

CITY OF FRANKLIN, KENTUCKY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2018

CITY OF FRANKLIN, KENTUCKY

**ANNUAL FINANCIAL REPORT
Year Ended June 30, 2018**

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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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 18 to the financial statements, the City has implemented Governmental Accounting Standards Board (GASB) No. 75 during the year ended June 30, 2018. This standard requires measuring the other post-employment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to the plan, and OPEB expense and including information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position within the financial statements. The cumulative effect of applying GASB No. 75 is presented as a restatement of beginning net position.

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 - 25, General Fund budgetary comparison schedule on pages 78 - 81, infrastructure condition and maintenance data on page 82, and pension and OPEB schedules on pages 83 - 88 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 89 - 99 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 March 5, 2019, 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.


Bowling Green, Kentucky
March 5, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Franklin, Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

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, 2018. 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 \$36,135,979 and \$37,371,204 for the prior fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported ending net position of \$16,357,630 which includes unrestricted net position of \$607,985. Respectively for the prior fiscal year \$17,520,371 of net position and \$1,937,642 of unrestricted net position. The cause of this significant decline in government-wide unrestricted net position is primarily due to the implementation of GASB 75 – Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$7,027,077 with \$5,815,887 for the prior fiscal year.
- For the year ended June 30, 2018, total debt decreased by a net amount of \$607,514 during the year. For the prior fiscal year, total debt decreased by \$2,628,450 during the year due to principal reductions. The principal reduction in 2017 was due to the balloon payoff of a note payable issued on behalf of a local industry for economic development. This debt was passed through via a lease and the note and lease were called and paid off by the industry in 2017.
- The City had total revenues of \$14,845,177 for the year ended June 30, 2018 which includes: program revenues (charges for service) of \$7,926,796, operating grants and contributions of \$350,086, capital grants and contributions of \$82,937, and general revenues of \$6,485,389. The City had total expenses of \$13,514,929 for the year ended June 30, 2018. Comparatively, City had total revenues of \$15,753,293 for the year ended June 30, 2017 which includes: program revenues (charges for service) of \$7,645,719, operating grants and contributions of \$416,641, capital grants and contributions of \$1,705,657 and general revenues of \$5,985,276. The City had total expenses of \$12,317,040 for the year ended June 30, 2017.
- The City's total capital outlays were \$1,633,717 for the current fiscal year and \$3,371,299 for the prior fiscal year. For the Governmental Funds, capital outlays were \$406,958 for the current fiscal year and \$1,141,137 for the prior fiscal year. For the Proprietary Funds, capital outlays for the current fiscal year were \$1,226,759 and the prior fiscal year of \$2,230,162.

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 26 and 27 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 36 through 77 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 \$36,135,979 for the current fiscal year and \$37,371,204 at the close of the prior fiscal year. As noted above, the cause of this significant decline in net position is primarily due to the implementation of GASB 75 – Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions.

By far the largest portion of the City's net position (92%) 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.

| | 2018 Net Position | | |
|--|------------------------------------|--|----------------------|
| | Governmental Activities | Business- type Activities | Total |
| Current and other assets | \$ 10,063,108 | \$ 7,737,386 | \$ 17,800,494 |
| Capital assets | <u>15,064,182</u> | <u>20,230,025</u> | <u>35,294,207</u> |
| Total assets | <u>25,127,290</u> | <u>27,967,411</u> | <u>53,094,701</u> |
| Deferred amount on refunding bonds | — | 102,156 | 102,156 |
| Outflows for pensions | 2,541,893 | 756,078 | 3,297,971 |
| Outflows for OPEB | <u>961,500</u> | <u>270,712</u> | <u>1,232,212</u> |
| Total deferred outflows | <u>3,503,393</u> | <u>1,128,946</u> | <u>4,632,339</u> |
| Long-term liabilities outstanding | 783,110 | 5,176,067 | 5,959,177 |
| Net pension liability | 7,470,907 | 2,143,413 | 9,614,320 |
| OPEB liability | 2,839,426 | 1,003,350 | 3,842,776 |
| Other liabilities | <u>437,999</u> | <u>778,524</u> | <u>1,216,523</u> |
| Total liabilities | <u>11,531,442</u> | <u>9,101,354</u> | <u>20,632,796</u> |
| Inflows for pensions | 587,268 | 171,559 | 758,827 |
| Inflows for OPEB | <u>154,343</u> | <u>45,095</u> | <u>199,438</u> |
| Total deferred inflows | <u>741,611</u> | <u>216,654</u> | <u>958,265</u> |
| Net position | | | |
| Net investment in capital assets | 15,064,182 | 15,814,732 | 30,878,914 |
| Restricted | | | |
| Expendable - Highways & Streets | 138,221 | — | 138,221 |
| Expendable - Debt service & capital activity | — | 1,243,177 | 1,243,177 |
| Nonexpendable - Perpetual Care | 547,242 | — | 547,242 |
| Unrestricted | <u>607,985</u> | <u>2,720,440</u> | <u>3,328,425</u> |
| Total net position | <u>\$ 16,357,630</u> | <u>\$ 19,778,349</u> | <u>\$ 36,135,979</u> |

| | 2017 Net Position | | |
|--|------------------------------------|--|----------------------|
| | Governmental Activities | Business- type Activities | Total |
| Current and other assets | \$ 8,682,675 | \$ 6,987,061 | \$ 15,669,736 |
| Capital assets | <u>15,108,616</u> | <u>20,436,075</u> | <u>35,544,691</u> |
| Total assets | <u>23,791,291</u> | <u>27,423,136</u> | <u>51,214,427</u> |
| Deferred amount on refunding bonds | — | 108,691 | 108,691 |
| Outflows for pensions | <u>1,345,093</u> | <u>393,575</u> | <u>1,738,668</u> |
| Total deferred outflows | <u>1,345,093</u> | <u>502,266</u> | <u>1,847,359</u> |
| Long-term liabilities outstanding | 1,069,446 | 5,577,146 | 6,646,592 |
| Net CERS pension liability | 5,971,656 | 1,705,368 | 7,677,024 |
| Other liabilities | <u>544,349</u> | <u>783,152</u> | <u>1,327,501</u> |
| Total liabilities | <u>7,585,451</u> | <u>8,065,666</u> | <u>15,651,117</u> |
| Inflows for pensions | <u>30,562</u> | <u>8,903</u> | <u>39,465</u> |
| Total deferred inflows | <u>30,562</u> | <u>8,903</u> | <u>39,465</u> |
| Net position | | | |
| Net investment in capital assets | 14,805,945 | 15,663,596 | 30,469,541 |
| Restricted | | | |
| Expendable - Highways & Streets | 244,131 | — | 244,131 |
| Expendable - Debt service & capital activity | — | 1,227,224 | 1,227,224 |
| Nonexpendable - Perpetual Care | 532,653 | — | 532,653 |
| Unrestricted | <u>1,937,642</u> | <u>2,960,013</u> | <u>4,897,655</u> |
| Total net position | <u>\$ 17,520,371</u> | <u>\$ 19,850,833</u> | <u>\$ 37,371,204</u> |

The City's revenues are largely comprised of charges for services through utility revenue, occupational payroll fees and insurance fees.

| | 2018 | | |
|---|------------------------------------|-------------------------------------|----------------------|
| | Changes in Net Position | | |
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| Revenues | | | |
| Program revenues | | | |
| Charges for services | \$ 1,487,208 | \$ 6,439,557 | \$ 7,926,765 |
| Operating grants and contributions | 350,086 | — | 350,086 |
| Capital grants and contributions | — | 82,937 | 82,937 |
| General revenues | | | |
| Property taxes | 1,052,837 | — | 1,052,837 |
| Occupational fees | 2,520,376 | — | 2,520,376 |
| Insurance premium fees | 1,774,358 | — | 1,774,358 |
| Franchise fees | 114,684 | — | 114,684 |
| Business license fees | 849,980 | — | 849,980 |
| Interest income | 73,504 | 12,574 | 86,078 |
| Miscellaneous income | 77,864 | 25,286 | 103,150 |
| Gain on the sale of assets | (5,736) | (10,338) | (16,074) |
| Transfers | <u>77,226</u> | <u>(77,226)</u> | <u>—</u> |
| Total revenues and transfers | <u>8,372,387</u> | <u>6,472,790</u> | <u>14,845,177</u> |
| Expenses | | | |
| General government | 2,100,258 | — | 2,100,258 |
| Public safety | 3,213,545 | — | 3,213,545 |
| Public services | 1,432,850 | — | 1,432,850 |
| Community and cultural | 834,981 | — | 834,981 |
| Interest expense on long-term debt | 33,631 | 159,236 | 192,867 |
| Water and wastewater | — | 4,829,984 | 4,829,984 |
| Sanitation | <u>—</u> | <u>910,444</u> | <u>910,444</u> |
| Total expenses | <u>7,615,265</u> | <u>5,899,664</u> | <u>13,514,929</u> |
| Change in net position | <u>757,122</u> | <u>573,126</u> | <u>1,330,248</u> |
| Net position, beginning of year | 17,520,371 | 19,850,833 | 37,371,204 |
| Change in accounting principle – GASB 75 | <u>(1,919,863)</u> | <u>(645,610)</u> | <u>(2,565,473)</u> |
| Net position, beginning of year, restated | <u>15,600,508</u> | <u>19,205,223</u> | <u>34,805,731</u> |
| Net position, end of year | <u>\$ 16,357,630</u> | <u>\$ 19,778,349</u> | <u>\$ 36,135,979</u> |

| | 2017 | | |
|------------------------------------|------------------------------------|-------------------------------------|----------------------|
| | Changes in Net Position | | |
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| Revenues | | | |
| Program revenues | | | |
| Charges for services | \$ 1,482,857 | \$ 6,162,862 | \$ 7,645,719 |
| Operating grants and contributions | 416,641 | — | 416,641 |
| Capital grants and contributions | 593,157 | 1,112,500 | 1,705,657 |
| General revenues | | | |
| Property taxes | 975,159 | — | 975,159 |
| Occupational fees | 2,351,500 | — | 2,351,500 |
| Insurance premium fees | 1,641,950 | — | 1,641,950 |
| Franchise fees | 88,182 | — | 88,182 |
| Business license fees | 659,817 | — | 659,817 |
| Interest income | 47,766 | 6,665 | 54,431 |
| Miscellaneous income | 216,787 | 31,135 | 247,922 |
| Gain on the sale of assets | (20,080) | (13,605) | (33,685) |
| Transfers | <u>23,286</u> | <u>(23,286)</u> | <u>—</u> |
| Total revenues and transfers | <u>8,477,022</u> | <u>7,276,271</u> | <u>15,753,293</u> |
| Expenses | | | |
| General government | 1,932,189 | — | 1,932,189 |
| Public safety | 2,667,643 | — | 2,667,643 |
| Public services | 1,312,057 | — | 1,312,057 |
| Community and cultural | 650,244 | — | 650,244 |
| Interest expense on long-term debt | 74,748 | 196,648 | 271,396 |
| Water and wastewater | — | 4,585,991 | 4,585,991 |
| Sanitation | <u>—</u> | <u>897,520</u> | <u>897,520</u> |
| Total expenses | <u>6,636,881</u> | <u>5,680,159</u> | <u>12,317,040</u> |
| Change in net position | 1,840,141 | 1,596,112 | 3,436,253 |
| Net position, beginning of year | <u>15,680,230</u> | <u>18,254,721</u> | <u>33,934,951</u> |
| Net position, end of year | <u>\$ 17,520,371</u> | <u>\$ 19,850,833</u> | <u>\$ 37,371,204</u> |

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 \$8,496,725 compared to \$7,186,101 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 & Proprietary Fund Budgetary Highlights

Total general fund revenues for the year were within 9% of budget. As a point of reference, a 5% budget to actual variance is the overall goal. Therefore, a 9% variance isn't ideal and revenue projection strategies will be strengthened to, hopefully, ensure a tighter and more accurate budget to actual projection in future years. Budgeted expenses were slightly less than final budgetary estimates (by 3.7%), however, the variance was within an acceptable range.

Total proprietary fund revenues for the year were within acceptable parameters (2% of budget), in total, with final budgetary estimates while expenses were less than final budgetary estimates (by 4.1%). This relates primarily to the timing of capital project completions (FY2018 budgeted capital projects weren't completed until FY2019.)

Proprietary Funds

Operating revenues of the City's proprietary funds increased 4.5% from the prior year to \$6,439,557. The City approved a 5% Water & Sewer rate increase, effective January 1, 2018, due to the completion of a capital needs Utility Rates Study, discussed below under Economic Factors. The City also implemented a 2.30% cost of living increase in the Sanitation Fund, pursuant to the City's garbage hauler contract. Operating revenues from Water and Wastewater increased by 4.4% to \$5,486,085 while operating revenues from Sanitation services increased 4.9% to \$953,472. Operating expenses for Water & Wastewater increased by 5.3% to \$4,827,673 while operating expenses for Sanitation services increased by 1.4% to \$910,444. 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, 2018, the City's investment in capital assets net of related debt for its governmental and business-type activities was \$30,878,914 and \$30,469,541 as of June 30, 2017. 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 \$21,885 to acquire property on North 31W. The City purchased this property because it includes the primary source of the City's Stormwater runoff. Additionally, plans to develop the "Hoy Cave" walking trail on this property is underway and federal grant funding has been awarded. Development of this project should be underway in FY2020.
 - The City expended approximately \$22,300 in replacing HVAC units (each of which were older than 20 years) at City Hall and the Police Department. Additionally, \$18,000 is encumbered in FY2019 to replace the last HVAC unit at City Hall.
 - Electrical repairs were completed at the Franklin-Simpson Fire Department for \$7,500.
 - The City expended approximately \$7,500 in software and equipment in order to stream WBKO's local news programming.
 - The City, in partnership with Franklin Municipal Utilities, expended \$95,000 to implement a fully integrated financial software program. This investment has significantly improved operating efficiency within the Finance and Billing Departments and these costs are expected to be recouped within 3 years in labor savings.
 - The City expended approximately \$130,800 in capital needs for the Police Department. This included the purchase of 3 new radar units, 6 KYOPS approved/certified mobile dispatching tablets, the purchase and installation of a new, digitally compatible radio tower, two new, fully equipped, patrol units, and the purchase of 10 digitally enhanced mobile radio units.
 - The City purchased a new zero turn mower and a curb paint sprayer for the street department, for a total of \$14,500.
 - The City spent over \$78,000 in street paving and repairs.

- Franklin Municipal Utilities
 - Capital expenditures of \$552,000 for improvements and additions to the City's waste water system, specifically related to the following:
 - Sunset Circle Sewer Rehabilitation Project, Phase II, \$462,000
 - Sewer Line relocation due to the construction of a TVA substation, \$90,000
 - Capital Expenditures of \$39,500 for rehabilitation work on two sewer lift stations – Broadway and Macedonia Road
 - Capital Expenditures of \$107,300 for the Water Treatment Plant (WTP). This included the replacement of a service truck, replacement of a 20 year old HVAC unit, replacement of valves & actuators on one of the water filters, and the refurbishment of drag chains on both the WTP basins and the sludge collector basin.
 - Capital Expenditures of \$145,300 at the Wastewater Treatment Plant (WWTP). This included replacement of lights outside, around the sewer basins, the construction of a small pretreatment building, the purchase of two generators necessary to operate the plant continuously, significant repairs to the progressive cavity pump, and the replacement of an aged and dangerous electrical transformer responsible for all electrical inflow to the WWTP.
 - Capital Expenditures of \$250,000 within the Water Distribution Department. In FY2017 the City launched a partnership with the Electric Plant Board and their Automated Metering Infrastructure. \$65,000 in capital expenditures were spent to install the infrastructure required for this program. An additional \$185,000 was spent in replacing over 900 meters and ERTS. This was to update our metering infrastructure and ensure compliance with the AMI requirements. An ERT is an encoder receiver transmitter. This technology is used to transmit data from utility meters over a short range so a utility vehicle can collect meter data without a worker physically inspecting each meter. The meter replacement program is expected to be completed in FY2019.
 - Capital Expenditures of \$132,000 with the Wastewater Collections Department. This was to purchase a Transit Video Inspection Truck. Otherwise known as a sewer camera van, this van is equipped with a state-of-the-art camera system, which allows employees to freely zoom, pan and tilt within the City's sewer pipes, and focus on specific elements such as puncturing or sewer cracking. This will allow our sewer department to identify significant defects in our sewer infrastructure and effectively design plans to rehabilitate areas with significant deficiencies in the sewer system.

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

- General Fund
 - Capital Expenditures of \$19,500 to repave the parking lot at the Franklin-Simpson Fire Department.

- Purchase of cruisers/vehicles and related equipment for the Police Department and the Code Enforcement Department, \$158,500.
- Purchase of rifles, body armor, and new portable radios (compatible with upcoming communications technology, replacing soon to be incompatible portable radios) for the Police Department, \$77,570.
- Purchase of a Dump Truck by the City's Public Works Department, \$96,500.
- Investment in City Hall's Customer Service office renovation, office equipment, and city wide job costing software totaling (mid implementation as of June 30, 2018), \$75,000.
- Construction of a Pole Barn for storage of equipment and materials at the Public Works Department, \$46,000.
- The City accepted the following subdivision streets into its system as City infrastructure. The development costs of these streets were capitalized and also recognized as in-kind revenue in the current fiscal year. The impact on the City's net position is neutral.
 - Garvin Lane, Myra Lane, Reasonover Drive, Hunters Crossing, \$566,000
- Franklin Municipal Utilities
 - Capital expenditures of \$1,877,800 for improvements and additions to the City's waste water system, specifically related to the following:
 - 31W Sewer Line Replacement/Betterment from 31W Widening Projects, \$1,267,000. (The total cost of these projects were capitalized and also recognized as in-kind revenue, from the State of Kentucky, in the current fiscal year. The impact on the City's net position is neutral.)
 - Sunset Circle Sewer Rehabilitation Project, \$421,600
 - West Madison Sewer Line Extension, \$113,200
 - Macedonia Road Force Main replacement, \$41,000
 - Repair of manhole collapse on Colonial Drive, \$35,000
 - Capital expenditures of \$280,000 for equipment and vehicles for the City's water and wastewater system (Clean filter media and repair/overhaul of valves and actuators at the Water Treatment Plant, repair/overhaul to the wastewater treatment plant's screw pump, a service truck for water distribution, and new Flow Meters and an excavator for the collections department)

Long-term Debt

The City had \$5,427,760 in revenue bonds and capital lease obligations outstanding as of June 30, 2018, which is a decrease of \$607,514 from the previous year. The City made principal payments of \$605,000 during fiscal year 2018. In the previous year, the City had \$6,035,274 in revenue bonds and capital lease obligations outstanding as of June 30, 2017, which is a decrease of \$2,628,450 from the previous year. The City made principal payments of \$3,830,666 during fiscal year 2017 and issued a Water & Sewer Bond for \$1,190,000.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$9,737,014 at June 30, 2018, excluding capital assets and long-term debt. Included in this year's total change in fund balance is an increase of \$1,310,624 in the City's General Fund. For the previous year, the City's governmental funds reported a combined fund balance of \$8,255,929 at June 30, 2017, excluding capital assets and long-term debt. Included in last year's total change in fund balance was an increase of \$1,148,809 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, 2018.

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 the prior year Moody's Investors Service upgraded the City's General Obligation Rating to Aa3 from A3. Per Moody's Investors Service Credit Opinion:

The upgrade to Aa3 reflects a significantly improved risk profile following the sale of the City's Fiber Optic Enterprise (discussed below) and elimination of a bank note (paid off in the current year) secured by the City's full faith and credit pledge. The rating also considers the city's stable tax base that exhibits modest annual growth coupled with weak resident wealth levels, improved general fund reserves, and modest debt and pension burdens."

- In the current year Moody's Investors Service issued an Annual Issue Comment Report for both the City's General Fund and Franklin Municipal Utilities. Some of the comments were as follows:

- **General Fund**

The City of Franklin is located in and the county seat of Simpson County, located in southern Kentucky, approximately fifteen miles south of Bowling Green and five miles north of the Tennessee state line. The county has a population of 17,856 and a low population density of 76 people per square mile. The county's median family income is \$52,684 (4th quartile) and the August 2018 unemployment rate was 3.8% (3rd quartile) 2 . The largest industry sectors that drive the local economy are manufacturing, retail trade, and accommodation/ food services.

Credit Overview

Franklin's credit position is good, and its Aa3 rating matches the median rating of Aa3 for cities nationwide. The notable credit factors include a robust financial position, an extremely small debt burden, a mid-ranged pension liability, a modestly sized tax base, but a weak wealth and income profile.

Finances: *Franklin has a very healthy financial position, which is favorable in comparison to the assigned rating of Aa3. The city's fund balance as a percent of operating revenues (66.1%) far surpasses the US median, and grew significantly between 2013 and 2017. Additionally, cash balance as a percent of operating revenues (60.6%) is notably stronger than the US median.*

Debt and Pensions: *The debt burden of the city is extremely small and is quite favorable with respect to its Aa3 rating. Net direct debt to full value (0.1%) is materially below the US median, and fell from 2013 to 2017. That said, Franklin has a moderate pension liability and is slightly weak relative to the assigned rating of Aa3. Moody's-adjusted net pension liability to operating revenues (1.1x) favorably is slightly lower than the US median.*

Economy and Tax Base: *The economy and tax base of the city are solid. Yet, this factor is relatively unfavorable in comparison to its Aa3 rating position. Franklin's full value per capita (\$85,930) approximates the US median, and increased between 2013 and 2016. Moreover, total full value (\$748 million) is weaker than other cities nationwide. Lastly, median family income equals a mere 60.7% of the US level.*

Management and Governance: *Kentucky cities have an Institutional Framework score 3 of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property and occupational license taxes, the primary revenue sources, are highly predictable. Cities have*

moderate revenue-raising ability and can increase property taxes by 4% annually. Cities with populations of 15,000 and above also have a property tax cap of 15 mills. Cities with population of 1,000 or higher have the power to levy an occupational license tax. The tax rate is unlimited for cities with populations up to 300,000 and capped at 1.25% for larger cities. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Kentucky is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

Sector Trends - Kentucky Cities

Kentucky cities will continue to experience modest economic growth overall, supported by notable gains in manufacturing, healthcare, and professional and business services industries. Growth in real property values and employment is matching or outpacing the nation in metro areas. This will have a positive effect on occupational license taxes and property taxes, the two largest sources of income for cities. However, rural areas will continue to face challenges as mining jobs continue to decline, and the coal industry faces regulations and competition from domestic natural gas. Additionally, pension contribution rates are expected to increase over the near-term, which will not be a significant credit pressure.

o **Franklin Municipal Utilities**

Franklin Water & Sewer provides water and wastewater service to Simpson County, Kentucky. The county has a population of 17,856 and a low population density of 76 people per square mile. The county's median family income is \$52,684 (4th quartile) and the May 2018 unemployment rate was 3.7% (3rd quartile) 2 . The water system sources its water from the West Fork Drakes Creek and gets its supply of treated water from White House Utility District and City of Franklin. The treatment is done at its own facility. The wastewater system has its secondary treatment done in its own facility.

Credit Overview

The credit position for Franklin Water & Sewer is favorable. However, its A1 rating is slightly lower than the median rating of Aa3 for water and wastewater systems nationwide. Key credit factors include a negligible debt profile, ample liquidity, a strong debt service coverage, but a low income service area and a small system size.

***System Characteristics:** Franklin Water & Sewer has a weak system profile, which is unfavorable in comparison to the assigned rating of A1. Median family income equates to a mere 60.7% of the US level. Also, system size, measured as operating and maintenance expenses (\$3.4 million), is consistent with the US median.*

Financial Strength: *The financial position of Franklin Water & Sewer is extremely strong and is a notable strength relative to its A1 rating. Debt to operating revenues (0.78x) is excellent and lower than the US median, and it has fallen from 2013 to 2017. Also, days cash on hand (402 days) is strong and above other water and wastewater systems nationwide. Lastly, coverage of annual debt service by net revenues (3.1x) is excellent and greatly exceeds the US median.*

Legal Provisions: *Legal provisions, which typically include a rate covenant requiring a minimum of 1.0x coverage of debt service, are adequate for this sector.*

Sector Trends - Kentucky Water and Sewer

Water and sewer systems in Kentucky tend to be slightly older than average and need consistent maintenance, however financial metrics are generally on par with than US medians. Median debt service coverage of 2.0 times is on par with the nation and median liquidity is adequate but slightly below the nation at 235 days cash on hand. Median leverage is lower than the national median with debt to operating revenues of 1.6 times. Water in Kentucky is abundant, and few water utilities face supply constraints. Most utilities require local or state approval for rate increases.

- The City continues to operate within a time of change and anticipated growth. The City's Leaders continue to spend 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 and continues to be reviewed and modified as needs evolve and change. The City's elected body decided to implement these rate 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. The final rate change, per this Ordinance, was implemented January 1, 2019.

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

- In FY2017 the City completed a project related to the expansion of its existing sewer lines. This project is now 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.
- In FY2015 the City's Waste Water Treatment Department identified a lift station and sub-basin that needed significant rehabilitation work. The expectation was 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 in FY2017, for a total cost of \$400,040. Phase II was completed in the current year, for a total cost of \$462,000. Additionally, the City was awarded a Federal Grant, in the amount of \$97,000, to apply toward the cost of the Phase II project. City Leaders are currently analyzing several other basins and working towards a plan for the next sewer basin rehabilitation 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 1-3 years.

- The City's Water Distribution Department is working within its fifth 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. FY2019 proved to be a challenge, due to employee turnover. Therefore, water distribution personnel focused almost exclusively on its meter change out program, discussed below. The main line replacement program will be reimplemented in FY2020.

- The City partnered with the Franklin Electric Plant Board to utilize a new Automated Metering Infrastructure system. This system will allow City staff to reduce its Distribution personnel by one (through natural turnover.) This system will allow City staff to read meters and complete customer consumption analysis directly from the billing office. It also has leak and tamper indicators that can be investigated as needed. The launch of this system occurred in April 2018.
- In the current year the City worked within its second year of a mass Water Meter Replacement Program. Over 1800 meters are expected to be replaced by FY2019. Over 900 were replaced in the current year. Once this program is completed, a scheduled meter replacement program will be established and methodically completed on an annual basis.
- 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. In FY2019 the City began to reserve funds, \$300,000 in FY2019, for an annual maintenance and replacement initiative within the Wastewater Treatment Department.

Outside of the City's Water Utility Departments there are many other areas of growth and expansion 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:

- In an effort to ensure the preservation of our beautiful historic downtown, the City Commission adopted an ordinance in April 2018 that allows for the development of preservation standards and a preservation committee. The committee was formed and has worked tirelessly to develop Historic Overlay Standards which were designed to protect the historical integrity of Downtown Franklin. To-date, the committee has also reviewed 22 requests for improvements to structures in the Downtown Historic District.
- In FY2017, 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 its 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 cleanup efforts. To-date, 5 properties has been transferred under this program.

- 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, 2018, the City has accumulated a fund balance of \$262,000 within this program.

Industrial Expansion & Economic Development

- For the past several years, Franklin has enjoyed positive industrial growth and low unemployment. And - 2018 is no exception. Despite the tight labor market in south central Kentucky, our community has continued to see new industries and businesses locate in Franklin. Additionally, our community continues to see existing companies expand. During FY2018, the City contributed approximately \$427,000 to the Industrial Authority. Here is a summary of activity, related to the Franklin-Simpson Industrial Authority, and 2018's new and Expanding Industry:
 - In February Power Tec Solutions, a producer of power source devices and other power-related products started construction on a new two and a half million dollar headquarters and distribution operation in Franklin. The new headquarters will create some 20 new jobs for the community. Power Tec Solutions, which is located in the Wilkey North Industrial Park, purchased 17 acres of land in the park to build their new 30,000 square foot facility. The new building will house the company's administrative headquarters, a larger distribution warehouse, a product testing lab, and a product assembly area. The company's land purchase includes acreage for anticipated growth from new-market expansion and future manufacturing operations. Currently, Power Tec Solutions plans to introduce a new line of modular outdoor uninterruptable power supply products for fiber optic network terminals.
 - In 2018, GS Tape, a Memphis, Tennessee based company and part of the Great Southern Corporation located a manufacturing facility in Franklin. GS Tape acquired the assets of Kentucky Coating and Converting that was located at 2 Washington Way in Franklin. GS Tape is now manufacturing in the 50,000 square foot existing facility. The company will produce private label adhesive tape as well

as its own GS brand of products. The company will also provide coating and converting work for other tape companies, provide warehousing and fulfillment services, and operate a full scale contact packing business. GS Tape intends on having around 30 employees in the initial startup and hopes to expand that base as they continue to grow their business in Franklin. The Great Southern Corporation, owner of GS Tape is a 57 year old manufacturing, importing, and distributing company based in Memphis

- In May of 2018, Bluegrass Supply Chain Services, one of the largest logistical service and transportation management companies in Kentucky purchased the 105,000 square foot Spec Building in the Sanders Industrial Park. The primary client for the facility is New Mather Metals, a Franklin automotive manufacturer that is located across the street from the building. Established in 2002, Bluegrass Supply Chain Services is headquartered in Bowling Green. Serving primarily automotive and food manufacturing companies, Bluegrass provides value added warehousing, cross docking, economic fulfillment, light assembly, engineering, and quality support services over a four-state region. Bluegrass has a sister company, Bluegrass Dedicated, which operates a fleet of 70 tractor trailers that provide asset-based transportation services to customers throughout the country. Bluegrass Supply Chain Services provides quality support services in Kentucky, Tennessee, Alabama, and Indiana.
- Tractor Supply Company, a large employer in Simpson County and a major rural lifestyle retailer in the United States, announced earlier this year that they were creating 156 full-time jobs at its distribution facility in Franklin along with an eight and one half million dollar investment. As part of the investment, Tractor Supply will install new equipment to enhance the facility's distribution capabilities to support future sales growth. Company executives decided to add jobs and reinvest in the Franklin operation in order to accommodate rising demand at their stores throughout the country.
- In May of 2018 construction began on a 105,000 square foot Spec Building on a twenty acre site in the Henderson Industrial Park. This four million dollar facility is expected to be completed by the end of this year. It is being constructed by Stewart Richey Construction Company. Spec Buildings are extremely important to communities like Franklin. Currently Camping World, Holley Automotive, and Sumitomo initially located their companies in Spec Buildings. We are fortunate that local investors Kent Kelley and David Carver have once again invested in our community by building another new Spec Building in the Henderson Industrial Park. There has already been interested companies considering the facility even while it is being built
- In September of this year, the Goodnight Memorial Library began their \$6.1 million dollar renovation project in downtown Franklin. The project involves the complete renovation of the Goodnight Auditorium as well as adding a third floor for library space. The auditorium will feature new seats, a new ceiling and windows as well as a new stage. There will also be new green rooms and dressing rooms for those appearing on stage. After the renovations, the library space which is currently 6,000 square feet will grow to 11,000 square feet. The renovations are expected to be completed during a 15 month period. After completion, Franklin, Kentucky will truly have one of the best libraries of any community in the mid-South.

- Premium Services which was located on the Industrial Bypass in Franklin has moved into the former Industrial Automation facility located on Raines Drive in the Sanders Interstate Industrial Park on Highway 100. Premium Services, one of the largest sorting and reworking companies in this area, is expanding into a 23,000 square foot building off of Exit 6. The building will nearly double the size of floor space for the company. The move will also allow Premium Services to eventually add another 40 employees during 2018, bringing their total workforce to 100 employees.
- In early 2018, it was announced that Worldwide Technologies, a manufacturing company that has been in Franklin for the past ten years is expanding their facility and adding more jobs. The company which is located in the Wilkey North Industrial Park is doubling their manufacturing space by adding an additional 24,000 square feet to their building. When completed the facility will have a total of 51,000 square feet including office space. Worldwide Technologies will also be adding twenty new jobs as a result of the expansion bringing their total number to some 100 employees at the plant. The new manufacturing space will allow Worldwide Technologies to add more equipment at the Franklin facility. The equipment and space are needed to keep up with growing demands from the Worldwide Technologies customers. Worldwide Technologies is a premier machine shop that provides precision machining for their clients. It is becoming one of the largest service industries in south central Kentucky.
- In October of 2018, 130 acres in the southern portion of Simpson County was purchased by the XYZ CBD Corporation out of Houston, Texas. The site will be the future home of a CBD hemp oil extraction facility as well as a large scale plant growing area. The twenty million dollar manufacturing project will process hemp plants and develop a powder that will be used by various companies wanting to incorporate CBD oil into their product. The new company will create some 60 new jobs at their facility as well as providing a new product for farmers to grow in Simpson County. The process at the XYZ facility will include seeding and cloning, farming and harvesting, processing and testing, and finally packaging and shipping. At least a dozen technical and laboratory jobs will be created.
- In late October, Kentucky Downs, announced that they would be doubling the size of their main building housing its historical horseracing and simulcasting operation as well as constructing a state of the art equestrian complex. The additional space will be able to accommodate an additional 800 terminals, a full service steak house as well as a sports lounge. When completed, the expansion will bring Kentucky Down's investment in Kentucky to some \$141 million dollars since 2007. The company already employs 175 people. The new expansion could create as many as 100 new jobs making Kentucky Downs one of the top employers in Simpson County. Kentucky Downs is quickly becoming one of the top tourism destinations in our state.

The eleven projects just discussed above, that have taken place in Simpson County during 2018, represent an investment of approximately \$68 million dollars into the local economy and an eventual creation of 440 new jobs for our area.

- 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 FY2017, 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. In FY2018 the City contributed \$137,000 under this KBI Economic Development incentive.

- 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. The following housing related construction projects are either completed or underway:

 - Five subdivisions are under development, all of which will allow for approximately 450 homes to be constructed (the Retreat at Fox Chase Subdivision, Fox Chase Phase II Subdivision, Pleasant Valley Subdivision, the Willows Subdivision, Williamsburg Subdivision, and Windsor Park Subdivision.
 - One upscale apartment complex offering 125 units and many amenities, located just past Exit 6 off of I65 is undergoing an expansion of an additional 40 units.
 - One moderate apartment complex, offering 24 units, off of Witt Road, Franklin, KY is currently undergoing an expansion of additional units.

- In February of 2018 plans were announced for a major new subdivision on US Highway 31-W North adjacent to the Lewis Memorial Home property. Windsor Park Subdivision is currently being developed. The new subdivision which will be developed in phases and calls for approximately 110 lots for new homes in Franklin. This will make it one of the largest subdivisions in Franklin and will provide much needed housing and potential new workers for the growing industrial community in Franklin.
- 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 increasing slightly – from 3.4% in December 2017 to 3.5% in December 2018; however, this rate is still below the state rate of 3.8% and the national rate of 3.7%.

Communications Initiative:

Additionally, in 2018, the City launched a communications initiative. City Leaders have worked hard to identify ways to communicate City activities, and spending, with its constituents. As a result, in February 2018 and February 2019, over 6,000 copies of the first and second edition of the frankLINK Kentucky was mailed. This is a publication, put together by city staff, and is mailed out annually. The goal of the publication is to provide information and highlights of projects, work and information about where City tax dollars are spent. Copies of both publications are included with this report.

Additionally, in February 2018, the City began posting short information videos on its Facebook page, website and the city cable channel. The videos range in topics thought to be relevant to our citizens. The goal is to share information that citizens may not know and explain why certain things are done or needed with city government. The city also posts all City Commission meetings on Facebook, as well as the local channel.

Contacting the City's Financial Management

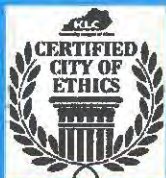
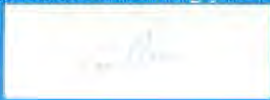
The financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 117 West Cedar Street,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



From the Mayor

Happy 2018!

A new year is time to reflect and set goals. I've been your Mayor for 7 years. I would like to reflect on some of the highlights of the last few years. In an effort to maintain a transparent government I want you to know where your local tax dollars are being spent. The staff of the City of Franklin works each day to make Franklin a better place to live, work and raise a family. On behalf of your City Commissioners, Jamie Powell, Larry Dixon, Mason Barnes and Wendell Stewart, I hope you have a prosperous and fulfilling year!



Certified City of Ethics

A City of Ethics was bestowed upon the City of Franklin by the Kentucky League of Cities in 2015. Franklin is one of eighteen cities across the Commonwealth, which has 410 cities, that has achieved this status. In order to obtain the certification, city officials, managers and department heads attended training to establish standards of conduct and provide clear guidance to help promote public confidence, enhance accountability, and to maintain a fair and effective administration. The City Commission adopted principles and procedures that offer guidance on ethical issues and a mechanism to resolve complaints at the local level.



RISING WATERS

In growing cities like Franklin, problems often arise from uncontrolled storm water runoff. Development and inadequate drainage systems compound problems associated with moderate to significant rainfall. Stormwater runoff from these rainfall events accumulate in

many areas of our city, causing nuisance flooding and possible threats to public health and safety. There is a total of 14.8 miles of underground structures and ditches that carry stormwater through our city. The majority of the system was put in place over 40 years ago, is made up of 10 different types of pipes and concrete structures, and is deteriorating. In 2015, the City Commission passed an ordinance allowing for a Stormwater Management Fee. This fee is charged to city water and sewer accounts and provides funding to repair and replace the aging drainage system. It also provides the funding for a Professional Engineer to review the stormwater retention plans for new developments, which ensures adequate stormwater controls are in place.



Stormwater System Collapse on Court Street in 2014



3 Major Failures from 2012 to 2015 costing \$164,899

75% of Main Stormwater System is 40+ years old

City Property Tax Rates

In 1980 the tax rate was 22.4 cents per \$100 of assessed value. In 2017 the tax rate was 12.3 cents per \$100 of assessed value.

Using 2016 data obtained from the Commonwealth of Kentucky's Office of Property Valuation, the City's Real and Personal Property Tax Rates are some of the lowest rates in the State of Kentucky. Even with a rate change in 2017 to 12.3 cents per \$100, the City maintains one of the lowest Municipal Property Tax Rates in the State - remaining within the bottom 15% of Municipal Taxing Jurisdictions (66th lowest property tax rate out of a total of 410 Cities in the state).

Tax Rate



ECONOMIC PARTNERSHIP

Over the last 7 years, under the leadership of the Franklin Simpson Industrial Authority, working with the City and the County, our community has seen:

21 new industries locate in our community
2,160 new jobs created

19 industries expand
\$428,000,000 invested



Employees work to repair a water main break.

Getting Water to You

80 miles of water lines carry water from the treatment plant to your tap. As with most infrastructure, time and environmental conditions take its toll on distribution lines. Freezing temperatures, ground movement, erosion and other factors can cause leaks and/or breaks. When lines are replaced or upgrades are made it increases the volume of water that can go through the line, allows for better fire protection and decreases the amount of leaks and water loss. Since 2012, 8.5 miles of water line has been replaced. Prior to the replacement of those lines, the city was losing approximately 46% of water produced due to deteriorated lines. The water loss is now at 29%. Plans are to continue to invest in this infrastructure.

Clean-Up

Each year City crews collect:

- an average of 1,813 cubic yards of brush
- an average of 966 cubic yards of leaves



Protecting our Community

1,915,220 pounds of material has been recycled since Scott Waste began the City Recycling Partnership in 2013. That's 30 football fields 3 feet deep of trash that has been kept out of landfills. The City recycling program began when several community members approached the City Commission with a concern and desire to have recycling in our community. The Commission made the decision to include recycling as part of the sanitation contract when it was up for renewal. Scott Waste currently picks up all trash and recycling in the City of Franklin. The recycling efforts have taken trash out of our landfills and put it back in to use. Thank you for placing cardboard, plastic and aluminum in the cart to be recycled and helping protect our earth!

To Swim or Not to Swim

To build or not to build? That was the topic of numerous conversations during 2017. "When I took office as Mayor, I began getting calls and requests from people that wanted a pool. For several years, I listened. Then I decided to explore the options." said Mayor Ronnie Clark. With private funding, a team was formed to put together a proposal. Clark said, "You've got to start somewhere, so we started with the very best facility because our community deserves the best." The proposal for a \$20 million aquatic center was presented to the public in March. In the months that followed several smaller versions of a facility were discussed, a survey was conducted by a professional firm and comments were received. Because of several unknowns with the city budget and state budget requirements, the commission decided the timing of the project was not good and made the decision not to move forward.

Property Re-Use

Putting vacant properties back in to productive use is the goal of the City Surplus Property Program. In 2016 a program was developed to aid in the redevelopment of vacant lots.

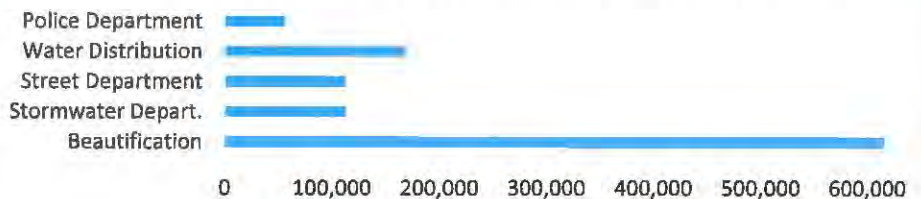


A need became apparent that the use of city resources could be reduced and a tax base reestablished if citizens could use the properties to construct a house for home ownership, development purposes, or as rental property. A program was developed, by city staff, to put these properties back in productive use. Essentially vacant, city owned lots are advertised, proposals are received, and properties are given to new owners at no cost. Since the program was approved by ordinance in September 2016, five properties have been awarded to citizens for development. "We hope to continue the program and see properties that once held a dilapidated, unsafe structure transformed into vibrant homes that families can enjoy", said Community Development Director Tammie Carey.

Working Together

Inmate labor is used to expand the city workforce with minimal financial investment. One employee oversees a crew of two to three inmates, saving the city an average of over \$1 million in labor each year. Jailer Eric Vaughn said, "The inmate work program benefits our community by providing consistent labor to accomplish tasks that make our community better. The program benefits the inmates by allowing them to work and develop skills."

Savings to City from Inmate Work Program



Aging Infrastructure

Each year the Mayor and Commissioners work together to identify needs in our city. They put together a budget and give the staff direction on where time and resources should be spent. Our aging infrastructure is something that we don't see and often take for granted until a water line break or sewage back-up occurs. However, this has been a focus of the current commission. They have given the repair and replacement of our infrastructure a priority and plan to continue that work. Some of the lines in the ground are close to 100 years old and are deteriorating. The Commission has also taken a proactive approach to the issue of water loss working with staff to identify issues with distribution lines and meters. Over \$3.6 million has been invested by the City in the replacement of aging infrastructure since 2010.



Water Treatment Plant Operator Lee Anglea performs one of 110 daily tests.

Safe and clean water is a passion at the Franklin Water Treatment Plant.



The plant has been recognized for its Area Wide Optimization Program (AWOP) for the last 15 years. The purpose of the program is to encourage drinking water plants and distributors to surpass state and federal goals and standards. The program focuses on improving the operation of existing facilities without making capital improvements. In particular, the program is focused on lowering turbidity in drinking water. Turbidity, or cloudiness, is a measurement of particles in water including soil, algae, bacteria, viruses and other substances.

In order to achieve Optimization the Franklin Plant does 39,696 tests each year. They also work with the distribution department to ensure the distribution system is flushed at least twice a year. There are 61 systems among the 149 public and private water treatment plants in the state that participated in the U.S. Environmental Protection Agency's Area-Wide Optimization Program.

We are proud that the Franklin staff has the desire to exceed the requirements of the Safe Drinking Water Act and go above and beyond what is required to give us the cleanest, safest drinking water possible.

K9 Aids Officers

"Shadow" became a part of the Franklin Police force in 2017. Funding for "Shadow" was made possible by donations and funds generated through the regulatory fee on alcohol sales. Police Chief Roger Solomon said, "The Police Department has needed a police canine for a long time and Shadow has already been very beneficial for us. Having a canine dog as part of our agency gives us an advantage when we need drug detection on a vehicle, house or on school grounds. She also can be utilized in tracking of suspects or missing children and adults. For example, she can search for weapons and other articles in the school system."

Police Become Accredited Agency

18 months of evaluation, 91 policies and procedure development proved worthy when a unanimous vote awarded the Franklin Police Department its first ever Kentucky Association Chiefs of Police Accreditation. "The accreditation means we have proven that we are following commonly accepted practices in law enforcement that meet a standard of excellence. It means that our agency has withstood a process involving outside assessors, evaluating our agency from top to bottom and inside out, to come out standing tall.

Cleaning Up our City

70 Dilapidated Structures have been removed in the city within the last 5 years. The City has removed them due to condemnation or by property owners after code violation action.

In an effort to enforce the Property Maintenance Code and ensure the value of properties within the city, the City Commission hired a full time Code Enforcement Officer in 2013. The Officer works daily to inspect properties and work with property owners to ensure compliance. During the summer months, a large amount of time is spent enforcing the tall grass and weeds ordinance. He also works to remove unlicensed, inoperative vehicles, remove rubbish and clutter from porches and yards and other property violations. Dilapidated and unsafe structures is another area of focus. Many may remember the old hospital property at the corner of Main and Madison that extended to College Street. Five properties, owned by different owners were all connected through a series of catwalks. The center structure was in a complete state of disrepair. The City began communication with the property owner, however, the owner failed to respond or make any needed repairs to the make the structure safe. A fire started in the center structure which caused damage to adjacent structures. The end result was all the structures being removed.

Until 2015, the old Wal-Mart building on North Main Street sat empty and abandoned. It had been vandalized and illegal entry was occurring on a regular basis. The Code Enforcement Officer began citing the owner for the dilapidated state and fines began to amass. The owners sold the building which now houses Stark Truss that employs 25 people.



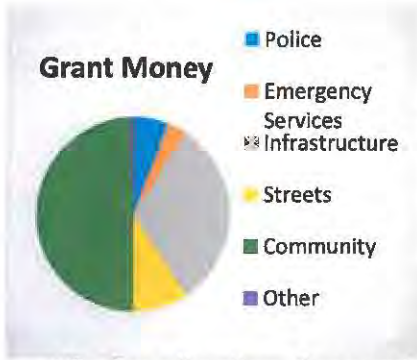
Best Tasting Water Awarded in Washington D.C.

Water Plant Superintendent Jerry Farmer and Operator Greg Duke stand in front of the nation's capital before the national contest.

Franklin has the Best Tasting Water in Kentucky, according to the Kentucky Rural Water Association. In 2016 the Franklin Municipal Water Plant won the prestigious award and was named the *Best Tasting Water in Kentucky*. The state win sent them to the national competition in Washington, D.C. in 2017 where they placed third. The judging at each event was done by blind taste test by a panel of five people that are not directly involved with the treatment of drinking water. Judging was based on clarity, bouquet and taste. "It was an honor to receive this award. It is rare that a surface water plant receives this distinction because ground water is filtered naturally and generally has a better taste. We work hard to clean the water that comes from Drakes Creek and make it safe for our community," said Water Treatment Plant Superintendent Jerry Farmer. Winning the taste tests validates the efforts of the water treatment operators to exceed government water quality regulations.

We strived, as an Agency, to achieve and maintain excellence and professionalism, and we succeeded," said Police Chief Roger Solomon.

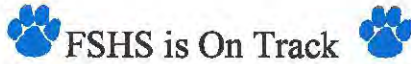
The eighteen month process was a collaborative team effort of everyone in the agency. The KACP accreditation is a high honor. The Commonwealth of Kentucky is renowned across the nation for its excellence in law enforcement and the Franklin Police Department now stands amongst the best.



Dollars & Sense

Developing and sticking to a budget can be a challenge. The City Commission works to develop and maintain a balanced budget. Each spring, the commission holds special sessions to discuss needs and projects with city departments and community leaders. The City operates on a fiscal year budget calendar but they review the budget and expenditures monthly, making revisions when necessary.

When local dollars can be leveraged with grant funds or allocations, the commission makes that a priority. Over the last seven years, over \$3 million in grant funds have been utilized on city projects. This funding ranges from small grants of \$2,000 to purchase Tasers for police officers to \$1,000,000 projects to construct a fiber optic system. City Manager Kenton Powell said, "Our Commission identifies a need and then our staff takes that need and researches possible funding mechanisms. They work on the project from conception to completion, no matter how big or small. Some projects take years to complete and boxes of paperwork will be done on projects. It's all done to make our community better and to stretch the tax dollars as far as possible."



A community partnership allows Franklin-Simpson High School students the opportunity to earn college credits for FREE! In 2013, the City saw the need to form a stronger partnership between the Southern Kentucky Community and Technical College (SKYCTC) and the community. A scholarship program was developed to give high school students the opportunity to take college courses and receive dual credit. Now there are, on average, 60 to 80 FSHS students that participate in the program each semester. "The program at SKYCTC gives students the confidence that they can do college," said City Manager Kenton Powell. Dr. James B. McCaslin, SKYCTC Vice President of Outreach and Community Development added, "It is a great community partnership that exposes young people to college life in a non-threatening environment." McCaslin also noted, "We are the only community in the Commonwealth that has a scholarship program like this. The scholarship is funded equally by the City of Franklin, Simpson County Fiscal Court, the Franklin-Simpson Industrial Authority, Franklin Bank & Trust Company, and Kentucky Downs. This level of commitment is an investment in our young people, as well as an investment in the future of our community. It is also an investment that SKYCTC matches two-to-one. The On Track Scholarship pays one-third of the students' tuition, and the College provides a scholarship of the remaining two-thirds."

High Speed Internet – Fiber Optic Project

Technology. A word that has become as much a part of our daily lives as a vehicle. Ten years ago, City leaders determined that if we were going to be competitive in attracting new businesses and industries to our community, we had to step up and ensure high speed, reliable internet service was available. The City took the lead on a \$2.18 million project to construct a 32 mile fiber optic backbone around the city and to each of the industrial parks.

A long, detailed grant process provided \$1,000,000 of funds for the project. The remaining funds were secured through a bond and the general fund.

In 2016, ownership of the fiber network was sold to the Franklin Electric Plant Board. EPB added staff and took the project to the next level. They now provide internet and phone service to residential customers as well as businesses and industries. EPB Business Development Manager Wayne Goodrum said, "We appreciate the City's vision and leadership in launching an all fiber network. EPB Fiber has now moved to the next phase by launching residential fiber service to provide our customers local, fast, reliable and affordable internet service."

Alcohol Sales Approved = Police Department Enhancements

Over \$1.37 million has been generated in revenue from the regulatory fee on package liquor sales since 2012. State law regulates how the City is permitted to spend these funds. These regulatory fees may be used for policing and regulation and administration of the sale of alcoholic beverages within the city. The City Commission has chosen to use the majority of the funds generated to enhance our police department. The department has:

- Purchased body cameras for all officers (Franklin was one of the first agencies in the region to implement body cams)
- Purchased tablets for in-car use by officers to do reports and acquire information.
- Purchased updated Tasers.
- Purchased rifles.
- Purchased new ballistic helmets for the officers.
- Purchased ballistic vests that are armored and have the ability to stop rifle rounds.
- Increased officer salaries, allowing Franklin to be competitive regionally with salaries.

Financial Report Card

The 2017 financial review brought good news to the City. Each year Moody's Investment Services conducts random, comprehensive financial reviews on municipal governments. After reviewing, Moody's gives a bond credit rating which represents the credit worthiness of government bonds. In 2017, after a rigorous review, Moody's upgraded the City's General Obligation Rating to an Aa3, which is a three notch increase from the previous rating of A3. This upgrade reflects a significantly improved

risk profile. The City's rating has not been this high in the past. City leadership has worked hard to make strategic funding decisions, all while putting in place an efficient annual operating budget.



City of Franklin
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frankLINK Kentucky

linking you to city government

Volume 2 2019



From the Mayor

I love my community! I truly do! I was born and raised in Simpson County and spent 40 years as a businessman in Franklin. My heart is here and I am very appreciative to have been elected as the Mayor of Franklin. Over the next four years, I would like to work with the county on projects that will benefit all the citizens of Franklin and Simpson County.



Training for Excellence City Manager Kenton Powell was awarded the Master of City Governance by the Kentucky League of Cities. Mayor Larry Dixon was awarded the Excellence in City Governance. Both are certifications achieved through a voluntary education program that requires at least 30 hours of training. Powell said, "There's always room for improvement but in order to improve we need to learn. Being a part of the KLC program has given me a better understanding of laws and requirements that govern our City. In turn, this aids in the decision making process as we continue to make improvements."



Franklin City Commission ~ Left to Right ~

Commissioner
Jamie Powell

Commissioner
Herbert Williams

Mayor Larry Dixon

Commissioner
Brownie Bennett

Commissioner &
Mayor Pro Tem
Wendell Stewart

January 1st was the start of the New Year and New Leadership within the City of Franklin. Larry Dixon took office as Mayor after having served as a City Commissioner for 8 years. Brownie Bennett and Herbert Williams took office as newly elected Commissioners. Jamie Powell and Wendell Stewart returned to their seats as City Commissioners. In Franklin, the Mayor serves a four year term and the commissioners serve a two year term.

Since the Mayor and Commissioners have taken office, they have been busy learning the duties and responsibilities of their office as well as learning the day-to-day operations of City Government. On Wednesday, January 16th officials toured city departments. They met with department heads and employees to learn about the services and tasks the departments perform. The week of January 21st, new commissioners Bennett and Williams attended the Kentucky League of Cities training for Newly Elected Officials. It was 2 ½ days packed full of information to help them better understand the role of the office they now hold. On Monday, January 28th the Commission met with department heads to review the budget and learn more about the financial status of the City. Commissioner Bennett said, "I have learned so much in the last few weeks. It has been a wonderful learning experience to meet the employees who are in charge of each department, and to see, first hand, how hard and efficiently they work to ensure our city is a safer, enjoyable and more economical place to live. In addition, attending the KLC training sessions and local budget reviews has helped me to understand how difficult the job of City Government will actually be. It has been mind boggling as there is a lot to learn! There are so many Laws, Statutes, and Policies that govern what we must or must not do, as we work on next year's budget and conduct the day to day business of the City of Franklin. However, I am up to the challenge!"

Keeping You Informed



February 2018 the City printed 6,000 copies and mailed the first edition of frankLINK Kentucky, a publication put together by city staff. The goal of the publication was to provide information and highlights of projects, work and information about where your tax dollars are spent. City staff plan to make this a yearly project.

In February of 2018, the City began posting short informational videos on its Facebook page, website and the city cable channel (channel 3 on Comcast). The videos range

in topics on what to do if you're pulled over by a police officer to the dangers of blowing your grass clippings in the street. The goal is to share information that you may not know and explain why certain things are done or needed within city government. The city also posts the City Commission meetings. These are public meetings and anyone is welcome to attend at any time. However, if you can't make it to a meeting you can stay informed by watching the meetings on Facebook, the website, or cable channel.



Franklin Municipal Utilities

Growing!

2018 proved to be a year of growth. Several industries expanded and new ones completed construction and began production. The construction of single family homes increased 57% over the previous year. New homes also means new infrastructure must be put in place. As a result of the new construction, developers installed 5,675 feet of sewer line and 14 manholes which is a \$445,700 infrastructure investment made in our community.



The Wastewater Collection department worked to improve infrastructure in 2018 by upgrading a lift station and 1,100 feet of 6" force main at a cost of \$253,300. They also installed 51 new sewer taps. It was a busy year!

Clean & Tasty

Each day, the Franklin Municipal Water Treatment Plant cleans and processes approximately 2,000,000 gallons of water.

Each day over 100 tests are performed to ensure the quality and safety of the drinking water in our City. Class IV Operator Johnnie Skipworth



performs a manganese test on a sample of water.

WASTE WATER Clean & Reuse

The Franklin Municipal Wastewater Treatment Plant treats 2,700,000 gallons of wastewater each day. Prior to discharging water into Drakes Creek, the Wastewater Treatment Plant removes more than 95% of contaminants. The discharge water from the wastewater plant is better quality than the water already in the creek.

Lighting the Way

After 31-W was widened it was apparent there was a need for lighting along the

corridor from highway 1008 going south to the Wal-Mart/Lowe's area. The City partnered with Warren Rural Electric Cooperative to install 20 new lights.



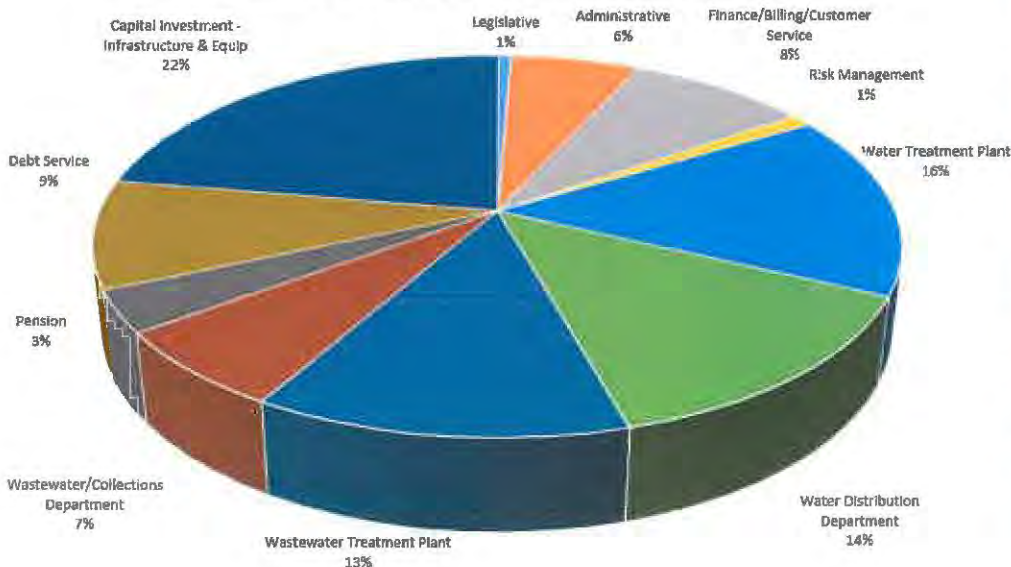
These lights will increase safety to motorists and pedestrians. City employees were able to install the concrete bases for the lights then WRECC employees came in to install the light and electrical components. This team effort saved thousands of dollars for the City.

There are 1,295 street lights in the City of Franklin. The installation, maintenance and electricity costs for these lights is paid through the City General Fund at a cost of \$123,000 per year.

City Budget

The City's budget journey is a lengthy and thorough process. The budget process begins in March and is ongoing until final adoption in June. The City follows a "bottom up" approach to budgeting. This means each employee and their supervisors have a say in building the budget for their department. This allows everyone to have a voice in the budgeting process and ensures that City Leaders have a realistic understanding of what is needed to meet the needs of the upcoming fiscal year. Many budget strategy meetings are held, between the employees and the supervisors and then with the supervisors and the Finance Director and City Manager. At least two or three budget work sessions are held with the City Commission. At the budget work sessions, the City Manager and Finance Director discuss all the components of the budget in order to obtain guidance, direction and approval.

Franklin Municipal Utilities - Where Does Your Money Go?





Paving the Way

Our streets...something most take for granted until we encounter a large pothole or crack that disturbs our driving. 2018 was a year of improvements in our streets. City Manager Kenton Powell worked with Senate Field Representative Sandy Simpson and Kentucky Transportation

Cabinet District Director Joe Plunk for CSX Railroad and the State Highway Department to make over \$1,000,000 in needed road improvements. The railroad crossings at Cedar Street and Madison Street had recently been the site of numerous accidents, tractor trailer trucks damaged, and 2 trucks struck by trains after they were unable to cross the railroad. These crossings were re-worked, allowing an easier and safer crossing for vehicles. Also, the state resurfaced 31-W at a cost of almost \$800,000.

The City maintains 50 miles of streets. This does not include state roads such as Main Street, Cedar Street, Madison Street, Morgantown Road or many others. The Kentucky Department of Transportation maintains those roads. Each year, usually in February, the City of Franklin street department employees carefully inspect each street in the city. They count all the defects in the street such as potholes, alligator cracks, patches, etc. This information is put into a computer program that rates the streets from good to bad. From this rating, the streets are selected for repaving. Each yearly budget includes money for street resurfacing and maintenance. In 2018 the City spent \$253,979 to repave a total of 3.8 miles on portions of ten streets. As funding allows, the City plans to continue making small improvements each year.

Healthy Changes...Financially

Health care is a major topic in many circles these days. Local governments struggle with the same issues as private business. How do we give our employees quality health care coverage while maintaining a balanced and responsible budget? The City of Franklin has implemented several new programs that have successfully controlled the rise in insurance premiums at both the individual premium level and the overall city budget level. The City has restructured the coverage, added healthy lifestyle incentives, become a smoke free workplace and increased the plan deductibles in order to keep the cost of health care manageable. If the City had not made these changes they would have had to absorb 70% in increases over the last 8 years. This relates to approximately \$303,000 saved.

Healthy Changes...Lifestyle

2018 was a year of healthy lifestyle changes for long time city employee Jerry Farmer.



Jerry has worked for the City for 29 years and serves as the Superintendent of the Water Treatment Plant. He is dedicated to the City, his work and fellow employees.

In an effort to save money on health insurance premiums, the City implemented a higher premium on health insurance coverage for tobacco users. This increase was effective July 1, 2018. Prior to that implementation, Jerry made the decision to quit smoking. He said, "After a lifetime of smoking, I thought it was time and wanted to see if I could." He started smoking in 1966 and said he was, "Way too young to be smoking!" Jerry hasn't had a cigarette since July 23rd and says he feels much better.

Shortly after Jerry quit smoking, an employee at the Water Plant suggested they take their daily morning meeting outside and discuss issues while they walk. So, in September they began walking, as a department, around the perimeter of the plant. Jerry said, "It's a great time together. We discuss plant operations, ways to make improvements, and encourage each other to live healthy." Jerry said he now walks 2.2 miles every day. He feels better and has more energy. He attributes this change to a healthier lifestyle. He plans to continue walking and has set a goal of participating in the Garden Spot Walk in August.



Preserving our History

2019 marks the 200th birthday of Simpson County. 2020 the City will celebrate 200 years! As we celebrate it is important that we preserve our past for future generations. The historic courthouse was built in 1882. The buildings and shops that surround the courthouse add to the character and ambience of our town.



In an effort to ensure the preservation of our beautiful historic downtown, the City Commission adopted an ordinance in April that allowed for the development of preservation standards and a preservation committee. The committee was formed and has worked to develop Historic Overlay Standards which were designed to protect the historical integrity of Downtown Franklin. The committee has also reviewed 22 requests for improvements to structures in the Historic District since it was formed. "Since 2013, a total of 41 different entrepreneurs have invested in the Downtown Historic District by opening a business. Not all of these businesses have remained open through the end of 2018, but this interest in our downtown has spurred growth and has created what is now a vibrant shopping district." said Amy Ellis, Executive Director of Franklin-Simpson Renaissance. "In addition, we have over 34 apartments and condos downtown. The mixture of living spaces, retail shops, offices and eateries has created an economic boost for our Downtown. The renovation of several downtown buildings has helped to create this environment. Renaissance is looking forward to what is in store for our downtown as we move forward."

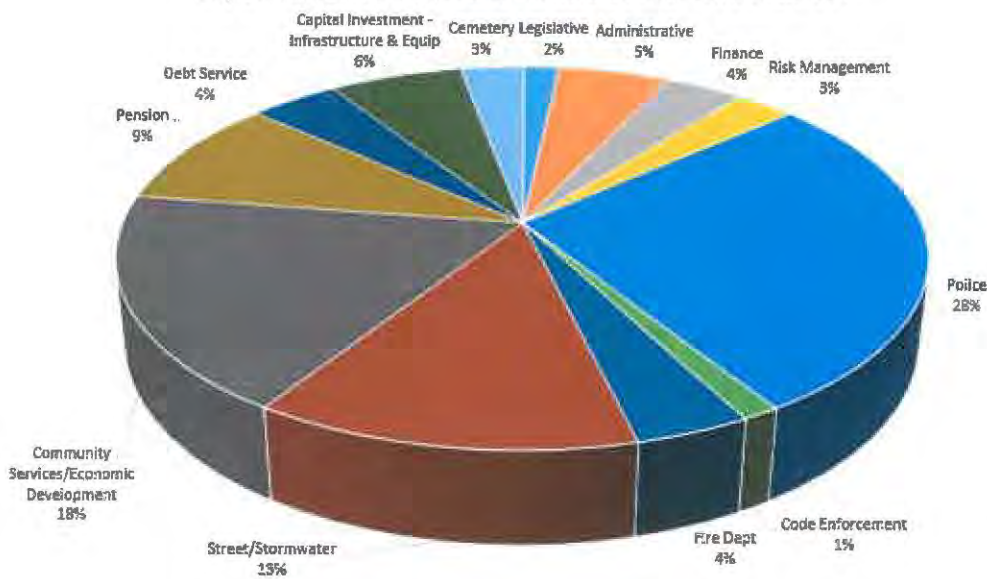
Police, a part of OUR Community!

Officers with the Franklin Police are involved in OUR community! In 2018 officers partnered with the Marine Corps and collected Toys for Tots. They also did a Coats for Kids drive. Lt. Dale Adams presented an update to the Human Rights Commission and shared with them statistics and information regarding police activities.



In December, two officers and K-9 Shadow, helped with the 2nd annual CSI Academy. The event was hosted by the Simpson County Extension Service and Simpson County Schools. Officers worked with 15 students and showed them the basics of processing a crime scene.

City of Franklins General Fund - Where Do Your Tax Dollars Go?

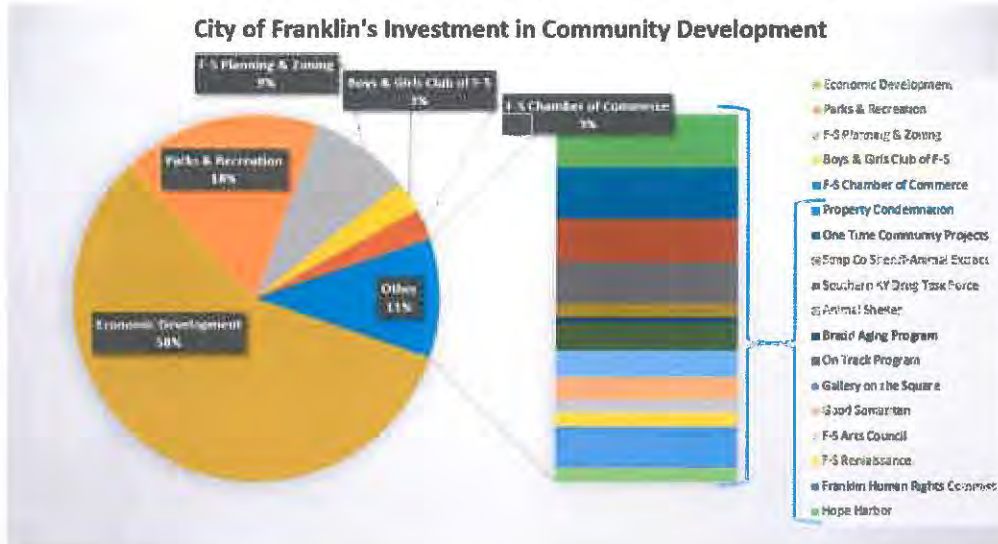


Pension Crisis. What does this mean for our City?

Discussion of the State Pension Crisis was in the news a lot in 2018. A question that has been asked is: "Why can't the city do something different for retirement for city employees?" The Kentucky Retirement System is governed by the state and state statute (law). Local government employees are required to participate in the Kentucky Retirement System. The Kentucky Retirement Board sets the rate and local governments are required, by law, to pay that rate. Bottom line, opting out, is not an option.

So how does this affect our community? Legislators in Frankfort are currently discussing legislation that will be proposed to address the issue. The City of Franklin's Mayor and City Attorney both hold seats on KLC's Legislative Board, so they will play an active role in legislative lobbying efforts regarding this issue. Meanwhile, the oversight board for KRS increased employer contribution rates to help fund the shortfall. The shortfall is a result of years of underfunding at the state level without tax increases which, in turn, created the multi-billion dollar crisis. The City of Franklin will be required to increase their contribution to the state retirement fund by approximately \$500,000 from FY2019 to FY2023.

City of Franklin's Investment in Community Development



City of Franklin
www.franklinky.org

Leadership in Frankfort

Setting policies, proposing legislation, and working with cities has been a task that City Attorney Scott Crabtree has been involved with for the last 6 years as he has served on the Kentucky League of Cities Legislative Board of Directors. The past 4 years he also served on Kentucky League of Cities' Executive Board which is responsible for the day-to-day workings of KLC. During that time, he has written or co-written many pieces of legislation that have benefited cities and, more particularly, Franklin.

Mayor Larry Dixon was also appointed to serve on the Legislative Board of Directors in December. This is the first time in the history of the City of Franklin that we have had two members on this Board. Crabtree and Dixon will work together with other elected officials and leaders from across the state to set the legislative agenda to help lobby for, create, and advocate for legislation to assist municipalities. The Board also reviews laws that are being proposed to the State Legislature that affect cities. After careful review they may suggest modifications to the law or advocate for or against the proposed legislation.

Being a part of an organization for 6 years, Crabtree has developed many working relationships across the Commonwealth. He said, "I have a network of people to bounce ideas off of and a great opportunity to learn from others." He has also played a part in developing and re-writing the statutory scheme for code enforcement, a program now used across the state. Crabtree sees his involvement as beneficial in many ways. He said, "Not only am I fortunate enough to be able to make a difference and help our City, but I've been able to propose ideas for bills and statutes every year that help cities across the Commonwealth of Kentucky."

BASIC FINANCIAL STATEMENTS

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF NET POSITION
June 30, 2018**

| | <u>Primary Government</u> | | |
|--|---------------------------|----------------------|----------------------|
| | <u>Governmental</u> | <u>Business-type</u> | |
| | <u>Activities</u> | <u>Activities</u> | <u>Total</u> |
| ASSETS | | | |
| Cash and cash equivalents | \$ 6,885,000 | \$ 4,932,776 | \$ 11,817,776 |
| Certificates of deposit | 440,610 | — | 440,610 |
| Receivables (net of allowance for uncollectibles): | | | |
| Accounts | 58,022 | 721,529 | 779,551 |
| Taxes | 1,032,109 | — | 1,032,109 |
| Intergovernmental | 51,212 | — | 51,212 |
| Internal balances | 48,457 | (48,457) | — |
| Inventory | — | 269,057 | 269,057 |
| Prepaid items | 153,418 | 43,335 | 196,753 |
| Restricted assets: | | | |
| Cash and cash equivalents | 1,394,280 | 727,631 | 2,121,911 |
| Certificates of deposit | — | 1,091,515 | 1,091,515 |
| Capital assets, net of accumulated depreciation: | | | |
| Nondepreciable | 12,951,915 | 383,391 | 13,335,306 |
| Depreciable capital assets | 2,107,881 | 19,774,094 | 21,881,975 |
| Construction in progress | 4,386 | 72,540 | 76,926 |
| Total assets | <u>25,127,290</u> | <u>27,967,411</u> | <u>53,094,701</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred amount on refunding bonds | — | 102,156 | 102,156 |
| Outflows for pensions | 2,541,893 | 756,078 | 3,297,971 |
| Outflows for OPEB | 961,500 | 270,712 | 1,232,212 |
| Total deferred outflows | <u>3,503,393</u> | <u>1,128,946</u> | <u>4,632,339</u> |
| LIABILITIES | | | |
| Accounts payable | 277,448 | 379,654 | 657,102 |
| Other accrued liabilities | 48,646 | 331,705 | 380,351 |
| Accrued interest payable | 7,492 | 24,359 | 31,851 |
| Accrued vacation | 104,413 | 42,806 | 147,219 |
| Noncurrent liabilities: | | | |
| Customer deposits | — | 531,417 | 531,417 |
| OPEB liability | 2,839,426 | 1,003,350 | 3,842,776 |
| Net pension liability | 7,470,907 | 2,143,413 | 9,614,320 |
| Due within one year | 270,000 | 360,000 | 630,000 |
| Due in more than one year | 513,110 | 4,284,650 | 4,797,760 |
| Total liabilities | <u>11,531,442</u> | <u>9,101,354</u> | <u>20,632,796</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Inflows for pensions | 587,268 | 171,559 | 758,827 |
| Inflows for OPEB | 154,343 | 45,095 | 199,438 |
| Total deferred inflows | <u>741,611</u> | <u>216,654</u> | <u>958,265</u> |
| NET POSITION | | | |
| Net investment in capital assets | 15,064,182 | 15,814,732 | 30,878,914 |
| Restricted for: | | | |
| Expendable: | | | |
| Highways and streets | 138,221 | — | 138,221 |
| Debt service and capital activity | — | 1,243,177 | 1,243,177 |
| Nonexpendable: | | | |
| Perpetual care | 547,242 | — | 547,242 |
| Unrestricted | 607,985 | 2,720,440 | 3,328,425 |
| Total net position | <u>\$ 16,357,630</u> | <u>\$ 19,778,349</u> | <u>\$ 36,135,979</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018**

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 6,172,434 | \$ 712,563 | \$ 6,884,997 |
| Certificates of deposit | — | 440,610 | 440,610 |
| Receivables (net of allowance for uncollectibles): | | | |
| Accounts | 27,323 | 30,701 | 58,024 |
| Taxes | 1,032,109 | — | 1,032,109 |
| Intergovernmental | 31,385 | 19,827 | 51,212 |
| Due from other funds | 117,809 | 52,792 | 170,601 |
| Prepaid items | 146,368 | 7,050 | 153,418 |
| Restricted assets | | | |
| Cash and cash equivalents | <u>1,323,280</u> | <u>71,000</u> | <u>1,394,280</u> |
| Total assets | <u>\$ 8,850,708</u> | <u>\$ 1,334,543</u> | <u>\$ 10,185,251</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 215,933 | \$ 61,515 | \$ 277,448 |
| Due to other funds | 89,405 | 32,739 | 122,144 |
| Accrued expenses | <u>48,645</u> | <u>—</u> | <u>48,645</u> |
| Total liabilities | <u>353,983</u> | <u>94,254</u> | <u>448,237</u> |
| Fund balances: | | | |
| Nonspendable: | | | |
| Prepaid items | 146,368 | 7,050 | 153,418 |
| Perpetual care | — | 547,241 | 547,241 |
| Restricted: | | | |
| Highways and streets | — | 138,220 | 138,220 |
| Committed: | | | |
| Stormwater | — | 378,650 | 378,650 |
| Assigned to: | | | |
| Debt service | 1,255,981 | — | 1,255,981 |
| Retirement benefits | 50,163 | — | 50,163 |
| Drug enforcement | 17,136 | — | 17,136 |
| Other purposes | — | 169,128 | 169,128 |
| Unassigned | <u>7,027,077</u> | <u>—</u> | <u>7,027,077</u> |
| Total fund balances | <u>8,496,725</u> | <u>1,240,289</u> | <u>9,737,014</u> |
| Total liabilities and fund balances | <u>\$ 8,850,708</u> | <u>\$ 1,334,543</u> | <u>\$ 10,185,251</u> |

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, 2018**

| | | | |
|---|-----------------------|---------------|----------------------|
| Total fund balances - governmental funds | | | \$ 9,737,014 |
| 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. | | | |
| | | | 15,064,182 |
| Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | | | |
| Bonds and notes payable | (\$ 783,110) | | |
| Compensated absences | (104,414) | | |
| Accrued interest on long-term obligations | (7,492) | | |
| Net pension and OPEB liabilities | (<u>10,310,332</u>) | (11,205,348) | |
| Net deferred inflows and outflows related to pensions and OPEB | | | <u>2,761,782</u> |
| Net position of governmental activities | | | <u>\$ 16,357,630</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2018**

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|--|---|
| Revenues | | | |
| Taxes: | | | |
| Property | \$ 1,052,837 | \$ — | \$ 1,052,837 |
| Occupational | 2,520,376 | — | 2,520,376 |
| Insurance premium | 1,774,358 | — | 1,774,358 |
| Franchise | 114,684 | — | 114,684 |
| Business license | 849,981 | — | 849,981 |
| Intergovernmental | 172,401 | 183,379 | 355,780 |
| Charges for sales and services | — | 328,553 | 328,553 |
| Interfund charges | 1,024,346 | — | 1,024,346 |
| Fines and forfeitures | 85,274 | — | 85,274 |
| Contributions and donations | — | 14,050 | 14,050 |
| Investment income | 69,644 | 3,860 | 73,504 |
| Miscellaneous | 106,678 | 475 | 107,153 |
| | <u>7,770,579</u> | <u>530,317</u> | <u>8,300,896</u> |
| Total revenues | | | |
| Expenditures | | | |
| Current: | | | |
| General government | \$ 1,801,645 | \$ — | \$ 1,801,645 |
| Public safety | 2,498,597 | — | 2,498,597 |
| Public services | 846,890 | 338,663 | 1,185,553 |
| Community services | 565,122 | 248,841 | 813,963 |
| Capital outlay | 256,638 | 55,352 | 311,990 |
| Debt service: | | | |
| Principal | 260,000 | — | 260,000 |
| Interest | 33,870 | — | 33,870 |
| | <u>6,262,762</u> | <u>642,856</u> | <u>6,905,618</u> |
| Total expenditures | | | |
| Excess (deficiency) of revenues over (under) expenditures | <u>1,507,817</u> | <u>(112,539)</u> | <u>1,395,278</u> |
| Other financing sources (uses): | | | |
| Transfers in | 77,226 | 286,000 | 363,226 |
| Transfers out | (283,000) | (3,000) | (286,000) |
| Sale of capital assets | 8,581 | — | 8,581 |
| | <u>(197,193)</u> | <u>283,000</u> | <u>85,807</u> |
| Total other financing sources (uses) | | | |
| Net change in fund balances | 1,310,624 | 170,461 | 1,481,085 |
| Fund balances, beginning of year | <u>7,186,101</u> | <u>1,069,828</u> | <u>8,255,929</u> |
| Fund balances, end of year | <u>\$ 8,496,725</u> | <u>\$ 1,240,289</u> | <u>\$ 9,737,014</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018**

| | <u>Total Governmental Funds</u> |
|--|---|
| Net change in fund balances - total governmental funds | \$ 1,481,085 |
| 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. | (30,118) |
| 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. | (14,317) |
| 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. | 258,289 |
| 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 | \$ 3,745 |
| OPEB expense | (119,322) |
| Accrued interest on long-term debt | 1,950 |
| Pension expense | (824,190) |
| | (937,817) |
| Change in net position of governmental activities | \$ <u>757,122</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2018**

| | <u>Enterprise Funds</u> | | |
|------------------------------------|---------------------------------|-------------------|-------------------|
| | <u>Water and Wastewater</u> | <u>Sanitation</u> | <u>Total</u> |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 4,545,876 | \$ 386,900 | \$ 4,932,776 |
| Accounts receivable, net | 616,216 | 105,313 | 721,529 |
| Due from other funds | 62,595 | 1,966 | 64,561 |
| Inventory | 269,057 | — | 269,057 |
| Prepaid items | 42,815 | 520 | 43,335 |
| Restricted assets: | | | |
| Cash and cash equivalents | 727,631 | — | 727,631 |
| Certificates of deposit | <u>1,091,515</u> | <u>—</u> | <u>1,091,515</u> |
| Total current assets | <u>7,355,705</u> | <u>494,699</u> | <u>7,850,404</u> |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Land | 343,277 | 40,114 | 383,391 |
| Depreciable capital assets, net | 19,774,094 | — | 19,774,094 |
| Construction in progress | <u>72,540</u> | <u>—</u> | <u>72,540</u> |
| Total noncurrent assets | <u>20,189,911</u> | <u>40,114</u> | <u>20,230,025</u> |
| Total assets | <u>27,545,616</u> | <u>534,813</u> | <u>28,080,429</u> |
| DEFERRED OUTFLOWS | | | |
| Deferred amount on refunding bonds | 102,156 | — | 102,156 |
| Outflows for pensions | 756,078 | — | 756,078 |
| Outflows for OPEB | <u>270,712</u> | <u>—</u> | <u>270,712</u> |
| Total deferred outflows | <u>1,128,946</u> | <u>—</u> | <u>1,128,946</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS

June 30, 2018

| | Enterprise Funds | | |
|--|-------------------------|---------------|-------------------|
| | Water and Wastewater | Sanitation | Total |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 255,655 | \$ 123,999 | \$ 379,654 |
| Accrued liabilities | 34,836 | 296,869 | 331,705 |
| Accrued interest | 24,359 | — | 24,359 |
| Accrued vacation | 42,806 | — | 42,806 |
| Due to other funds | 87,692 | 25,326 | 113,018 |
| Payable from restricted assets: | | | |
| Current maturities of revenue bonds payable | 360,000 | — | 360,000 |
| Customer deposits | 531,417 | — | 531,417 |
| Total current liabilities | 1,336,765 | 446,194 | 1,782,959 |
| Noncurrent liabilities: | | | |
| OPEB liability | 931,642 | 71,708 | 1,003,350 |
| Net pension liability | 2,143,413 | — | 2,143,413 |
| Revenue bonds payable | 4,284,650 | — | 4,284,650 |
| Total noncurrent liabilities | 7,359,705 | 71,708 | 7,431,413 |
| Total liabilities | 8,696,470 | 517,902 | 9,214,372 |
| DEFERRED INFLOWS | | | |
| Inflows for pensions | 171,559 | — | 171,559 |
| Inflows for OPEB | 45,095 | — | 45,095 |
| Total deferred inflows | 216,654 | — | 216,654 |
| NET POSITION | | | |
| Net investment in capital assets | 15,774,618 | 40,114 | 15,814,732 |
| Restricted for debt service and capital activity | 1,243,177 | — | 1,243,177 |
| Unrestricted (deficit) | 2,743,643 | (23,203) | 2,720,440 |
| Total net position | \$ 19,761,438 | \$ 16,911 | \$ 19,778,349 |

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
Year Ended June 30, 2018**

| | Enterprise Funds | | |
|---|-------------------------|------------------|----------------------|
| | Water and Wastewater | Sanitation | Total |
| Operating revenues | | | |
| Charges for services | \$ 5,285,056 | \$ 930,331 | \$ 6,215,387 |
| Fines and forfeitures | <u>201,029</u> | <u>23,141</u> | <u>224,170</u> |
| Total operating revenues | <u>5,486,085</u> | <u>953,472</u> | <u>6,439,557</u> |
| Operating expenses | | | |
| Salaries, wages and benefits | 1,750,793 | 927 | 1,751,720 |
| Maintenance | 250,917 | 700,017 | 950,934 |
| Utilities | 356,577 | — | 356,577 |
| Administrative | 675,000 | 209,500 | 884,500 |
| Supplies | 505,500 | — | 505,500 |
| Other | 185,508 | — | 185,508 |
| Depreciation | <u>1,103,378</u> | <u>—</u> | <u>1,103,378</u> |
| Total operating expenses | <u>4,827,673</u> | <u>910,444</u> | <u>5,738,117</u> |
| Operating income | <u>658,412</u> | <u>43,028</u> | <u>701,440</u> |
| Nonoperating revenues (expenses): | | | |
| Investment income | 12,187 | 387 | 12,574 |
| Miscellaneous revenue | 25,285 | — | 25,285 |
| Interest and fiscal charges expense | (159,236) | — | (159,236) |
| Amortization expense | (2,310) | — | (2,310) |
| Gain (loss) on disposal of assets | <u>(10,338)</u> | <u>—</u> | <u>(10,338)</u> |
| Total nonoperating revenues (expenses) | <u>(134,412)</u> | <u>387</u> | <u>(134,025)</u> |
| Income before contributions and transfers | 524,000 | 43,415 | 567,415 |
| Capital contributions | 82,937 | — | 82,937 |
| Transfers out | <u>(77,226)</u> | <u>—</u> | <u>(77,226)</u> |
| Change in net position | <u>529,711</u> | <u>43,415</u> | <u>573,126</u> |
| Net position, beginning of year | 19,843,043 | 7,790 | 19,850,833 |
| Change in accounting principle – GASB 75 | <u>(611,316)</u> | <u>(34,294)</u> | <u>(645,610)</u> |
| Net position (deficit), beginning of year, restated | <u>19,231,727</u> | <u>(26,504)</u> | <u>19,205,223</u> |
| Net position, end of year | <u>\$ 19,761,438</u> | <u>\$ 16,911</u> | <u>\$ 19,778,349</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2018

| | Enterprise Funds | | |
|--|-------------------------|-------------------|---------------------|
| | Water and Wastewater | Sanitation | Total |
| Cash flows from operating activities | | | |
| Cash received from customers | \$ 5,905,009 | \$ 919,408 | \$ 6,824,417 |
| Cash payments to employees and retirees | (1,725,119) | (927) | (1,726,046) |
| Cash payments to suppliers | (1,240,031) | (669,345) | (1,909,376) |
| Payments for administrative overhead | (675,000) | (209,500) | (884,500) |
| Net cash provided by operating activities | <u>2,264,859</u> | <u>39,636</u> | <u>2,304,495</u> |
| Cash flows from noncapital financing activities | | | |
| Transfers out | (77,226) | — | (77,226) |
| Cash flows from capital and related financing activities | | | |
| Purchase of capital assets | (839,114) | — | (839,114) |
| Principal paid on bonds, notes and lease obligations | (345,000) | — | (345,000) |
| Interest paid on bonds, notes and lease obligations | (160,467) | — | (160,467) |
| Proceeds from sale of capital assets | <u>14,385</u> | <u>—</u> | <u>14,385</u> |
| Net cash used in capital and related financing activities | <u>(1,330,196)</u> | <u>—</u> | <u>(1,330,196)</u> |
| Cash flows from investing activities | | | |
| Purchases of certificates of deposit | (5,677) | — | (5,677) |
| Interest received | <u>12,187</u> | <u>387</u> | <u>12,574</u> |
| Net cash provided by investing activities | <u>6,510</u> | <u>387</u> | <u>6,897</u> |
| Net increase in cash and cash equivalents | 863,947 | 40,023 | 903,970 |
| Cash and cash equivalents, beginning of year | <u>4,409,560</u> | <u>346,877</u> | <u>4,756,437</u> |
| Cash and cash equivalents, end of year | <u>\$ 5,273,507</u> | <u>\$ 386,900</u> | <u>\$ 5,660,407</u> |
| Reflected in the Statement of Fund Net Position - Proprietary Funds as: | | | |
| Cash and cash equivalents | \$ 4,545,876 | \$ 386,900 | \$ 4,932,776 |
| Restricted cash and cash equivalents | <u>727,631</u> | <u>—</u> | <u>727,631</u> |
| Total | <u>\$ 5,273,507</u> | <u>\$ 386,900</u> | <u>\$ 5,660,407</u> |

See Notes to Financial Statements

(Continued)

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2018

| | Enterprise Funds | | |
|---|-------------------------|------------------|---------------------|
| | Water and Wastewater | Sanitation | Total |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 658,412 | \$ 43,028 | \$ 701,440 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 1,103,378 | — | 1,103,378 |
| Nonoperating revenues | 25,285 | — | 25,285 |
| Increase in deferred outflows of resources | (633,215) | — | (633,215) |
| Decrease in deferred inflow of resources | 207,751 | — | 207,751 |
| Change in assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | 80,231 | (34,064) | 46,167 |
| (Increase) decrease in due from other funds | (51,266) | 25,781 | (25,485) |
| (Increase) decrease in inventory and prepaid items | 66,294 | (31) | 66,263 |
| Increase (decrease) in accounts payable | (28,933) | 13,700 | (15,233) |
| Increase (decrease) in accrued liabilities | 535 | (1,255) | (720) |
| Increase in accrued vacation | 12,558 | — | 12,558 |
| Increase in customer deposits | 49,344 | — | 49,344 |
| Increase in due to other funds | 72,376 | — | 72,376 |
| Increase (decrease) in OPEB liability | 264,064 | (7,523) | 256,541 |
| Increase in pension liability | 438,045 | — | 438,045 |
| Net cash provided by operating activities | <u>\$ 2,264,859</u> | <u>\$ 39,636</u> | <u>\$ 2,304,495</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 participants 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 cannot 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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sanitation Fund

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

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.

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018, 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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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:

| | <u>Years</u> |
|---------------------------|--------------|
| 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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, and GASB Statements 74 and 75, 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 differences between expected and actual experience, changes of assumptions, changes in proportionate share, and differences between projected and actual earnings on investments in both pension plans and other paid employee benefit plans, and contributions to pension plans and other paid employee benefit plans made subsequent to the City's measurement date of June 30, 2017.

Deferred Inflows - include differences between expected and actual experience, changes of assumptions, changes in proportionate share, and projected and actual earnings on investments, in both pension plans and other paid employee benefit plans.

CITY OF FRANKLIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018, \$13,301,271 of the City's bank balances of \$15,175,135 was exposed to custodial credit risk as follows, while \$1,873,864 was covered by the FDIC:

| | |
|---|---------------------|
| Uninsured and collateral held by pledging financial institution | <u>\$13,301,271</u> |
|---|---------------------|

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, 2018, the City had the following investments and maturities:

| Type | Fair Value | Maturities In Years Less than 1 |
|-------------------|-------------------|---------------------------------------|
| U. S. obligations | <u>\$ 682,070</u> | <u>\$ 682,070</u> |

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018, 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, 2018, 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 | \$14,789,742 |
| Investments | <u>682,070</u> |
| | <u>\$15,471,812</u> |

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 | \$11,817,776 |
| Certificates of deposit | 440,610 |
| Restricted assets: | |
| Cash and cash equivalents | 2,121,911 |
| Certificates of deposit | <u>1,091,515</u> |
| Total | <u>\$ 15,471,812</u> |

Investment Income

| | |
|--|------------------|
| Investment income for the year ended June 30, 2018 | |
| consisted of: | |
| Interest and dividend income | <u>\$ 86,078</u> |

NOTE 3. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2018:

| | Cash | Certificates of Deposit | Total |
|--|---------------------|----------------------------|---------------------|
| Governmental activities: | | | |
| General Fund: | | | |
| Retiree Life fund | \$ 50,163 | \$ — | \$ 50,163 |
| Police fund | 17,136 | — | 17,136 |
| City of Franklin 2009 Bond Fund | 1,255,981 | — | 1,255,981 |
| Taeyang pledge | <u>—</u> | <u>213,000</u> | <u>213,000</u> |
| Total General Fund | 1,323,280 | 213,000 | 1,536,280 |
| Special Revenue Fund | | | |
| Community development | <u>71,000</u> | <u>—</u> | <u>71,000</u> |
| Total governmental activities | <u>1,394,280</u> | <u>213,000</u> | <u>1,607,280</u> |
| Business-type activities: | | | |
| Enterprise Fund | | | |
| Water and Wastewater Fund: | | | |
| Customer deposits | 220,326 | 355,644 | 575,970 |
| Debt service reserve | 507,306 | 310,276 | 817,582 |
| Depreciation reserve | — | 282,712 | 282,712 |
| Maintenance and replacement reserve | <u>—</u> | <u>142,883</u> | <u>142,883</u> |
| Total business-type activities | <u>727,632</u> | <u>1,091,515</u> | <u>1,819,147</u> |
| Total restricted assets | <u>\$ 2,121,912</u> | <u>\$ 1,304,515</u> | <u>\$ 3,426,427</u> |

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

| | Balance June 30, 2017 | Increases | Decreases | Balance June 30, 2018 |
|--|--------------------------|---------------------|---------------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,723,678 | \$ 21,885 | (\$ 5,000) | \$ 1,740,563 |
| Streets and sidewalks | 11,211,351 | — | — | 11,211,351 |
| Construction in progress | 79,150 | 47,205 | (121,968) | 4,387 |
| Total capital assets, not being depreciated | <u>13,014,179</u> | <u>69,090</u> | <u>(126,968)</u> | <u>12,956,301</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,055,731 | 30,059 | — | 2,085,790 |
| Vehicles | 1,574,177 | 110,755 | (196,053) | 1,488,879 |
| Furniture, fixtures and equipment | 1,322,050 | 197,054 | (55,872) | 1,463,232 |
| Total capital assets, being depreciated | <u>4,951,958</u> | <u>337,868</u> | <u>(251,925)</u> | <u>5,037,901</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (771,108) | (54,562) | — | (825,670) |
| Vehicles | (1,063,002) | (173,370) | 194,755 | (1,041,617) |
| Furniture, fixtures and equipment | (1,023,411) | (87,175) | 47,853 | (1,062,733) |
| Total accumulated depreciation | <u>(2,857,521)</u> | <u>(315,107)</u> | <u>242,608</u> | <u>(2,930,020)</u> |
| Total capital assets, being depreciated, net | <u>2,094,437</u> | <u>22,761</u> | <u>(9,317)</u> | <u>2,107,881</u> |
| Governmental activities capital assets, net | <u>\$ 15,108,616</u> | <u>\$ 91,851</u> | <u>(\$ 136,285)</u> | <u>\$ 15,064,182</u> |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 383,391 | \$ — | \$ — | \$ 383,391 |
| Construction in progress | 377,248 | — | (304,708) | 72,540 |
| Total capital assets, not being depreciated | <u>760,639</u> | <u>—</u> | <u>(304,708)</u> | <u>455,931</u> |
| Capital assets being depreciated: | | | | |
| Utility plant | 39,604,104 | 1,069,497 | (265,470) | 40,408,131 |
| Buildings | 72,738 | — | — | 72,738 |
| Furniture and equipment | 3,172,330 | — | (63,550) | 3,108,780 |
| Vehicles | 588,238 | 157,262 | (2,606) | 742,894 |
| Land improvements | 39,858 | — | — | 39,858 |
| Total capital assets being depreciated | <u>43,477,268</u> | <u>1,226,759</u> | <u>(331,626)</u> | <u>44,372,401</u> |
| Less accumulated depreciation: | | | | |
| Utility plant | (20,666,117) | (922,776) | 242,919 | (21,345,974) |
| Buildings | (67,569) | (325) | — | (67,894) |
| Furniture and equipment | (2,550,164) | (137,661) | 62,030 | (2,625,795) |
| Vehicles | (510,050) | (39,768) | 1,955 | (547,863) |
| Land improvements | (7,932) | (2,848) | — | (10,780) |
| Total accumulated depreciation | <u>(23,801,832)</u> | <u>(1,103,378)</u> | <u>306,904</u> | <u>(24,598,306)</u> |
| Total capital assets, being depreciated, net | <u>19,675,436</u> | <u>123,381</u> | <u>(24,722)</u> | <u>19,774,095</u> |
| Business-type activities capital assets, net | <u>\$ 20,436,075</u> | <u>\$ 123,381</u> | <u>(\$ 329,430)</u> | <u>\$ 20,230,026</u> |

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4. CAPITAL ASSETS (Continued)

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

| | |
|--|---------------------|
| Governmental activities: | |
| General government | \$ 67,349 |
| Public safety | 154,253 |
| Public works | 91,307 |
| Community and cultural | <u>2,199</u> |
| Total depreciation expense - governmental activities | <u>\$ 315,108</u> |
| Business-type activities: | |
| Water and wastewater | <u>\$ 1,103,378</u> |

NOTE 5. 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, 2018 were as follows:

| | Balance June 30, 2017 | Increases | Decreases | Balance June 30, 2018 | Amounts Due in One Year |
|---------------------------------|--------------------------|-------------|---------------------|--------------------------|----------------------------|
| Governmental activities: | | | | | |
| Bonds payable | \$ 1,055,000 | \$ — | (\$ 260,000) | \$ 795,000 | \$ 270,000 |
| Less: unamortized discount | (13,601) | — | 1,711 | (11,890) | — |
| Bonds payable, net | <u>1,041,399</u> | — | <u>(258,289)</u> | <u>783,110</u> | <u>270,000</u> |
| Total governmental activities | <u>\$ 1,041,399</u> | <u>\$ —</u> | <u>(\$ 258,289)</u> | <u>\$ 783,110</u> | <u>\$ 270,000</u> |

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5. LONG-TERM LIABILITIES (Continued)

| | <u>Balance</u> <u>June 30, 2017</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2018</u> | <u>Amounts Due</u> <u>in One Year</u> |
|--|--|------------------|---------------------|--|--|
| Business-type activities: | | | | | |
| Revenue bonds | \$ 4,910,000 | \$ — | (\$ 345,000) | \$ 4,565,000 | \$ 360,000 |
| Unamortized discounts, premiums, net | <u>83,875</u> | <u>—</u> | <u>(4,225)</u> | <u>79,650</u> | <u>—</u> |
| Total business-type activities | <u>\$ 4,993,875</u> | <u>\$ —</u> | <u>(\$ 349,225)</u> | <u>\$ 4,644,650</u> | <u>\$ 360,000</u> |
| Total governmental and business-type activities | <u>\$ 6,035,274</u> | <u>\$ —</u> | <u>(\$ 607,514)</u> | <u>\$ 5,427,760</u> | <u>\$ 630,000</u> |

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, 2018:

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.

\$ 795,000

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5. LONG-TERM LIABILITIES (Continued)

Water and Wastewater Fund:

Revenue bonds outstanding at June 30, 2018 were as follows:

| | <u>Interest Rates</u> | <u>Final Maturity Date</u> | <u>Principal at June 30, 2018</u> |
|--|-----------------------|----------------------------|-----------------------------------|
| Revenue bonds, Series 2009 (A) | 2.00 - 4.375% | December 1, 2024 | \$ 425,000 |
| Revenue bonds, Series 2012 (B) | 2.00 - 3.75% | December 1, 2033 | 2,995,000 |
| Revenue bonds, Series 2016 (C) | 3.00 - 3.60% | February 1, 2037 | <u>1,145,000</u> |
| | | | 4,565,000 |
| Unamortized discounts, premiums, net | | | <u>79,650</u> |
| Total revenue bonds payable - business-type activities | | | <u>\$ 4,644,650</u> |

- (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.
- (C) \$1,190,000 Kentucky Bond Corporation Revenue Lease, dated November 30, 2016; City of Franklin, Kentucky portion of Kentucky Bond Corporation Financing Program Revenue Bonds, Series 2016D; maturing on February 1 in annual installments of \$45,000 to \$80,000 through 2037; interest at 3% to 3.5% payable semi-annually on February 1 and August 1; issued to finance water and sewer system improvements; secured by water and sewer system revenues.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5. LONG-TERM LIABILITIES (Continued)

Annual Debt Service Requirements

The annual requirements to amortize long-term debt outstanding as of June 30, 2018 are as follows:

| Year Ending June 30 | Governmental Activities | | Business-Type Activities | | Government-Wide | |
|------------------------|-------------------------|------------------|--------------------------|---------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2019 | \$ 270,000 | \$ 25,245 | \$ 360,000 | \$ 139,936 | \$ 630,000 | \$ 165,181 |
| 2020 | 80,000 | 19,040 | 245,000 | 131,756 | 325,000 | 150,796 |
| 2021 | 80,000 | 16,080 | 250,000 | 125,206 | 330,000 | 141,286 |
| 2022 | 85,000 | 12,900 | 255,000 | 118,006 | 340,000 | 130,906 |
| 2023 | 90,000 | 9,400 | 265,000 | 110,997 | 355,000 | 119,897 |
| 2024 - 2028 | 190,000 | 7,600 | 1,275,000 | 433,747 | 1,465,000 | 441,347 |
| 2029 - 2033 | — | — | 1,385,000 | 226,903 | 1,385,000 | 226,903 |
| 2034 - 2037 | — | — | 530,000 | 31,087 | 530,000 | 31,087 |
| | <u>\$ 795,000</u> | <u>\$ 90,265</u> | <u>\$ 4,565,000</u> | <u>\$ 1,317,138</u> | <u>\$ 5,360,000</u> | <u>\$ 1,407,403</u> |

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2018 are as follows:

| | Interfund Receivables | Interfund Payables |
|--|--------------------------|-----------------------|
| Governmental Funds: | | |
| General Fund | \$ 117,809 | \$ 89,405 |
| Special Revenue Funds: | | |
| Economic Development Revolving Loan Fund | 50,993 | — |
| Community Development Fund | — | 32,206 |
| Stormwater Fund | 1,799 | 533 |
| Total governmental funds | <u>170,601</u> | <u>122,144</u> |
| Proprietary Funds: | | |
| Water and Wastewater Fund | 62,595 | 87,692 |
| Sanitation Fund | 1,965 | 25,325 |
| Total proprietary funds | <u>64,560</u> | <u>113,017</u> |
| | <u>\$ 235,161</u> | <u>\$ 235,161</u> |

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7. INTERFUND TRANSFERS

Interfund transfers for the year ending June 30, 2018 are summarized as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--|---------------------|----------------------|
| Governmental Funds: | | |
| General Fund | \$ 77,226 | \$ 283,000 |
| Special Revenue Fund | | |
| Greenlawn-Shady Rest Cemetery Fund | 186,000 | — |
| Stormwater Fund | 100,000 | — |
| Permanent Fund | | |
| Greenlawn-Shady Rest Cemetery Perpetual Fund | — | 3,000 |
| Total governmental funds | <u>363,226</u> | <u>286,000</u> |
| Proprietary Funds: | | |
| Water and wastewater | — | 77,226 |
| | <u>\$ 363,226</u> | <u>\$ 363,226</u> |

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 8. 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 Section 78.520. CERS is administered by the Board of Trustees of Kentucky Retirement Systems (KRS), pursuant to Kentucky Revised Statute Section 61.645, 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>.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8. RETIREMENT PLAN (Continued)

Benefits Provided

CERS provides for retirement, 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.

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 eligible 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.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 8. RETIREMENT PLAN (Continued)

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.

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8. RETIREMENT PLAN (Continued)

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 Kentucky Revised Statutes 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 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, 2018, the City contributed 19.18% (nonhazardous – 14.48% pension; 4.70% insurance) and 31.55% (hazardous – 22.20% pension; 9.35% 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, 2018 were \$537,426.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8. RETIREMENT PLAN (Continued)

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

At June 30, 2018, the City reported a liability of \$9,614,320 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled-forward using generally accepted actuarial principles. 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, 2017, the City's proportion was 0.090320% (non-hazardous), an increase of 0.000378% from its proportion measured as of June 30, 2016, and 0.193432% (hazardous), an increase of .004111% from its proportion as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$1,625,761. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Net difference between projected and actual earnings on pension plan investments | \$ 702,557 | \$ 599,349 |
| Difference between expected and actual experience | 165,289 | 134,199 |
| Change of assumptions | 1,838,801 | — |
| Change in proportion and differences between employer contributions and proportionate share of contributions | 88,863 | 25,279 |
| Contributions subsequent to the measurement date of June 30, 2017 | <u>537,426</u> | <u>—</u> |
| Total | <u>\$ 3,332,936</u> | <u>\$ 758,827</u> |

The amount shown above for "contributions subsequent to the measurement date of June 30, 2017," will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

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: | |
| 2019 | \$ 876,549 |
| 2020 | 905,361 |
| 2021 | 369,877 |
| 2022 | <u>(115,104)</u> |
| | <u>\$ 2,036,683</u> |

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8. RETIREMENT PLAN (Continued)

In the table above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Actuarial assumptions. The total pension liability as of June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.30 % |
| Salary increases | 3.05 % average, including inflation. |
| Investment rate of return | 6.25 %, 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 (setback 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2013. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. The KRS Board of Trustees lowered the three actuarial assumptions in May, 2017. The inflation rate was lowered from 3.25% to 2.3%, the active member payroll growth was lowered from 4% to 0%, and the investment rate of return was lowered from 7.5% to 6.25%. These assumption changes became effective for the actuarial valuation as of the June 30, 2017 measurement date.

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8. RETIREMENT PLAN (Continued)

inflation) were developed by the investment consultant for each major asset class (see chart below). These were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and 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:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| US equity | 17.50% | 5.97% |
| International equity | 17.50% | 7.85% |
| Global bonds | 4.00% | 2.63% |
| Global credit | 2.00% | 3.63% |
| High yield | 7.00% | 5.75% |
| Emerging market debt | 5.00% | 5.50% |
| Private credit | 10.00% | 8.75% |
| Real estate | 5.00% | 7.63% |
| Absolute return | 10.00% | 5.63% |
| Real return | 10.00% | 6.13% |
| Private equity | 10.00% | 8.25% |
| Cash | <u>2.00%</u> | 1.88% |
| Total | <u>100%</u> | |

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 6.25 % based on a blending of the factors described above.

Discount rate. The discount rate used to measure the total pension liability was 6.25% for the year ended June 30, 2017. 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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8. 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 6.25%, as well as the net pension liability if calculated using a discount rate that is 1-percentage-point lower (5.25 %) or 1-percentage-point higher (7.25 %) than the current rate:

| | 1% Decrease <u>(5.25%)</u> | Current Discount <u>Rate (6.25%)</u> | 1% Increase <u>(7.25%)</u> |
|--|-------------------------------|---|-------------------------------|
| City of Franklin's net pension liability | | | |
| Hazardous | \$ 5,441,189 | \$ 4,327,613 | \$ 3,407,961 |
| Nonhazardous | <u>6,667,681</u> | <u>5,286,707</u> | <u>4,131,534</u> |
| Total | <u>\$ 12,108,870</u> | <u>\$ 9,614,320</u> | <u>\$ 7,539,495</u> |

NOTE 9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Kentucky Retirement Systems' Insurance Fund

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The Insurance Fund is administered by the Board of Trustees of Kentucky Retirement Systems (KRS), pursuant to Kentucky Revised Statute Section 61.645, 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. That report may be obtained at <https://kyret.ky.gov>.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2018 was 4.70% of covered payroll. Contributions to the Insurance Fund from the City were \$212,332 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2017. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2018, the City's proportion was 0.090320% (non-hazardous) and 0.193432% (hazardous).

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Actuarial assumptions. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actual assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---------------------------------------|--|
| Inflation | 2.30% |
| Payroll growth rate | 2.00% |
| Salary increases | 3.05%, average |
| Investment rate of return | 6.25% |
| | |
| Healthcare cost trend rates (Pre-65) | Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to ultimate trend rate of 4.05% over a period of 13 years. |
| | |
| Healthcare cost trend rates (Post-65) | Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. |

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females).

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period of 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 ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and 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 assumptions are intended to be long-term assumptions and are 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.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| US equity | 17.50% | 5.97% |
| International equity | 17.50% | 7.85% |
| Global bonds | 4.00% | 2.63% |
| Global credit | 2.00% | 3.63% |
| High yield | 7.00% | 5.75% |
| Emerging market debt | 5.00% | 5.50% |
| Real estate | 5.00% | 7.63% |
| Private credit | 10.00% | 8.75% |
| Absolute return | 10.00% | 5.63% |
| Real return | 10.00% | 6.13% |
| Private equity | 10.00% | 8.25% |
| Cash | <u>2.00%</u> | 1.88% |
| Total | <u>100%</u> | |

Discount rate. The discount rate used to measure the total OPEB liability was 5.84%. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017).

Changes in the Net OPEB Liability

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the City's proportionate share of the collective net OPEB liabilities, calculated using discount rates of 5.96% (hazardous) and 5.84% nonhazardous, as well as what the City's proportionate share of the collective net OPEB liabilities would be if it were calculated using a discount rate that is 1 percentage point lower (4.96% and 4.84%), respectively, or 1 percentage point higher (6.96% and 6.84%), respectively, than the current discount rate:

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

| | <u>1% Decrease</u> | <u>Current Discount</u> | <u>1% Increase</u> |
|---------------------------------------|---------------------|-------------------------|---------------------|
| City of Franklin's net OPEB liability | | | |
| Hazardous | \$ 2,142,943 | \$ 1,599,047 | \$ 1,154,052 |
| Nonhazardous | <u>2,310,430</u> | <u>1,815,741</u> | <u>1,404,082</u> |
| Total | <u>\$ 4,453,373</u> | <u>\$ 3,414,788</u> | <u>\$ 2,558,134</u> |

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following presents the City's proportionate share of the collective net OPEB liabilities, as well as what the City's proportionate share of the collective net OPEB liabilities would be if they were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

| | <u>1% Decrease</u> | <u>Current Health-care Cost Trend Rates</u> | <u>1% Increase</u> |
|---------------------------------------|---------------------|---|---------------------|
| City of Franklin's net OPEB liability | | | |
| Hazardous | \$ 1,131,941 | \$ 1,599,047 | \$ 2,177,162 |
| Nonhazardous | <u>1,392,767</u> | <u>1,815,741</u> | <u>2,365,583</u> |
| Total | <u>\$ 2,524,708</u> | <u>\$ 3,414,788</u> | <u>\$ 4,542,745</u> |

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS financial report.

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

For the year ended June 30, 2018, the City recognized OPEB expense of \$450,349. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Net difference between expected and actual experience | \$ — | \$ 8,769 |
| Changes of assumptions | 973,324 | — |
| Net difference between projected and actual earnings on OPEB plan investments | — | 186,138 |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | — | 4,531 |
| Contributions subsequent to the measurement date of June 30, 2017 | <u>212,332</u> | <u>—</u> |
| Total | <u>\$ 1,185,656</u> | <u>\$ 199,438</u> |

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB are recognized in OPEB expense as follows:

| | |
|---------------------|-------------------|
| Year ended June 30, | |
| 2019 | \$ 192,014 |
| 2020 | 192,014 |
| 2021 | 192,014 |
| 2022 | 115,897 |
| 2023 | 73,075 |
| Thereafter | <u>20,463</u> |
| | <u>\$ 785,477</u> |

NOTE 10. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CITY OPEB)

In addition to the other post-employment benefits provided by the City through the Kentucky Retirement Systems' Insurance Fund, described above, the City also 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. Eighteen 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 \$19,500 for the year ended June 30, 2018.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

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, 2018, payments under the plan totaled \$83,386.

At June 30, 2018, the City reported a total OPEB liability of \$427,987. The City's total OPEB liability was measured as of June 30, 2018 and was calculated by the City using the alternative measurement method permitted by GASB Statement 75 for employers in OPEB plans with fewer than 100 employees as of the beginning of the measurement period.

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 Office of the Actuary at the Centers for Medicare & Medicaid Services' long-term healthcare trends analysis model. A rate of 4.80% per year initially, reduced to an ultimate rate of 4.50% per year.

Discount rate - The discount rate used to measure the total OPEB liability was 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. No assets have been accumulated in an irrevocable trust, so the municipal rate has been applied to all periods. The discount rate was 3.56% for the June 30, 2017 measurement date.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

Changes in the Total OPEB Liability

Sensitivity of the City's total OPEB liability to changes in the discount rate. The following presents the City's total OPEB liability as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current discount rate:

| | 1% Decrease (2.62%) | Discount Rate (3.62%) | 1% Increase (4.62%) |
|---|------------------------|--------------------------|------------------------|
| City of Franklin's total OPEB liability | <u>\$ 451,969</u> | <u>\$ 427,987</u> | <u>\$ 406,737</u> |

Sensitivity of the City's total OPEB liability to changes in the healthcare cost trend rates. The following presents the City's total OPEB liability, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

| | 1% Decrease | Current Healthcare Cost Trend Rates | 1% Increase |
|---|-------------------|--|-------------------|
| City of Franklin's total OPEB liability | <u>\$ 410,580</u> | <u>\$ 427,987</u> | <u>\$ 447,302</u> |

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 2018, whichever is less. During the fiscal year ending June 30, 2018, contributions made on behalf of employees totaled \$65,716.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

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.

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018 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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018, there were two series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$111,111,682.

NOTE 17. TAX ABATEMENTS

The City participates, along with the Commonwealth of Kentucky, in the Kentucky Business Investment Program ("KBI"). KBI provides a wage incentive of up to 1% of the gross wages of each employee for qualified businesses in the City. An eligible company must be engaged in one of the following activities: manufacturing, agribusiness, regional or national headquarters operations, or certain nonretail service or technology activities. The minimum requirements for an eligible project are: create a minimum of 10 new, full-time jobs for Kentucky residents, incur at least \$100,000 in eligible costs, and meet a minimum level of wages and benefits. The tax incentives involved with this program are available for up to 10 years. The authority for this program is established in KRS 154.32. For the year ended June 30, 2018, City tax abatements were approximately \$137,000 relating to the City's participation in the KBI program.

NOTE 18. IMPLEMENTATION OF GASB 75

In June, 2015, the GASB issued Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*. The 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 are also addressed.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 18. IMPLEMENTATION OF GASB 75 (Continued)

This statement's provisions are effective for fiscal years beginning after June 15, 2017 and the City adopted for the year ended June 30, 2018. The adoption of this standard did impact the City's financial position and resulted in a restatement to reduce the beginning net position as of July 1, 2017, in the amount of \$1,919,863 for government activities and \$645,610 for business-type activities. See Note 9 for more information.

NOTE 19. RECENT PRONOUNCEMENTS

In January, 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The provisions of this statement are effective for fiscal years beginning after December 15, 2018. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

In June, 2017, the GASB issued Statement No. 87, *Leases*. The provisions of this statement are effective for fiscal years beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 19. RECENT PRONOUNCEMENTS (Continued)

In April, 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The provisions of this statement are effective for fiscal years beginning after June 15, 2018. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

In June, 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The provisions of this statement are effective for fiscal years beginning after December 15, 2019. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in historical cost of a capital asset reported in a business-type activity or enterprise fund.

This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The City is evaluating the impact that will result from adopting the above GASB statements and is currently unable to disclose the impact of the adoption of these standards upon the financial position and results of operations.

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

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2018**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|-------------------------------------|----------------------------|-------------------------|------------------|---|
| Revenues | | | | |
| Taxes | \$ 950,250 | \$ 977,094 | \$ 1,052,837 | \$ 75,743 |
| Occupational taxes | 2,233,500 | 2,263,255 | 2,520,376 | 257,121 |
| Insurance premium taxes | 1,497,000 | 1,614,371 | 1,774,357 | 159,986 |
| Business license taxes | 678,650 | 676,163 | 849,981 | 173,818 |
| Franchise taxes | 91,500 | 96,200 | 114,684 | 18,484 |
| Intergovernmental | 163,569 | 179,002 | 172,401 | (6,601) |
| Interfund charges | 1,024,347 | 1,024,347 | 1,024,347 | — |
| Fines and forfeitures | 72,000 | 78,197 | 85,273 | 7,076 |
| Miscellaneous | <u>160,011</u> | <u>162,684</u> | <u>176,323</u> | <u>13,639</u> |
| Total revenues | <u>6,870,827</u> | <u>7,071,313</u> | <u>7,770,579</u> | <u>699,266</u> |
| Expenditures | | | | |
| General government: | | | | |
| Legislative: | | | | |
| Personal services | 122,392 | 119,495 | 128,276 | (8,781) |
| Contractual services | 12,222 | 12,940 | 13,570 | (630) |
| Materials and supplies | 900 | 950 | 371 | 579 |
| Other | <u>16,850</u> | <u>15,850</u> | <u>16,562</u> | <u>(712)</u> |
| Total legislative | <u>152,364</u> | <u>149,235</u> | <u>158,779</u> | <u>(9,544)</u> |
| Administrative: | | | | |
| Personal services | 523,270 | 523,743 | 523,057 | 686 |
| Contractual services | 52,695 | 78,611 | 85,300 | (6,689) |
| Materials and supplies | 5,500 | 5,550 | 5,063 | 487 |
| Other | <u>9,000</u> | <u>11,550</u> | <u>8,191</u> | <u>3,359</u> |
| Total administrative | <u>590,465</u> | <u>619,454</u> | <u>621,611</u> | <u>(2,157)</u> |
| Finance and accounting: | | | | |
| Personal services | 626,171 | 539,951 | 541,122 | (1,171) |
| Contractual services | 150,540 | 143,054 | 129,700 | 13,354 |
| Materials and supplies | 95,724 | 92,000 | 79,044 | 12,956 |
| Other | <u>10,750</u> | <u>10,750</u> | <u>9,293</u> | <u>1,457</u> |
| Total finance and accounting | <u>883,185</u> | <u>785,755</u> | <u>759,159</u> | <u>26,596</u> |
| Risk management: | | | | |
| Personal services | 209,002 | 187,456 | 181,507 | 5,949 |
| Contractual services | 14,500 | 14,500 | 16,507 | (2,007) |
| Materials and supplies | 2,500 | 4,150 | 3,800 | 350 |
| Other | <u>41,591</u> | <u>50,613</u> | <u>60,282</u> | <u>(9,669)</u> |
| Total risk management | <u>267,593</u> | <u>256,719</u> | <u>262,096</u> | <u>(5,377)</u> |
| Total general government | <u>1,893,607</u> | <u>1,811,163</u> | <u>1,801,645</u> | <u>9,518</u> |

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2018**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|--------------------------------|----------------------------|-------------------------|------------------|---|
| Expenditures (continued) | | | | |
| Public safety: | | | | |
| Police department: | | | | |
| Administration: | | | | |
| Personal services | \$ 310,841 | \$ 307,913 | \$ 308,332 | (\$ 419) |
| Contractual services | 4,832 | 10,000 | 6,754 | 3,246 |
| Materials and supplies | 5,300 | 3,200 | 4,449 | (1,249) |
| Other | <u>4,215</u> | <u>3,585</u> | <u>2,503</u> | <u>1,082</u> |
| Total administration | <u>325,188</u> | <u>324,698</u> | <u>322,038</u> | <u>2,660</u> |
| Patrol: | | | | |
| Personal services | 1,636,146 | 1,626,177 | 1,596,322 | 29,855 |
| Contractual services | 51,055 | 64,673 | 53,570 | 11,103 |
| Materials and supplies | 62,913 | 68,175 | 76,645 | (8,470) |
| Other | <u>19,000</u> | <u>18,555</u> | <u>9,275</u> | <u>9,280</u> |
| Total patrol | <u>1,769,114</u> | <u>1,777,580</u> | <u>1,735,812</u> | <u>41,768</u> |
| Non-sworn personnel: | | | | |
| Personal services | 77,261 | 73,559 | 75,325 | (1,766) |
| Contractual services | 92,211 | 87,423 | 86,565 | 858 |
| Materials and supplies | 14,115 | 12,525 | 10,595 | 1,930 |
| Other | <u>400</u> | <u>534</u> | <u>284</u> | <u>250</u> |
| Total non-sworn personnel | <u>183,987</u> | <u>174,041</u> | <u>172,769</u> | <u>1,272</u> |
| Total police department | <u>2,278,289</u> | <u>2,276,319</u> | <u>2,230,619</u> | <u>45,700</u> |
| Fire department: | | | | |
| Inspection and administration: | | | | |
| Contractual services | <u>1,300</u> | <u>1,300</u> | <u>530</u> | <u>770</u> |
| Firefighting: | | | | |
| Contractual services | <u>267,448</u> | <u>267,448</u> | <u>267,448</u> | <u>—</u> |
| Total fire department | <u>268,748</u> | <u>268,748</u> | <u>267,978</u> | <u>770</u> |
| Total public safety | <u>2,547,037</u> | <u>2,545,067</u> | <u>2,498,597</u> | <u>46,470</u> |

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---------------------------------|----------------------------|-------------------------|------------------|---|
| Expenditures (continued) | | | | |
| Public services: | | | | |
| Public works: | | | | |
| Personal services | \$ 580,700 | \$ 528,005 | \$ 532,824 | (\$ 4,819) |
| Contractual services | 188,676 | 170,330 | 161,694 | 8,636 |
| Materials and supplies | 80,000 | 75,683 | 67,628 | 8,055 |
| Other | <u>5,930</u> | <u>4,317</u> | <u>1,167</u> | <u>3,150</u> |
| Total public works | <u>855,306</u> | <u>778,335</u> | <u>763,313</u> | <u>15,022</u> |
| Code enforcement: | | | | |
| Personal services | 75,650 | 75,476 | 77,053 | (1,577) |
| Contractual services | 4,630 | 4,422 | 1,753 | 2,669 |
| Materials and supplies | 3,800 | 2,650 | 2,592 | 58 |
| Other | <u>3,800</u> | <u>2,100</u> | <u>2,179</u> | <u>(79)</u> |
| Total code enforcement | <u>87,880</u> | <u>84,648</u> | <u>83,577</u> | <u>1,071</u> |
| Total public services | <u>943,186</u> | <u>862,983</u> | <u>846,890</u> | <u>16,093</u> |
| Community services: | | | | |
| Economic development | 245,969 | 369,691 | 344,103 | 25,588 |
| Parks and recreation | <u>225,000</u> | <u>225,000</u> | <u>221,019</u> | <u>3,981</u> |
| Total community services | <u>470,969</u> | <u>594,691</u> | <u>565,122</u> | <u>29,569</u> |
| Capital outlay: | | | | |
| Vehicles | 61,148 | 94,531 | 62,531 | 32,000 |
| Equipment | 97,168 | 169,180 | 140,628 | 28,552 |
| Land and improvements | — | — | 23,420 | (23,420) |
| Buildings | — | 22,500 | 30,059 | (7,559) |
| Reserve for capital improvement | <u>30,000</u> | <u>110,000</u> | <u>—</u> | <u>110,000</u> |
| Total capital outlay | <u>188,316</u> | <u>396,211</u> | <u>256,638</u> | <u>139,573</u> |
| Debt service: | | | | |
| Principal | 260,000 | 260,000 | 260,000 | — |
| Interest | <u>33,870</u> | <u>33,870</u> | <u>33,870</u> | <u>—</u> |
| Total debt service | <u>293,870</u> | <u>293,870</u> | <u>293,870</u> | <u>—</u> |
| Total expenditures | <u>6,336,985</u> | <u>6,503,985</u> | <u>6,262,762</u> | <u>241,223</u> |

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2018**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|---|----------------------------|-------------------------|---------------------|---|
| Excess of revenues over expenditures | \$ 533,842 | \$ 567,328 | \$ 1,507,817 | \$ 940,489 |
| Other financing sources (uses): | | | | |
| Sale of capital assets | 5,000 | 5,000 | 8,581 | 3,581 |
| Transfers in | — | 48,500 | 77,226 | 28,726 |
| Transfers out | (283,000) | (283,000) | (283,000) | — |
| Total other financing sources (uses) | (278,000) | (229,500) | (197,193) | 32,307 |
| Net change in fund balance | 255,842 | 337,828 | 1,310,624 | 972,796 |
| Fund balances, beginning of year | <u>7,186,101</u> | <u>7,186,101</u> | <u>7,186,101</u> | — |
| Fund balances, end of year | <u>\$ 7,441,943</u> | <u>\$ 7,523,929</u> | <u>\$ 8,496,725</u> | <u>\$ 972,796</u> |

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CITY OF FRANKLIN, KENTUCKY

**Infrastructure Condition and Maintenance Data
June 30, 2018**

Modified Approach to Infrastructure

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

| | OCI Condition Rating | Square Feet of Road Area | | | | | |
|----------------------|----------------------------|--------------------------|---------------|------------------|---------------|------------------|---------------|
| | | 2017 | | 2016 | | 2014 | |
| | | Square Feet | % | Square Feet | % | Square Feet | % |
| Acceptable | 75 - 100 | 4,215,587 | 84.09 | 3,765,426 | 79.31 | 3,596,060 | 71.05 |
| Marginally deficient | 50 - 74 | 643,425 | 12.83 | 982,154 | 20.69 | 1,234,920 | 24.40 |
| Moderately deficient | 25 - 49 | 154,144 | 3.08 | — | — | 230,046 | 4.55 |
| Severely deficient | 0 - 24 | — | — | — | — | — | — |
| Total | | <u>5,013,156</u> | <u>100.00</u> | <u>4,747,580</u> | <u>100.00</u> | <u>5,061,026</u> | <u>100.00</u> |

| | Comparison of Estimated-to-Actual Maintenance/Preservation | | | | |
|-------------------|--|------------|------------|------------|------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Original estimate | \$ 183,465 | \$ 152,901 | \$ 272,226 | \$ 243,770 | \$ 188,190 |
| Actual | \$ 143,844 | \$ 105,261 | \$ 250,387 | \$ 222,785 | \$ 162,560 |

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.

See Independent Auditor's Report

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**

| | 2018 | 2017 | 2016 | 2015 |
|--|-----------------|-----------------|-----------------|-----------------|
| Total net pension liability for County Employees Retirement Systems | \$8,090,585,976 | \$6,639,559,678 | \$5,834,631,445 | \$4,446,199,755 |
| City's proportion of the net pension liability | .1188% | .1156% | .1150% | .1166% |
| City's proportionate share of the net pension liability | \$ 9,614,320 | \$ 7,677,024 | \$ 6,708,131 | \$ 5,186,001 |
| City's covered payroll | \$ 3,378,134 | \$ 3,253,039 | \$ 3,205,636 | \$ 3,162,531 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 284.60% | 236.00% | 209.26% | 163.98% |
| Plan fiduciary net position as a percentage of the total pension liability | 52.40% | 59.11% | 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.

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

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

| | 2018 | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|----------------|
| Actuarially determined contribution | \$ 537,426 | \$ 511,350 | \$ 452,495 | \$ 450,450 |
| Contributions in relation to the actuarially determined contribution | <u>537,426</u> | <u>511,350</u> | <u>452,495</u> | <u>450,450</u> |
| Contribution deficiency (excess) | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |
| City's covered payroll | \$ 3,378,134 | \$ 3,253,039 | \$ 3,205,636 | \$ 3,162,531 |
| Contributions as a percentage of covered payroll | 15.91% | 15.72% | 14.12% | 14.24% |

Notes to Schedule:

| | |
|-------------------------------|---|
| Valuation date | June 30, 2017 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent of pay, closed |
| Remaining amortization period | 28 years, closed |
| Payroll growth rate | 4.00% |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 3.25% |
| Salary increase | 4.0%, average |
| Investment rate of return | 7.50% |

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

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

**SCHEDULE OF PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY
Last Ten Fiscal Years**

| | 2018 |
|--|------------------|
| Total net OPEB liability for county employees' retirement systems | \$ 2,837,013,635 |
| City's proportion of the net OPEB liability (asset) | .1204% |
| City's proportionate share of the net OPEB liability (asset) | \$ 3,414,788 |
| City's covered payroll | \$ 3,378,134 |
| City's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll | 101.09% |
| Total pension plan's fiduciary net position | \$ 3,401,537,049 |
| Total pension plan's OPEB liability | \$ 6,288,550,680 |
| Total pension plan's fiduciary net position as a percentage of the total OPEB liability | 54.52% |

Note: This schedule is intended to present a 10-year trend per GASB 75.

Additional years will be reported as incurred.

Note: The County Employer's Retirement System measurement date is 12 months prior to the City's Financial Statements, the 2018 measurement date is 06/30/17.

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

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

| | 2018 | 2017 |
|---|----------------|----------------|
| Actuarially determined OPEB contribution | \$ 212,332 | \$ 200,741 |
| Contributions in relation to the actuarially determined OPEB contribution | <u>212,332</u> | <u>200,741</u> |
| OPEB contribution deficiency (excess) | \$ <u>—</u> | \$ <u>—</u> |
| City's covered payroll | \$ 3,378,134 | \$ 3,253,039 |
| OPEB contributions as a percentage of covered payroll | 6.26% | 6.17% |

Notes to Schedule:

| | |
|-------------------------------|---|
| Valuation date | June 30, 2017 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent of pay |
| Remaining amortization period | 28 years, closed |
| Payroll growth rate | 4.00% |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 3.25% |
| Salary increase | 4.0%, average |
| Investment rate of return | 7.50% |
| Healthcare trend rates: | |
| Pre-65 | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years. |
| Post-65 | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years. |

Note: This schedule is intended to present a 10-year trend per GASB 75. Additional years will be reported as incurred.

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CITY OF FRANKLIN, KENTUCKY
SCHEDULE OF TOTAL OPEB LIABILITY
CITY RETIREMENT PLAN
Last Ten Fiscal Years

| | 2018 | 2017 |
|----------------------|-------------------|-------------------|
| Total OPEB liability | <u>\$ 427,987</u> | <u>\$ 515,756</u> |

Note: This schedule is intended to present a 10-year trend per GASB 75. Additional years will be reported as they become available.

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY
SCHEDULE OF CITY OPEB CONTRIBUTIONS
CITY RETIREMENT PLAN
Last Ten Fiscal Years

| | 2018 | 2017 |
|-------------------------|-------------------|-------------------|
| City OPEB contributions | <u>\$ 102,886</u> | <u>\$ 122,400</u> |

Note: This schedule is intended to present a 10-year trend per GASB 75. Additional years will be reported as they become available.

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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, 2018**

| | Special Revenue | | | | | |
|---|------------------|----------------------------------|--------------------------|---------------------------------|-------------------|-------------------|
| | <u>Cemetery</u> | <u>Community Development</u> | <u>Municipal Aid</u> | <u>Economic Development</u> | <u>Stormwater</u> | <u>Total</u> |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 73,527 | \$ — | \$ 177,817 | \$ — | \$ 355,188 | \$ 606,532 |
| Certificates of deposit | — | — | — | — | — | — |
| Receivables (net of allowance for uncollectibles): | | | | | | |
| Accounts | 6,575 | — | — | — | 23,526 | 30,101 |
| Intergovernmental | — | — | 19,827 | — | — | 19,827 |
| Due from other funds | — | — | — | 50,993 | 1,799 | 52,792 |
| Prepaid items | 554 | — | — | — | 6,496 | 7,050 |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | — | 71,000 | — | — | — | 71,000 |
| Total assets | <u>\$ 80,656</u> | <u>\$ 71,000</u> | <u>\$ 197,644</u> | <u>\$ 50,993</u> | <u>\$ 387,009</u> | <u>\$ 787,302</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 761 | \$ — | \$ 59,424 | \$ — | \$ 1,330 | \$ 61,515 |
| Due to other funds | — | 32,206 | — | — | 533 | 32,739 |
| Total liabilities | <u>761</u> | <u>32,206</u> | <u>59,424</u> | <u>—</u> | <u>1,863</u> | <u>94,254</u> |
| Fund balances: | | | | | | |
| Nonspendable: | | | | | | |
| Prepaid items | 554 | — | — | — | 6,496 | 7,050 |
| Perpetual care | — | — | — | — | — | — |
| Restricted | | | | | | |
| Highway and streets | — | — | 138,220 | — | — | 138,220 |
| Committed | | | | | | |
| Stormwater | — | — | — | — | 378,650 | 378,650 |
| Assigned to: | | | | | | |
| Other purposes | 79,341 | 38,794 | — | 50,993 | — | 169,128 |
| Total fund balances | <u>79,895</u> | <u>38,794</u> | <u>138,220</u> | <u>50,993</u> | <u>385,146</u> | <u>693,048</u> |
| Total liabilities and fund balances | <u>\$ 80,656</u> | <u>\$ 71,000</u> | <u>\$ 197,644</u> | <u>\$ 50,993</u> | <u>\$ 387,009</u> | <u>\$ 787,302</u> |

See Independent Auditor's Report

| <u>Permanent Funds</u> | <u>Total Nonmajor Governmental Funds</u> |
|-------------------------------|--|
| <u>Cemetery Perpetual</u> | |
| \$ 106,031 | \$ 712,563 |
| 440,610 | 440,610 |
| 600 | 30,701 |
| — | 19,827 |
| — | 52,792 |
| — | 7,050 |
| <u>—</u> | <u>71,000</u> |
| <u>\$ 547,241</u> | <u>\$ 1,334,543</u> |
| \$ — | \$ 61,515 |
| <u>—</u> | <u>32,739</u> |
| <u>—</u> | <u>94,254</u> |
| — | 7,050 |
| 547,241 | 547,241 |
| — | 138,220 |
| — | 378,650 |
| <u>—</u> | <u>169,128</u> |
| <u>547,241</u> | <u>1,240,289</u> |
| <u>\$ 547,241</u> | <u>\$ 1,334,543</u> |

CITY OF FRANKLIN, KENTUCKY

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
June 30, 2018**

| | <u>Francis Harris Cemetery Perpetual</u> | <u>Greenlawn- Shady Rest Cemetery Perpetual</u> | <u>Total Nonmajor Permanent Funds</u> |
|---------------------------|--|---|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,104 | \$ 103,927 | \$ 106,031 |
| Certificates of deposit | 50,000 | 390,610 | 440,610 |
| Accounts receivable | <u>—</u> | <u>600</u> | <u>600</u> |
| Total assets | <u>\$ 52,104</u> | <u>\$ 495,137</u> | <u>\$ 547,241</u> |
| FUND BALANCES | | | |
| Nonspendable: | | | |
| Cemetery maintenance | \$ 52,104 | \$ — | \$ 52,104 |
| Perpetual care | <u>—</u> | <u>495,137</u> | <u>495,137</u> |
| Total fund balances | <u>\$ 52,104</u> | <u>\$ 495,137</u> | <u>\$ 547,241</u> |

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2018**

| | <u>Special Revenue</u> | | | | | |
|--|------------------------|----------------------------------|--------------------------|---------------------------------|-------------------|-------------------|
| | <u>Cemetery</u> | <u>Community Development</u> | <u>Municipal Aid</u> | <u>Economic Development</u> | <u>Stormwater</u> | <u>Total</u> |
| Revenues | | | | | | |
| Intergovernmental | \$ — | \$ — | \$ 183,379 | \$ — | \$ — | \$ 183,379 |
| Charges for sales and services | 76,600 | — | — | — | 251,953 | 328,553 |
| Contributions | — | — | — | — | — | — |
| Investment income | <u>583</u> | <u>—</u> | <u>188</u> | <u>—</u> | <u>—</u> | <u>771</u> |
| Total revenues | <u>77,183</u> | <u>—</u> | <u>183,567</u> | <u>—</u> | <u>251,953</u> | <u>512,703</u> |
| Expenditures | | | | | | |
| Current: | | | | | | |
| Public works | — | — | 164,606 | — | 174,057 | 338,663 |
| Community services | 248,816 | — | — | — | — | 248,816 |
| Capital outlay | — | — | — | — | <u>55,352</u> | <u>55,352</u> |
| Total expenditures | <u>248,816</u> | <u>—</u> | <u>164,606</u> | <u>—</u> | <u>229,409</u> | <u>642,831</u> |
| Excess (deficiency) of revenues over (under) expenditures | (171,633) | — | <u>18,961</u> | — | <u>22,544</u> | (130,128) |
| Other financing sources (uses): | | | | | | |
| Transfers in | 186,000 | — | — | — | 100,000 | 286,000 |
| Transfers out | — | — | — | — | — | — |
| Total other financing sources (uses) | <u>186,000</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>100,000</u> | <u>286,000</u> |
| Net change in fund balances | 14,367 | — | 18,961 | — | 122,544 | 155,872 |
| Fund balances, beginning of year | <u>65,528</u> | <u>38,794</u> | <u>119,259</u> | <u>50,993</u> | <u>262,602</u> | <u>537,176</u> |
| Fund balances, end of year | <u>\$ 79,895</u> | <u>\$ 38,794</u> | <u>\$ 138,220</u> | <u>\$ 50,993</u> | <u>\$ 385,146</u> | <u>\$ 693,048</u> |

See Independent Auditor's Report

| <u>Permanent Funds</u> | <u>Total Nonmajor Governmental Funds</u> |
|-------------------------------|--|
| <u>Cemetery Perpetual</u> | |
| \$ — | \$ 183,379 |
| — | 328,553 |
| 14,050 | 14,050 |
| <u>3,564</u> | <u>4,335</u> |
| <u>17,614</u> | <u>530,317</u> |
| — | 338,663 |
| 25 | 248,841 |
| <u>—</u> | <u>55,352</u> |
| <u>25</u> | <u>642,856</u> |
| <u>17,589</u> | <u>(112,539)</u> |
| — | 286,000 |
| <u>(3,000)</u> | <u>(3,000)</u> |
| <u>(3,000)</u> | <u>283,000</u> |
| 14,589 | 170,461 |
| <u>532,652</u> | <u>1,069,828</u> |
| <u>\$ 547,241</u> | <u>\$ 1,240,289</u> |

CITY OF FRANKLIN, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
Year Ended June 30, 2018**

| | <u>Francis Harris Cemetery Perpetual</u> | <u>Greenlawn- Shady Rest Cemetery Perpetual</u> | <u>Total Nonmajor Permanent Funds</u> |
|--------------------------------------|--|---|---|
| Revenues | | | |
| Investment income | \$ 471 | \$ 3,093 | \$ 3,564 |
| Contributions | <u>—</u> | <u>14,050</u> | <u>14,050</u> |
| Total revenues | 471 | 17,143 | 17,614 |
| Expenditures | | | |
| Current: | | | |
| Community services | <u>25</u> | <u>—</u> | <u>25</u> |
| Excess of revenues over expenditures | 446 | 17,143 | 17,589 |
| Other financing uses | | | |
| Transfers out | <u>—</u> | <u>(3,000)</u> | <u>(3,000)</u> |
| Net change in fund balance | 446 | 14,143 | 14,589 |
| Fund balance, beginning of year | <u>51,658</u> | <u>480,994</u> | <u>532,652</u> |
| Fund balance, end of year | <u>\$ 52,104</u> | <u>\$ 495,137</u> | <u>\$ 547,241</u> |

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Greenlawn - Shady Rest Cemetery Special Revenue Fund
Year Ended June 30, 2018**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|------------------|---|
| Revenues | | | | |
| Charges for sales and services | \$ 83,000 | \$ 72,000 | \$ 76,600 | \$ 4,600 |
| Investment income | 75 | 75 | 108 | 33 |
| Miscellaneous | <u>195</u> | <u>450</u> | <u>475</u> | <u>25</u> |
| Total revenues | <u>83,270</u> | <u>72,525</u> | <u>77,183</u> | <u>4,658</u> |
| Expenditures | | | | |
| Community services: | | | | |
| Personal services | 8,783 | 8,918 | 8,918 | — |
| Contractual services | 184,450 | 184,776 | 185,261 | (485) |
| Materials and supplies | 5,650 | 3,669 | 324 | 3,345 |
| Administrative overhead | 44,846 | 44,846 | 44,846 | — |
| Other | <u>9,977</u> | <u>7,787</u> | <u>9,467</u> | <u>(1,680)</u> |
| Total expenditures | <u>253,706</u> | <u>249,996</u> | <u>248,816</u> | <u>1,180</u> |
| Deficiency of revenues under expenditures | (170,436) | (177,471) | (171,633) | 5,838 |
| Other financing sources: | | | | |
| Transfers in | <u>186,000</u> | <u>186,000</u> | <u>186,000</u> | <u>—</u> |
| Net change in fund balance | 15,564 | 8,529 | 14,367 | 5,838 |
| Fund balance, beginning of year | <u>65,528</u> | <u>65,528</u> | <u>65,528</u> | <u>—</u> |
| Fund balance, end of year | <u>\$ 81,092</u> | <u>\$ 74,057</u> | <u>\$ 79,895</u> | <u>\$ 5,838</u> |

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CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Municipal Aid Special Revenue Fund

Year Ended June 30, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|--------------------------|--------------------------|---|
| Revenues | | | | |
| Intergovernmental: | | | | |
| Liquid fuel tax | \$ 161,137 | \$ 161,137 | \$ 164,850 | \$ 3,713 |
| Mineral and coal severance tax | 10,000 | 19,488 | 18,529 | (959) |
| Investment income | <u>200</u> | <u>150</u> | <u>188</u> | <u>38</u> |
| Total revenues | 171,337 | 180,775 | 183,567 | 2,792 |
| Expenditures | | | | |
| Current: | | | | |
| Public works | <u>185,500</u> | <u>185,500</u> | <u>164,606</u> | <u>20,894</u> |
| Excess (deficiency) of revenues over expenditures | (14,163) | (4,725) | 18,961 | 23,686 |
| Fund balance, beginning of year | <u>119,259</u> | <u>119,259</u> | <u>119,259</u> | <u>—</u> |
| Fund balance, end of year | <u><u>\$ 105,096</u></u> | <u><u>\$ 114,534</u></u> | <u><u>\$ 138,220</u></u> | <u><u>\$ 23,686</u></u> |

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CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Stormwater Special Revenue Fund
Year Ended June 30, 2018**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|-------------------------|-------------------|---|
| Revenues | | | | |
| Charges for sales and services | \$ 240,760 | \$ 245,000 | \$ 244,620 | (\$ 380) |
| Fines and forfeitures | <u>7,500</u> | <u>7,500</u> | <u>7,333</u> | <u>(167)</u> |
| Total revenues | <u>248,260</u> | <u>252,500</u> | <u>251,953</u> | <u>(547)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public works: | | | | |
| Personal services | 136,083 | 135,742 | 135,164 | 578 |
| Contractual services | 52,539 | 37,097 | 19,900 | 17,197 |
| Materials and supplies | 31,500 | 23,803 | 18,853 | 4,950 |
| Other | <u>2,850</u> | <u>1,900</u> | <u>140</u> | <u>1,760</u> |
| Total public works | 222,972 | 198,542 | 174,057 | 24,485 |
| Capital outlay | <u>155,000</u> | <u>116,290</u> | <u>55,352</u> | <u>60,938</u> |
| Total expenditures | <u>377,972</u> | <u>314,832</u> | <u>229,409</u> | <u>85,423</u> |
| Excess (deficiency) of revenues over (under) expenditures | (129,712) | (62,332) | 22,544 | 84,876 |
| Other financing sources (uses): | | | | |
| Transfers in | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> | <u>—</u> |
| Net change in fund balance | (29,712) | 37,668 | 122,544 | 84,876 |
| Fund balance, beginning of year | <u>262,602</u> | <u>262,602</u> | <u>262,602</u> | <u>—</u> |
| Fund balance, end of year | <u>\$ 232,890</u> | <u>\$ 300,270</u> | <u>\$ 385,146</u> | <u>\$ 84,876</u> |

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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.

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2018**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|-------------------------|------------------|---|
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Water division | \$ 2,935,820 | \$ 2,991,801 | \$ 2,965,893 | (\$ 25,908) |
| Wastewater division | <u>2,504,141</u> | <u>2,532,641</u> | <u>2,520,193</u> | <u>(12,448)</u> |
| Total operating revenues | <u>5,439,961</u> | <u>5,524,442</u> | <u>5,486,086</u> | <u>(38,356)</u> |
| Nonoperating revenues: | | | | |
| Investment income | 7,750 | 9,750 | 12,187 | 2,437 |
| Sales of assets | 2,000 | 2,000 | (10,338) | (12,338) |
| Miscellaneous | <u>10,300</u> | <u>92,657</u> | <u>25,283</u> | <u>(67,374)</u> |
| Total nonoperating revenues | <u>20,050</u> | <u>104,407</u> | <u>27,132</u> | <u>(77,275)</u> |
| Total revenues | <u>5,460,011</u> | <u>5,628,849</u> | <u>5,513,218</u> | <u>(115,631)</u> |
| Expenditures | | | | |
| Administration division: | | | | |
| Administrative: | | | | |
| Personal services | 142,703 | 139,793 | 171,228 | (31,435) |
| Contractual services | 886 | 2,404 | 12,874 | (10,470) |
| Materials and supplies | 2,592 | 1,700 | 2,856 | (1,156) |
| Other | <u>5,250</u> | <u>23,830</u> | <u>29,065</u> | <u>(5,235)</u> |
| Total administration division | <u>151,431</u> | <u>167,727</u> | <u>216,023</u> | <u>(48,296)</u> |
| Water division: | | | | |
| Production: | | | | |
| Personal services | 435,028 | 430,414 | 513,176 | (82,762) |
| Contractual services | 208,450 | 192,979 | 194,814 | (1,835) |
| Materials and supplies | 166,869 | 156,793 | 146,691 | 10,102 |
| Other | <u>71,688</u> | <u>73,044</u> | <u>71,439</u> | <u>1,605</u> |
| Total water production | <u>882,035</u> | <u>853,230</u> | <u>926,120</u> | <u>(72,890)</u> |

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CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2018**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|------------------|---|
| Expenditures (continued) | | | | |
| Distribution: | | | | |
| Personal services | \$ 350,588 | \$ 322,288 | \$ 373,177 | (\$ 50,889) |
| Contractual services | 90,062 | 47,918 | 30,368 | 17,550 |
| Materials and supplies | 177,619 | 157,970 | 162,833 | (4,863) |
| Other | <u>12,059</u> | <u>9,135</u> | <u>9,891</u> | <u>(756)</u> |
| Total water distribution | <u>630,328</u> | <u>537,311</u> | <u>576,269</u> | <u>(38,958)</u> |
| Meter reading and maintenance: | | | | |
| Personal services | 64,938 | 66,783 | 80,648 | (13,865) |
| Contractual services | 9,023 | 10,807 | 9,538 | 1,269 |
| Materials and supplies | 179,300 | 89,468 | 77,440 | 12,028 |
| Other | <u>1,109</u> | <u>942</u> | <u>996</u> | <u>(54)</u> |
| Total water meter reading and maintenance | <u>254,370</u> | <u>168,000</u> | <u>168,622</u> | <u>(622)</u> |
| Total water division | <u>1,918,164</u> | <u>1,726,268</u> | <u>1,887,034</u> | <u>(160,766)</u> |
| Wastewater division: | | | | |
| Treatment: | | | | |
| Personal services | 248,527 | 242,195 | 291,816 | (49,621) |
| Contractual services | 295,078 | 297,540 | 300,769 | (3,229) |
| Materials and supplies | 95,359 | 85,607 | 78,869 | 6,738 |
| Other | <u>143,997</u> | <u>71,954</u> | <u>70,973</u> | <u>981</u> |
| Total wastewater treatment | <u>782,961</u> | <u>697,296</u> | <u>742,427</u> | <u>(45,131)</u> |
| Collection and rehabilitation: | | | | |
| Personal services | 308,189 | 247,522 | 313,275 | (65,753) |
| Contractual services | 87,026 | 59,496 | 70,583 | (11,087) |
| Materials and supplies | 47,147 | 50,300 | 33,628 | 16,672 |
| Other | <u>5,540</u> | <u>2,841</u> | <u>2,352</u> | <u>489</u> |
| Total wastewater collection and rehabilitation | <u>447,902</u> | <u>360,159</u> | <u>419,838</u> | <u>(59,679)</u> |
| Total wastewater division | <u>1,230,863</u> | <u>1,057,455</u> | <u>1,162,265</u> | <u>(104,810)</u> |
| Administrative overhead | <u>675,000</u> | <u>675,000</u> | <u>675,000</u> | <u>—</u> |

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CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2018**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| Expenditures (continued) | | | | |
| Debt service: | | | | |
| Principal | \$ 345,000 | \$ 345,000 | \$ 345,000 | \$ — |
| Interest | 150,761 | 151,161 | 155,811 | (4,650) |
| Administrative fees | <u>3,378</u> | <u>3,378</u> | <u>3,420</u> | <u>(42)</u> |
| Total debt service | <u>499,139</u> | <u>499,539</u> | <u>504,231</u> | <u>(4,692)</u> |
| Capital outlays | <u>799,615</u> | <u>1,325,317</u> | <u>839,114</u> | <u>486,203</u> |
| Total expenditures | <u>5,122,781</u> | <u>5,283,579</u> | <u>5,067,644</u> | <u>215,935</u> |
| Excess of revenues over expenditures | 337,230 | 345,270 | 445,574 | 100,304 |
| Other financial uses | | | | |
| Transfers out | <u>—</u> | <u>(48,563)</u> | <u>(77,226)</u> | <u>(28,663)</u> |
| Excess of revenues and other financing sources over expenditures | <u>\$ 337,230</u> | <u>\$ 296,707</u> | 368,348 | <u>\$ 71,641</u> |
| Add: | | | | |
| Principal payments | | | 345,000 | |
| Capital outlays, including capitalized labor and materials | | | 839,114 | |
| Capital contributions | | | 82,937 | |
| Less: | | | | |
| Depreciation expense | | | (1,103,378) | |
| Amortization expense | | | <u>(2,310)</u> | |
| Change in net position | | | <u>529,711</u> | |
| Net position, beginning of year | | | 19,843,043 | |
| Change in accounting principle - GASB 75 | | | <u>(611,316)</u> | |
| Net position, beginning of year, restated | | | <u>19,231,727</u> | |
| Net position, end of year | | | <u>\$19,761,438</u> | |

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CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Sanitation Fund

Year Ended June 30, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|-------------------------|------------------|---|
| Operating revenues: | | | | |
| Charges for services: | | | | |
| Hand pick-up | \$ 674,000 | \$ 676,000 | \$ 700,016 | \$ 24,016 |
| Collection fees | 17,211 | 17,211 | 21,001 | 3,790 |
| Fines and forfeitures | 25,000 | 25,000 | 23,141 | (1,859) |
| Franchise fee | <u>189,669</u> | <u>200,280</u> | <u>209,314</u> | <u>9,034</u> |
| Total operating revenues | 905,880 | 918,491 | 953,472 | 34,981 |
| Nonoperating revenues: | | | | |
| Investment income | <u>325</u> | <u>325</u> | <u>387</u> | <u>62</u> |
| Total revenues | <u>906,205</u> | <u>918,816</u> | <u>953,859</u> | <u>35,043</u> |
| Expenditures | | | | |
| Sanitation operations: | | | | |
| Personal services | 8,261 | 8,450 | 927 | 7,523 |
| Contractual services | 673,000 | 676,000 | 700,017 | (24,017) |
| Administrative overhead | <u>209,500</u> | <u>209,500</u> | <u>209,500</u> | <u>—</u> |
| Total expenditures | <u>890,761</u> | <u>893,950</u> | <u>910,444</u> | <u>(16,494)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 15,444</u> | <u>\$ 24,866</u> | <u>43,415</u> | <u>\$ 18,549</u> |
| Net position, beginning of year | | | 7,790 | |
| Change in accounting principle – GASB 75 | | | (34,294) | |
| Net position, beginning of year, restated | | | (26,504) | |
| Net position, end of year | | | <u>\$ 16,911</u> | |

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**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 Standards*, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 5, 2019.

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 (2018-1).

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

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.

Kerber & Moore, LLP

Bowling Green, Kentucky
March 5, 2019

CITY OF FRANKLIN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2018-1 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.