fully registered bonds in the denomination of $5,000 or any integral multiple thereof; maturing on December 1 in annual installments of $135,000 to $230,000 through 2033; interest payable semi-annually on June 1 and December 1; issued to currently refund the City's outstanding Water and Sewer Revenue Bonds, Series 2004; secured by water and sewer system revenues.

NOTE 6. LONG-TERM LIABILITIES (Continued)

Annual Debt Service Requirements

The annual requirements to amortize long-term debt outstanding as of June 30, 2016 are as follows:

Year Ending	Governmental Activities		Business-Type Activities		Government-Wide	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 3,386,426	$ 78,878	$ 444,240	$ 120,555	$ 3,830,666	$ 199,433
2018	260,000	33,870	300,000	111,387	560,000	145,257
2019	270,000	25,245	315,000	102,949	585,000	128,194
2020	80,000	19,040	200,000	96,119	280,000	115,159
2021	80,000	16,080	200,000	90,919	280,000	106,999
2022 - 2026	365,000	29,900	1,040,000	362,920	1,405,000	392,820
2027 - 2031	–	–	990,000	209,978	990,000	209,978
2032 - 2036	–	–	675,000	38,344	675,000	38,344
	$ 4,441,426	$ 203,013	$ 4,164,240	$ 1,133,171	$ 8,605,666	$ 1,336,184

Industrial Development Project Financing

On April 1, 2010, the City entered into a $4,000,000 General Obligation Note to fund the construction by the Franklin-Simpson Industrial Authority ("Industrial Authority") of an addition to an existing manufacturing facility to be leased to World Color (USA), LLC ("World Color"). On December 20, 2013, the City entered into a $3,572,008 General Obligation Refunding Note with Franklin Bank & Trust Company, to pay off the outstanding principal balance of its JP Morgan Chase Bank General Obligation Refunding Note, Series 2010, dated June 30, 2010. The Refunding Note was issued by the City to reduce future note debt service requirements due to a lower fixed interest rate on Refunding Note.

On March 8, 2010, the City, County of Simpson, Kentucky ("County"), and Industrial Authority entered into an Interlocal Agreement Regarding Industrial Development ("Interlocal Agreement") relating to the World Color industrial development project. Pursuant to Interlocal Agreement, the City and County agreed to pledge, annually, all amounts necessary for project construction and annual debt service requirements. The Industrial Authority, owner of project real property, entered into a lease agreement with World Color for lease of project real property.

NOTE 6. LONG-TERM LIABILITIES (Continued)

Total project costs were approximately $4,000,000 and the Authority delivered a certificate of occupancy issued by the Public Protection Cabinet, Department of Housing, Buildings and Construction to Quad/Graphics, Inc. on December 3, 2010. World Color USA, LLC, a subsidiary of World Color Press, Inc., was acquired by Quad/Graphics, Inc. on July 2, 2010.

On December 3, 2010, the City ("holder") and Authority ("maker") entered into a Promissory Note in the principal amount of $4,000,000 (see Note 3). As of June 30, 2016, the City has recorded a note receivable from the Authority and unearned revenues of $3,548,353 in the General Fund.

The following is a schedule, by year, of future note payments to be received from the Authority pursuant to promissory note repayment terms:

Year Ending June 30	Principal	Interest	Total
2017	$ 132,382	$ 267,617	$ 399,999
2018	143,299	256,700	399,999
2019	155,115	244,884	399,999
2020	167,907	232,092	399,999
2021	181,752	218,247	399,999
2022-2026	1,159,874	840,121	1,999,995
2027-2031	1,485,727	280,937	1,766,664
	$ 3,426,056	$ 2,340,598	$ 5,766,654

NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2016 are as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	$ 34,333	$ 50,993
Special Revenue Funds:		
Economic Development Revolving Loan Fund	50,993	–
Community Development Fund	–	32,206
Stormwater Fund	604	82
Total governmental funds	85,930	83,281
Proprietary Funds:		
Water and Wastewater Fund	5,350	2,649
Sanitation Fund	–	5,350
	5,350	7,999
Total proprietary funds	$ 91,280	$ 91,280

These balances resulted 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.

NOTE 8. INTERFUND TRANSFERS

Interfund transfers for the year ending June 30, 2016 are summarized as follows:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	$ 2,500,000	$ 282,996
Special Revenue Fund		
Greenlawn-Shady Rest Cemetery Fund	186,000	–
Stormwater Fund	99.996	–
Permanent Fund		
Greenlawn-Shady Rest Cemetery Perpetual Fund	–	3,000
Total governmental funds	2,785,996	285,996
Proprietary Funds:		
Fiber Optic Fund	–	2,500,000
	$ 2,785,996	$ 2,785,996

NOTE 8. INTERFUND TRANSFERS (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9. RETIREMENT PLAN

County Employees Retirement System

Plan Description

The County Employees Retirement System (CERS) is a cost sharing multiple-employer defined benefit pension plan created by the Kentucky General Assembly, pursuant to the provisions of Kentucky Revised Statute (KRS) 78.520. CERS is administered by the Board of Trustees of Kentucky Retirement Systems (KRS) and covers substantially all regular full-time City employees (members) employed in nonhazardous and hazardous duty positions. The KRS issues a publicly available annual report that includes financial statements and required supplementary information for CERS. That report may be obtained at https://kyret.ky.gov.

Benefits Provided

CERS provides for retirement, health insurance, disability and death benefits to plan members. Members are vested in the plan after five years' service credit. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments (COLAs) are provided at the discretion of the State Legislature. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (i) the system is over 100% funded or (ii) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. For retirement purposes, employees are grouped into three tiers based on hire date. Tier 1 includes plan members whose participation began before September 1, 2008, Tier 2 includes plan members whose participation began on or after September 1, 2008 but before January 1, 2014, and Tier 3 includes plan members whose participation began on or after January 1, 2014.

NOTE 9. RETIREMENT PLAN (Continued)

Tier 1 non-hazardous members are eligible to retire with an unreduced retirement benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a benefit formula calculation based on final compensation times benefit factor times years of service. Tier 1 final compensation is the average of the five highest years' earnings, benefit factor is 2.20% for members participating prior to August 1, 2004 and 2.00 % for members participating on or after August 1, 2004 and before September 1, 2008. Reduced benefits for early retirement are available at age 55 with five years of service credit or at any age with 25 years of service credit. Tier 2 non-hazardous members are eligible to retire with an unreduced retirement benefit at age 65 with five years' service credit or at age 57 based on the Rule of 87 - sum of service years plus age equal 87. Final compensation for Tier 2 benefit formula calculation is the average of the last complete five years' earnings and benefit factor is an increasing percent based on service at retirement plus 2.00% for each year of service over 30. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 non-hazardous members are eligible to retire with an unreduced retirement benefit at age 65 with five years' service credit or at age 57 based on the Rule of 87. Tier 3 members are not eligi00ble for reduced retirement benefits. Tier 3 is a hybrid cash balance plan. When a member is eligible to retire, the benefit is calculated based on the member's accumulated account balance. A member earns service credit for each month contributing to the plan. Upon retirement, the hypothetical account, which includes member contributions, employer contributions and interest credits can be withdrawn in a lump sum or annuitized into a single life annuity option.

Tier 1 hazardous members are eligible to retire with an unreduced retirement benefit at age 55 with five years of service credit or after 20 years of service credit regardless of age. Benefits are determined by above benefit formula. Calculation is based on average of the three highest years' earnings (final compensation), a 2.50% benefit factor and years of service. Reduced benefits for early retirement are available at age 50 with 15 years of service credit. Tier 2 hazardous members are eligible to retire at any age with 25 years of service or at age 60 with 5 years of service credit. Benefit formula calculation is based on average of the three highest complete years' earnings, an increasing percent benefit factor based on service at retirement, and years of service. Reduced benefits for early retirement are available at age 50 with 15 years of service. Tier 3 hazardous members are also eligible to retire at any age with 25 years of service or at age 60 with 5 years of service. Tier 3 members are not eligible for reduced retirement benefits.

NOTE 9. RETIREMENT PLAN (Continued)

Death benefits are provided for both death after retirement and death prior to retirement. Members receiving a monthly benefit based on at least four years of creditable service are eligible for a $5,000 death benefit. Beneficiaries of deceased members are eligible for a monthly benefit if the member was (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

Members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004, but before January 1, 2014, may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of a % of final rate of pay (20% nonhazardous, 25% hazardous) or the amount calculated under the benefit formula based upon actual service. Members participating on or after January 1, 2014, may retire on account of disability provided the member has at least 60 months of service credit. The hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn as a lump sum or an annuity equal to the larger of a % of the member's monthly final rate of pay (20% nonhazardous, 25% hazardous) or the annuitized hypothetical account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

Contributions

Employee contribution rates are set by statutes governing the KRS and may only be changed by the Kentucky General Assembly. Participating employers are required to contribute at an actuarially determined rate. Per KRS Section 61.565(3), normal contribution and the actuarially accrued liability contribution rates shall be determined by the Board of Trustees on the basis of the annual actuarial valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial

NOTE 9. RETIREMENT PLAN (Continued)

valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The normal contribution rate (the percent computed of employee creditable compensation) shall be determined by the entry age normal cost funding method. The actuarially accrued liability shall be determined by actuarial method consistent with the methods prescribed for determining the normal contribution rate. The actuarially accrued liability contribution shall be computed by amortizing the total unfunded actuarially accrued liability over a period of 30 years using the level-percentage-of-payroll amortization method. Administrative costs of CERS are financed through employer contributions and investment earnings.

Plan members participating in CERS on or before August 31, 2008 (Tier 1), with nonhazardous and hazardous duty positions, were required to contribute 5% and 8%, respectively, of their annual creditable compensation. For plan members who began participating on or after September 1, 2008 but before January 1, 2014 (Tier 2), contribution rates are 6% (nonhazardous) and 9% (hazardous) of annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (Kentucky Administrative Regulation 105 KAR 1:420E). Plan members participating on, or after January 1, 2014 (Tier 3), were required to contribute to the hybrid cash balance plan. Plan members and employers contribute a set percentage of creditable compensation into the member's account. Members contribute 5% (nonhazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. Employers contribute 4% (nonhazardous) and 7.5% (hazardous) of creditable compensation into member's hypothetical account.

For the year ended June 30, 2016, the City contributed 17.06% (nonhazardous - 12.42% pension; 4.64% insurance) and 32.95% (hazardous – 20.26% pension; 12.69% insurance) of each employee's creditable compensation to CERS, in accordance with its actuarially determined contribution rate. The City's employer's contributions to CERS for pension benefits for the year ended June 30, 2016 were $452,495.
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NOTE 9. RETIREMENT PLAN (Continued)

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

At June 30, 2016, the City reported a liability of $6,708,131 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's proportion was .114971 percent.

For the year ended June 30, 2016, the City recognized pension expense of $680,486. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 52,538	$ –
Difference between expected and actual experience	93,690	–
Change of assumptions	635,631	–
Change in proportion and differences between employer contributions and proportionate share of contributions	4,797	43,561
Contributions subsequent to the measurement date of June 30, 2015	452,495	–
Total	$ 1,239,151	$ 43,561

The amount shown above for "contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

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

Year Ended June 30:	
2017	$ 216,930
2018	216,930
2019	134,287
2020	174,948
	$ 743,095

NOTE 9. RETIREMENT PLAN (Continued)

Actuarial assumptions. The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.0 percent average, including inflation.
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation.

The rates of mortality used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality tables used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (see chart below). These were combined to produce the long-term expected

NOTE 9. RETIREMENT PLAN (Continued)

rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Combined Equity	5.40%	44%
Combined Fixed Income	1.50%	19%
Real Return (Diversified Inflation Strategies)	3.50%	10%
Real Estate	4.50%	5%
Absolute Return (Diversified Hedge Funds)	4.25%	10%
Private Equity	8.50%	10%
Cash Equivalent	-0.25%	2%
Total		100%

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50 percent based on a blending of the factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 9. RETIREMENT PLAN (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City calculated using the discount rate of 7.50 percent, as well as the net pension liability if calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City of Franklin's net pension liability			
Hazardous	$ 3,622,003	$ 2,829,622	$ 2,173,106
Nonhazardous	4,951,407	3,878,509	2,959,680
Total	$ 8,573,410	$ 6,708,131	$ 5,132,786

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description and Contribution Information

In addition to the pension benefits described above in Note 9, the City maintains an informal retirement plan authorized by the Mayor/Commission. The City does not issue a separate, publicly available OPEB financial report. City employees who retired prior to May 1, 1988, plus employees/spouses who retired after May 1, 1988 but who elected not to participate in the CERS plan (above), are paid a $100 per month retirement benefit. Twenty retired City employees are currently covered under the plan. Retirement benefits are financed on a pay as you go basis. Payments under the plan totaled $23,329 for the year ended June 30, 2016.

In addition to providing retirement benefits, the City also provides certain health care and life insurance benefits for these retired employees and their spouses. The cost of the retiree health care and life insurance benefits is borne 100% by the City and is financed on a pay as you go basis. For the year ended June 30, 2016, payments under the plan totaled $86,745.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	$ 123,582
Interest on net OPEB obligation	—
Adjustment to annual required contribution	30,979
Annual OPEB cost (expense)	154,561
Contributions made	(122,323)
Increase (decrease) in net OPEB obligation	32,238
Net OPEB obligation—beginning of year	85,603
Net OPEB obligation—end of year	$ 117,841

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2016, 2015 and 2014 were as follows:

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$144,346	84.74%	$ 117,841
2015	$123,582	113.14%	$ 85,603
2014	$151,095	75.2%	$ 101,839

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Funded Status and Funding Progress

As of June 30, 2016, the actuarial accrued liability for benefits was $1,243,606, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of 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 funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

The following simplifying assumptions were made:

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Society of Actuaries long-term healthcare trends analysis model. A rate of 7 percent initially, reduced to an ultimate rate of 3.8 percent after 19 years, was used.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Health insurance premiums - 2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4 percent was used. In addition, a simplified version of the unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized over retiree life expectancy not to exceed thirty years. The remaining amortization period at June 30, 2016 was thirty years.

NOTE 11. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or $18,000 for 2016, whichever is less. During the fiscal year ending June 30, 2016, contributions made on behalf of employees totaled $62,088.

NOTE 12. SOLID WASTE COLLECTION FRANCHISE AGREEMENTS

Commercial and Residential

On September 30, 2013, the City entered into an exclusive commercial and residential franchise agreement with Scott Waste Services, LLC (franchisee), for the collection of residential and commercial solid waste and wastewater treatment plant waste in the City. Pursuant to franchise agreement for residential services, the City shall withhold 10% of the monthly gross receipts (franchise fee) received by the City from utility bill payments attributable to operations conducted by franchisee. In addition, City shall withhold 3% of the monthly gross receipts as a collection fee for its billing and collection services provided. For commercial services, the franchisee shall bill all

NOTE 12. SOLID WASTE COLLECTION FRANCHISE AGREEMENTS (Continued)

commercial and industrial customers and pay to the City a fee of 10% of collected gross receipts for commercial and industrial services. The franchise agreement is for a five year period beginning October 1, 2013 and ending September 30, 2018. The City reserves the right to conduct a mid-term review in March, 2016 and this agreement may be renewed for up to three additional five year terms, upon mutual agreement of both parties.

Industrial

In September, 2013, the City entered into non-exclusive industrial franchise agreements with franchisees for the collection of industrial solid waste in the City and/or industrial parks located therein. The industrial franchisee must remit to the City monthly 10% of the gross receipts received attributable to its operations in the industrial franchise area. The franchise agreements are for a five year period beginning October 1, 2013 and ending September 30, 2018 and are renewable for three equal terms at the City's discretion.

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION

On June 21, 2012, the City and Simpson County Fiscal Court ("County") entered into an Interlocal Agreement for fire protection and related emergency services. The County presently furnishes basic fire protection services within its boundaries and the City desires to contract for essential fire fighting, protection and emergency services for the City.

At onset of Interlocal Agreement, the City and County fire departments merged into the Franklin-Simpson Fire Rescue operated, managed and administered by the County, with the Simpson County Fire Department Chief being the chief officer of the merged department.

Fire Station and Equipment

The County shall have full use of fire station owned by City and shall maintain the station and grounds. The City shall retain ownership of the fire station and shall provide for major capital repairs of station required during the term of the agreement including extensions.

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

Personnel

Staffing of Franklin-Simpson Fire Rescue will be determined by the Fire Chief, in consultation with the County Judge Executive and the Mayor and City Manager, subject to approval of the Simpson County Fiscal Court.

Financial Contributions

City contributions to the County to the cost and expense of Franklin-Simpson Fire Rescue shall be at amounts per City's adopted budget payable monthly, however, not less than $250,000 annually, without the prior written agreement of the parties. City contributions shall be increased or decreased annually, based upon change in consumer price index or cost of living increases set by Governor's Office of Local Development or comparable governmental office, effective July 1st of year increase or decrease is adopted by applicable state office, or the percentage increase in Simpson County's fire department budget, whichever is lower.

Financial contributions to the County for implementation of federal, state or local mandatory regulations shall be determined by negotiation. City shall furnish, without charge, quantities of water and use of fire hydrants as County may require or be able to use in its fire fighting operations within the City or County. City shall provide insurance coverage for the fire station facility, however, vehicles owned or operated by County located within the station, shall be insured by the County.

Term

The term of the agreement is for ten years, unless extended by mutual agreement or terminated. The agreement shall be renewed for one additional ten year term unless, not less than twelve months prior to the expiration of this agreement, either party shall provide written notice to the other of its intent to terminate. The agreement may be terminated by either party by written notice at least one year prior to intended termination.

NOTE 14. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City maintains outside insurance coverage (either commercial or through a pooled insurance program) covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims did not exceed this commercial coverage in the past three fiscal years.

NOTE 15. CONTINGENCIES

The City has been named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City that resolution of these matters will not have a material adverse effect on the City's financial position. Accordingly, no provision for any liability resulting from such litigation has been made in the accompanying financial statements.

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2016 may be impaired. In the opinion of the City, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

In June, 2015, the City Commission voted by resolution to sell and transfer all of the tangible and intangible assets of its fiber optic network to the Franklin Electric Plant Board (Board) for $2,500,000. The Board assumed day-to-day operations of the fiber optic network on July 1, 2015. The City also is a guarantor of the Board’s $650,000 Franklin Bank & Trust commercial revolving draw promissory note, dated May 14, 2015, issued to facilitate the transfer of the fiber optic network from the City to the Board. The Board’s note payable has a note maturity date of May 14, 2020 and the City’s guaranty remains in effect until the Board’s Franklin Bank & Trust debt is paid in full.

NOTE 16. CONDUIT DEBT OBLIGATIONS

The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2016, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of $51,787,290.

NOTE 17. CHANGE IN ACCOUNTING PRINCIPLE - IMPLEMENTATION OF GASB 68

Effective July 1, 2014, the City was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 replaced the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pensions benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the City, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Beginning of year net position was adjusted to reflect the retrospective application. The adjustment resulted in a $4,141,806 restatement of beginning net position for governmental activities and $1,183,194 for business-type activities in fiscal year 2015.

In fiscal year 2016, the City determined deferred outflows of resources at June 30, 2015, for contributions subsequent to the measurement date, included contributions for the employee health insurance fund, in error. As a result, a prior period adjustment in fiscal year 2016 resulted in a $180,854 restatement of beginning net position for governmental activities and $42,197 for business-type activities.

NOTE 18. RECENT PRONOUNCEMENTS

In February, 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. This statement establishes standards for valuation techniques and establishes a hierarchy of inputs to valuation techniques used to measure fair value. This statement also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

Statement adoption did not impact the City's financial position.

In June, 2015, the GASB issued Statement No. 75, *Accounting and Reporting for Postemployment Other Than Pensions*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. This statement establishes new accounting and financial reporting requirements for OPEB plans provided to employees of state and local governments. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions required to project benefit payments, discount projected benefit payments to actuarial present value, and attribute present value to periods of employee service. Note disclosure and required supplementary information requirements of defined benefit OPEB also are addressed.

The City is currently evaluating the impact that will result from adopting GASB No. 75 and is currently unable to disclose the impact of the adoption of these standards upon the financial position and results of operations.

In August, 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement's provisions are effective for fiscal years beginning after December 15, 2015. The statement requires disclosure of tax abatement information regarding a government's tax abatement agreements and agreements entered into by other governments that reduce the reporting government's tax revenues. New disclosure information to be disclosed about the agreements include brief description information, the gross dollar amount of taxes abated during the period and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The City is currently evaluating the impact of GASB No. 77 and believes no impact to the financial position of the City will result from its adoption.

NOTE 19. SUBSEQUENT EVENTS

On November 30, 2016, the City, as lessee, entered into a lease agreement with the Kentucky Bond Corporation, lessor, for the purpose of financing various improvements to the City's water and sewer system. The financing agreement amount of $1,190,000 is payable in monthly lease rental payments beginning January 1, 2017 through January 1, 2037. The lease contains an optional prepayment price. The financing agreement does not constitute a general obligation of the City but grants to lessor a security interest in project personal property.

In April, 2010, the City entered into a $4,000,000 General Obligation Note to fund the construction by the Franklin-Simpson Industrial Authority of an addition to an existing manufacturing facility to be leased to World Color (USA), LLC ("Company"). See Note 6 - Industrial Development Project Financing. In December, 2016, the Company exercised its option to purchase the real property. The purchase price totaled $3,374,105 and the City's note receivable from the Industrial Authority and Franklin Bank & Trust Company General Obligation Refunding Note, Series 2013, dated December 20, 2013, were paid off.

REQUIRED SUPPLEMENTARY INFORMATION
(Other than Management's Discussion and Analysis)

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 895,818	$ 921,924	$ 992,101	$ 70,177
Occupational taxes	1,980,000	2,095,209	2,182,981	87,772
Insurance premium taxes	1,437,500	1,437,344	1,518,542	81,198
Business license taxes	616,000	704,236	745,088	40,852
Franchise taxes	93,000	99,000	86,834	(12,166)
Intergovernmental	179,502	179,625	182,718	3,093
Interfund charges	903,446	903,446	903,446	—
Fines and forfeitures	55,500	79,400	79,683	283
Miscellaneous	478,006	548,566	566,009	17,443
Total revenues	6,638,772	6,968,750	7,257,402	288,652
Expenditures				
General government:				
Legislative:				
Personal services	118,994	121,552	123,778	(2,226)
Contractual services	21,630	9,186	9,717	(531)
Materials and supplies	850	1,129	1,166	(37)
Other	17,000	13,894	17,547	(3,653)
Total legislative	158,474	145,761	152,208	(6,447)
Administrative:				
Personal services	481,715	507,082	502,436	4,646
Contractual services	63,702	56,307	68,276	(11,969)
Materials and supplies	7,850	6,143	6,494	(351)
Other	7,250	8,657	11,061	(2,404)
Total administrative	560,517	578,189	588,267	(10,078)
Finance and accounting:				
Personal services	563,234	509,400	506,059	3,341
Contractual services	147,985	144,186	135,681	8,505
Materials and supplies	56,400	53,900	48,850	5,050
Other	12,850	11,250	10,156	1,094
Total finance and accounting	780,469	718,736	700,746	17,990
Risk management:				
Personal services	201,862	196,646	175,327	21,319
Contractual services	17,000	18,500	36,724	(18,224)
Materials and supplies	7,000	5,500	4,481	1,019
Other	44,959	48,100	35,280	12,820
Total risk management	270,821	268,746	251,812	16,934
Total general government	1,770,281	1,711,432	1,693,033	18,399

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Public safety:				
Police department:				
Administration:				
Personal services	$ 244,979	$ 239,001	$ 237,963	$ 1,038
Contractual services	17,831	4,306	2,462	1,844
Materials and supplies	11,660	4,038	2,344	1,694
Other	4,000	3,725	3,407	318
Total administration	278,470	251,070	246,176	4,894
Patrol:				
Personal services	1,547,172	1,537,863	1,488,078	49,785
Contractual services	54,221	53,547	53,191	356
Materials and supplies	75,750	62,849	59,190	3,659
Other	7,800	11,075	8,400	2,675
Total patrol	1,684,943	1,665,334	1,608,859	56,475
Non-sworn personnel:				
Personal services	69,402	68,763	67,671	1,092
Contractual services	38,330	45,680	47,768	(2,088)
Materials and supplies	7,000	14,264	13,346	918
Other	–	400	911	(511)
Total non-sworn personnel	114,732	129,107	129,696	(589)
Total police department	2,078,145	2,045,511	1,984,731	60,780
Fire department:				
Inspection and administration:				
Contractual services	1,375	1,375	1,107	268
Firefighting:				
Contractual services	260,127	260,127	260,126	1
Total fire department	261,502	261,502	261,233	269
Total public safety	2,339,647	2,307,013	2,245,964	61,049

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Public services:				
Public works:				
Personal services	$ 540,450	$ 520,736	$ 537,374	($ 16,638)
Contractual services	167,189	171,321	161,214	10,107
Materials and supplies	102,528	102,927	87,420	15,507
Other	6,050	2,167	1,505	662
Total public works	816,217	797,151	787,513	9,638
Code enforcement:				
Personal services	90,411	81,179	81,314	(135)
Contractual services	6,087	5,960	3,674	2,286
Materials and supplies	4,550	2,824	1,581	1,243
Other	1,450	3,754	3,242	512
Total code enforcement	102,498	93,717	89,811	3,906
Total public services	918,715	890,868	877,324	13,544
Community services:				
Economic development	198,947	256,594	225,867	30,727
Parks and recreation	195,000	220,000	202,759	17,241
Total community services	393,947	476,594	428,626	47,968
Capital outlay:				
Vehicles	109,007	292,673	264,173	28,500
Equipment	125,937	46,702	39,786	6,916
Land and improvements	–	165,000	159,860	5,140
Buildings	22,000	65,906	40,852	25,054
Reserve for capital improvement	20,000	–	–	–
Total capital outlay	276,944	570,281	504,671	65,610
Debt service:				
Principal	422,917	422,917	429,244	(6,327)
Interest	129,028	129,028	122,701	6,327
Total debt service	551,945	551,945	551,945	–
Total expenditures	6,251,479	6,508,133	6,301,563	206,570

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures	$ 387,293	$ 460,617	$ 955,839	$ 495,222
Other financing sources (uses):				
Transfers in	–	–	2,500,000	2,500,000
Transfers out	(283,000)	(283,000)	(282,996)	4
Sale of capital assets	4,000	32,749	31,501	(1,248)
Total other financing sources (uses)	(279,000)	(250,251)	2,248,505	2,498,756
Net change in fund balance	108,293	210,366	3,204,344	2,993,978
Fund balances, beginning of year	2,832,948	2,832,948	2,832,948	–
Fund balances, end of year	$ 2,941,241	$ 3,043,314	$ 6,037,292	$ 2,993,978

CITY OF FRANKLIN, KENTUCKY

Infrastructure Condition and Maintenance Data
June 30, 2016

Modified Approach to Infrastructure

The following schedules are presented by the City as supplementary information on infrastructure assets using the modified approach:

		Square Feet of Road Area					
		2016		2014		2013	
	OCI Condition Rating	Square Feet	%	Square Feet	%	Square Feet	%
Acceptable	75 - 100	3,765,426	79.31	3,596,060	71.05	3,456,830	68.74
Marginally deficient	50 - 74	982,154	20.69	1,234,920	24.40	1,270,488	25.27
Moderately deficient	25 - 49	–	–	230,046	4.55	268,508	5.34
Severely deficient	0 - 24	–	–	–	.–	32,445	.65
Total		4,747,580	100.00	5,061,026	100.00	5,028,271	100.00

	Comparison of Estimated-to-Actual Maintenance/Preservation				
	2016	2015	2014	2013	2012
Original estimate	$ 272,226	$ 243,770	$ 188,190	$ 126,344	$ 164,260
Actual	$ 250,387	$ 222,785	$ 162,560	$ 120,453	$ 225,025

The condition of the City's roads is determined using its Road Management and Inspection Program (RMIP). The road condition is rated from 1 to 100 (OCI), with 100 being new or recently paved.

It is the City's policy to assess the condition of the roads at least every three years for cracks, potholes, misalignment, drainage condition and number of specific safety hazards.

The City has not changed the measurement scale used to assess and report the condition of its roads for the past 10 years.

The City's goal is to have all roads at 90 - 100 OCI rating.

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF FUNDING PROGRESS - OPEB
June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Unit Credit Cost (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
6/30/2011	$ –	$ 1,595,663	$ 1,595,663	0.0%	N/A	N/A
6/30/2012	$ –	$ 1,455,926	$ 1,455,926	0.0%	N/A	N/A
6/30/2013	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2014	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2015	–	$ 1,243,606	$ 1,243,606	0.0%	N/A	N/A
6/30/2016	N/A	N/A	N/A	N/A	N/A	N/A

N/A - Actuarial valuation not performed.

Information for prior years is not available as the City's first actuarial valuation was for the year ended June 30, 2011.

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
June 30, 2016

Fiscal Year Ended June 30	Employer Contributions	Annual Required Contribution	Percentage Contributed
2011	$ 148,623	$ 158,818	93.58%
2012	128,804	151,095	85.25%
2013	119,202	151,095	78.89%
2014	113,635	151,095	75.21%
2015	139,818	123,582	113.14%
2016	122,323	123,582	98.98%

Information for prior years is not available as the City's first actuarial valuation was performed for the year ended June 30, 2011.

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY COUNTY EMPLOYEES RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

Last Ten Fiscal Years

	2016	2015
Total net pension liability for County Employees Retirement Systems	$ 5,834,631,445	$ 4,446,199,755
City's proportion of the net pension liability	.1150%	.1166%
City's proportionate share of the net pension liability	$ 6,708,131	$ 5,186,001
City's covered-employee payroll	$ 3,205,636	$ 3,162,531
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	209.26%	163.98%
Plan fiduciary net position as a percentage of the total pension liability	59.35%	65.96%

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as they become available.

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF CITY CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY
Last Ten Fiscal Years

	2016	2015
Actuarially determined contribution	$ 452,495	$ 450,450
Contributions in relation to the actuarially determined contribution	452,495	450,450
Contribution deficiency (excess)	$ –	$ –
City's covered-employee payroll	$ 3,205,636	$ 3,162,531
Contributions as a percentage of covered-employee payroll	14.12%	14.24%

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as they become available.

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are restricted to expenditures for particular purposes.

Greenlawn-Shady Rest Cemetery Fund - This fund is used to account for the activities of the Greenlawn-Shady Rest Cemetery. The cemetery is operated by the City with input from an advisory board.

Community Development Fund - This fund is used to account for the federal community development block grant program and state economic development grant programs restricted for various governmental housing and community development and economic development projects.

Municipal Aid Fund - This fund is used to account for the City's share of liquid fuel tax receipts, mineral and coal severance tax receipts and special municipal road aid bond receipts restricted for public works eligible costs.

Economic Development Revolving Loan Fund - This fund is used to account for economic development incentive loans to local industrial tenants. Loan repayments are restricted to future economic development activities.

Stormwater Fund - This fund is used to account for revenues received to develop and maintain the City’s stormwater management system.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Francis Harris Cemetery Perpetual Care Fund - This fund is used to account for monies held in trust from a memorial from Francis Harris to provide for the future care and maintenance of the Greenlawn Shady Rest Cemetery.

Greenlawn - Shady Rest Cemetery Perpetual Care Fund - This fund is used to account for monies set aside to provide for the future care and maintenance of the Greenlawn Shady Rest Cemetery.

CITY OF FRANKLIN, KENTUCKY

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016

	Special Revenue					
	Cemetery	Community Development	Municipal Aid	Economic Development	Stormwater	Total
ASSETS						
Cash and cash equivalents	$ 34,484	$ —	$ 171,051	$ —	$ 127,819	$ 333,354
Certificates of deposit	—	—	—	—	—	—
Receivables (net of allowance for uncollectibles):						
Accounts	2,450	—	—	—	23,007	25,457
Intergovernmental	—	—	19,162	—	—	19,162
Due from other funds	—	—	—	50,993	604	51,597
Prepaid items	970	—	—	—	1,119	2,089
Restricted assets:						
Cash and cash equivalents	—	71,000	—	—	—	71,000
Total assets	$ 37,904	$ 71,000	$ 190,213	$ 50,993	$ 152,549	$ 502,659
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 15	$ —	$ 147,381	$ —	$ 13,975	$ 161,371
Due to other funds	—	32,206	—	—	82	32,288
Accrued expenses	—	—	—	—	8,162	8,162
Total liabilities	15	32,206	147,381	—	22,219	201,821
Fund balances:						
Nonspendable:						
Prepaid items	970	—	—	—	1,119	2,089
Perpetual care	—	—	—	—	—	—
Assigned to:						
Other purposes	36,919	38,794	42,832	50,993	129,211	298,749
Total fund balances	37,889	38,794	42,832	50,993	130,330	300,838
Total liabilities and fund balances	$ 37,904	$ 71,000	$ 190,213	$ 50,993	$ 152,549	$ 502,659

Permanent Funds	
Cemetery Perpetual	Total Nonmajor Governmental Funds
$ 70,160	$ 403,514
439,221	439,221
–	25,457
–	19,162
–	51,597
–	2,089
–	71,000
$ 509,381	$ 1,012,040
$ –	$ 161,371
–	32,288
–	8,162
–	201,821
–	2,089
509,381	509,381
–	298,749
509,381	810,219
$ 509,381	$ 1,012,040

CITY OF FRANKLIN, KENTUCKY

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
June 30, 2016

	Francis Harris Cemetery Perpetual	Greenlawn-Shady Rest Cemetery Perpetual	Total Nonmajor Permanent Funds
ASSETS			
Cash and cash equivalents	$ 1,202	$ 68,958	$ 70,160
Certificates of deposit	50,000	389,221	439,221
Total assets	$ 51,202	$ 458,179	$ 509,381
FUND BALANCES			
Nonspendable:			
Cemetery maintenance	$ 51,202	$ –	$ 51,202
Perpetual care	–	458,179	458,179
Total fund balances	$ 51,202	$ 458,179	$ 509,381

CITY OF FRANKLIN, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS Year Ended June 30, 2016

	Special Revenue					
	Cemetery	Community Development	Municipal Aid	Economic Development	Stormwater	Total
Revenues						
Intergovernmental	$ —	$ —	$ 172,871	$ —	$ —	$ 172,871
Charges for sales and services	93,500	—	—	—	224,042	317,542
Contributions	—	—	—	—	—	—
Investment income	29	—	194	—	—	223
Miscellaneous	625	—	—	—	—	625
Total revenues	94,154	—	173,065	—	224,042	491,261
Expenditures						
Current:						
Public works	—	—	269,537	—	193,709	463,246
Community services	247,478	—	—	—	—	247,478
Capital outlay	—	—	31,425	—	—	31,425
Total expenditures	247,478	—	300,962	—	193,709	742,149
Excess (deficiency) of revenues over (under) expenditures	(153,324)	—	(127,897)	—	30,333	(250,888)
Other financing sources (uses):						
Transfers in	186,000	—	—	—	99,996	285,996
Transfers out	—	—	—	—	—	—
Total other financing sources (uses)	186,000	—	—	—	99,996	285,996
Net change in fund balances	32,676	—	(127,897)	—	130,329	35,108
Fund balances, beginning of year	5,213	38,794	170,729	50,993	—	265,729
Fund balances, end of year	$ 37,889	$ 38,794	$ 42,832	$ 50,993	$ 130,329	$ 300,837

Permanent Funds	
Cemetery Perpetual	Total Nonmajor Governmental Funds
$ –	$ 172,871
–	317,542
10,100	10,100
2,391	2,614
–	625
12,491	503,752
–	463,246
25	247,503
–	31,425
25	742,174
12,466	(238,422)
–	285,996
(3,000)	(3,000)
(3,000)	282,996
9,466	44,574
499,915	765,644
$ 509,381	$ 810,218

CITY OF FRANKLIN, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR PERMANENT FUNDS Year Ended June 30, 2016

	Francis Harris Cemetery Perpetual	Greenlawn-Shady Rest Cemetery Perpetual	Total Nonmajor Permanent Funds
Revenues			
Investment income	$ 563	$ 1,828	$ 2,391
Contributions	–	10,100	10,100
Total revenues	563	11,928	12,491
Expenditures			
Current:			
Community services	25	–	25
Excess of revenues over expenditures	538	11,928	12,466
Other financing uses			
Transfers out	–	(3,000)	(3,000)
Net change in fund balance	538	8,928	9,466
Fund balance, beginning of year	50,664	449,251	499,915
Fund balance, end of year	$ 51,202	$ 458,179	$ 509,381

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Greenlawn - Shady Rest Cemetery Special Revenue Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Charges for sales and services	$ 68,500	$ 76,500	$ 93,500	$ 17,000
Investment income	63	63	29	(34)
Miscellaneous	100	650	625	(25)
Total revenues	68,663	77,213	94,154	16,941
Expenditures				
Current:				
Community services:				
Personal services	7,008	8,797	8,299	498
Contractual services	182,890	183,561	182,081	1,480
Materials and supplies	1,300	2,468	1,227	1,241
Administrative overhead	44,846	44,846	44,846	–
Other	6,939	8,843	11,025	(2,182)
Total community services	242,983	248,515	247,478	1,037
Deficiency of revenues under expenditures	(174,320)	(171,302)	(153,324)	17,978
Other financing sources:				
Transfers in	186,000	186,000	186,000	–
Net change in fund balance	11,680	14,698	32,676	17,978
Fund balance, beginning of year	5,213	5,213	5,213	–
Fund balance, end of year	$ 16,893	$ 19,911	$ 37,889	$ 17,978

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Municipal Aid Special Revenue Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental:				
Liquid fuel tax	$ 163,166	$ 163,166	$ 161,980	($ 1,186)
Mineral and coal severance tax	7,300	10,426	10,891	465
Investment income	250	250	194	(56)
Total revenues	170,716	173,842	173,065	(777)
Expenditures				
Current:				
Public works	206,000	285,000	269,537	15,463
Capital outlay	38,200	31,425	31,425	–
Total expenditures	244,200	316,425	300,962	15,463
Excess (deficiency) of revenues over (under) expenditures	(73,484)	(142,583)	(127,897)	14,686
Fund balance, beginning of year	170,729	170,729	170,729	–
Fund balance, end of year	$ 97,245	$ 28,146	$ 42,832	$ 14,686

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Stormwater Special Revenue Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Charges for sales and services	$ 219,000	$ 219,000	$ 217,226	($ 1,774)
Fines and forfeitures	–	7,480	6,816	(664)
Total revenues	219,000	226,480	224,042	(2,438)
Expenditures				
Current:				
Public works:				
Personal services	116,779	118,778	122,793	(4,015)
Contractual services	31,973	45,944	30,026	15,918
Materials and supplies	66,650	66,953	40,549	26,404
Other	4,050	4,050	341	3,709
Total public works	219,452	235,725	193,709	42,016
Capital outlay	38,000	–	–	–
Total expenditures	257,452	235,725	193,709	42,016
Excess (deficiency) of revenues over (under) expenditures	(38,452)	(9,245)	30,333	39,578
Other financing sources:				
Transfers in	100,000	100,000	99,996	(4)
Net change in fund balance	61,548	90,755	130,329	39,574
Fund balance, beginning of year	–	–	–	–
Fund balance, end of year	$ 61,548	$ 90,755	$ 130,329	$ 39,574

PROPRIETARY FUNDS

Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City's management is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the City's management has decided that periodic determination of net income is appropriate for accountability purposes.

Water and Wastewater Fund - This fund is used to account for the activities of the Water and Wastewater operations.

Sanitation Fund - This fund is used to account for the activities of the City's sanitation and landfill operations.

Fiber Optic Fund - This fund is used to account for the activities of the City's fiber optic operations.

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for sales and services:				
Water division	$ 2,471,116	$ 2,570,784	$ 2,671,701	$ 100,917
Wastewater division	2,107,223	2,159,531	2,267,169	107,638
Total operating revenues	4,578,339	4,730,315	4,938,870	208,555
Nonoperating revenues:				
Investment income	7,500	7,500	5,508	(1,992)
Sales of assets	–	2,115	(2,684)	(4,799)
Miscellaneous	8,900	185,331	113,044	(72,287)
Grant revenue	100,000	–	–	–
Bond proceeds	600,000	–	–	–
Total nonoperating revenues	716,400	194,946	115,868	(79,078)
Total revenues	5,294,739	4,925,261	5,054,738	129,477
Expenditures				
Water division:				
Production:				
Personal services	348,217	351,102	353,731	(2,629)
Contractual services	197,818	187,982	172,820	15,162
Materials and supplies	160,255	164,009	134,425	29,584
Other	71,626	72,054	69,779	2,275
Total water production	777,916	775,147	730,755	44,392
Distribution:				
Personal services	494,442	474,221	470,133	4,088
Contractual services	68,364	71,850	52,847	19,003
Materials and supplies	229,990	220,283	167,899	52,384
Other	17,369	17,080	17,585	(505)
Total water distribution	810,165	783,434	708,464	74,970

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Meter reading and maintenance:				
Personal services	$ 64,807	$ 64,791	$ 63,171	$ 1,620
Contractual services	11,445	13,927	9,834	4,093
Materials and supplies	194,500	186,071	182,632	3,439
Other	1,680	1,980	953	1,027
Total water meter reading and maintenance	272,432	266,769	256,590	10,179
Total water division	1,860,513	1,825,350	1,695,809	129,541
Wastewater division:				
Treatment:				
Personal services	336,720	297,867	302,787	(4,920)
Contractual services	314,368	328,048	317,247	10,801
Materials and supplies	89,530	90,924	76,227	14,697
Other	37,754	68,202	99,084	(30,882)
Total wastewater treatment	778,372	785,041	795,345	(10,304)
Collection and rehabilitation:				
Personal services	283,037	290,226	297,408	(7,182)
Contractual services	55,162	39,608	38,047	1,561
Materials and supplies	61,275	48,997	24,401	24,596
Other	37,384	3,863	3,300	563
Total wastewater collection and rehabilitation	436,858	382,694	363,156	19,538
Total wastewater division	1,215,230	1,167,735	1,158,501	9,234
Administrative overhead	554,100	554,100	554,100	–
Debt service:				
Principal	432,525	432,525	432,525	–
Interest	130,759	130,759	130,087	672
Administrative fees	503	503	502	1
Total debt service	563,787	563,787	563,114	673
Capital outlays	1,092,925	1,199,222	625,217	574,005
Total expenditures	5,286,555	5,310,194	4,596,741	713,453

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures	$ 8,184	($ 384,933)	$ 457,997	$ 842,930
Add:				
Principal payments			432,525	
Capital outlays, including capitalized labor and materials			700,232	
Less:				
Depreciation expense			(1,043,192)	
Amortization expense			(3,031)	
Change in net position			544,531	
Net position, beginning of year			17,756,722	
Prior period adjustment			(42,187)	
Net position, beginning of year, restated			17,714,535	
Net position, end of year			$ 18,259,066	

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Sanitation Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for services:				
Hand pick-up	$ 640,000	$ 656,549	$ 650,452	($ 6,097)
Collection fees	19,315	18,548	19,513	965
Fines and forfeitures	24,260	26,090	25,091	(999)
Franchise fee	165,000	174,989	180,145	5,156
Total operating revenues	848,575	876,176	875,201	(975)
Nonoperating revenues:				
Investment income	350	322	333	11
Total revenues	848,925	876,498	875,534	(964)
Expenditures				
Sanitation operations:				
Personal services	12,000	8,769	8,567	202
Contractual services	644,000	657,450	650,451	6,999
Administrative overhead	209,500	209,500	209,500	–
Total expenditures	865,500	875,719	868,518	7,201
Excess (deficiency) of revenues over (under) expenditures	($ 16,575)	$ 779	7,016	$ 6,237
Net position, beginning of year			(11,361)	
Net position, end of year			($ 4,345)	

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Fiber Optic Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Total revenues	$ –	$ –	$ –	$ –
Total expenditures	–	–	–	–
Excess (deficiency) of revenues over (under) expenditures	–	–	–	–
Other financial sources (uses):				
Gain on sale of assets	–	2,500,000	304,707	(2,195,293)
Transfers out	–	–	(2,500,000)	(2,500,000)
Total other financial sources (uses)	–	2,500,000	(2,195,293)	(4,695,293)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	$ –	$ 2,500,000	(2,195,293)	($ 4,695,293)
Add:				
Capital outlays			–	
Less:				
Depreciation expense			–	
Change in net position			(2,195,293)	
Net position, beginning of year			2,195,293	
Net position, end of year			$ –	

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor, Commissioners and City Manager
City of Franklin, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard*s, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Franklin, Kentucky (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2016-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Franklin, Kentucky's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bowling Green, Kentucky
February 9, 2017

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2016-1 Segregation of Duties

Criteria: The objectives of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded and financial statements are reliable. The segregation of accounting duties is an essential element of effective internal control, involving the separation of the custody of assets from the related recording of those transactions.

Condition: As is often the case with smaller governmental units, segregation of conflicting duties within the City's Finance department is difficult because of the limited number of personnel. Delegation of duties with a limited number of personnel cannot adequately provide the separation of custody of assets from the related recording and monitoring of transactions.

Effect: Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause: Duties in various transaction cycles are not adequately segregated.

Recommendation: While the City has implemented mitigating controls to compensate for some segregation of duties issues since the previous year, we encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the City's Finance department.

Views of Responsible Officials and Planned Corrective Actions: The City will continue to evaluate the cost vs. the benefit of hiring additional personnel and further implementing compensating controls to mitigate the risk that internal control objectives will not be achieved.