

CITY OF FRANKLIN, KENTUCKY
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2020

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ANNUAL FINANCIAL REPORT

Year Ended June 30, 2020

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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, 2020, 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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 23, 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 February 1, 2021, 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
February 1, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Franklin, Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2020 and 2019

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, 2020. 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 \$37,882,977 and \$36,810,250 for the prior fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported ending net position of \$16,782,090 which includes unrestricted net position of \$1,263,878. Respectively for the prior fiscal year \$16,249,344 of net position and \$975,090 of unrestricted net position.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9,670,471 with \$8,161,747 for the prior fiscal year.
- For the year ended June 30, 2020, total debt decreased by a net amount of \$984,927 during the year, due to the City repaying the 2009 Refunding and Improvement Bonds. For the prior fiscal year, total debt decreased by \$632,514 during the year.
- The City had total revenues of \$14,862,774 for the year ended June 30, 2020 which includes: program revenues (charges for service) of \$7,504,020, operating grants and contributions of \$479,523, and general revenues of \$6,879,231. The City had total expenses of \$13,790,047 for the year ended June 30, 2020. Comparatively, the City had total revenues of \$15,757,729 for the year ended June 30, 2019 which included: program revenues (charges for service) of \$8,174,057, operating grants and contributions of \$354,586, and general revenues of \$7,229,086. The City had total expenses of \$15,083,458 for the year ended June 30, 2019.
- The City's total capital outlays were \$1,005,168 for the current fiscal year and \$2,021,212 for the prior fiscal year. For the Governmental Funds, capital outlays were \$574,001 for the current fiscal year and \$983,024 for the prior fiscal year. For the Proprietary Funds, capital outlays for the current fiscal year were \$431,167 and the prior fiscal year of \$1,038,188.

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 **24 and 25** 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 **35 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 \$37,882,977 for the current fiscal year and \$36,810,250 at the close of the prior fiscal year.

By far the largest portion of the City's net position (61%) 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.

	2020 Net Position		
	Governmental Activities	Business- type Activities	Total
Current and other assets	\$ 11,728,015	\$ 9,927,789	\$ 21,655,804
Capital assets	<u>14,849,779</u>	<u>19,186,740</u>	<u>34,036,519</u>
Total assets	<u>26,577,794</u>	<u>29,114,529</u>	<u>55,692,323</u>
Deferred amount on refunding bonds	—	88,023	88,023
Outflows for pensions	1,854,258	557,525	2,411,783
Outflows for OPEB	<u>801,531</u>	<u>250,491</u>	<u>1,052,022</u>
Total deferred outflows	<u>2,655,789</u>	<u>896,039</u>	<u>3,551,828</u>
Long-term liabilities outstanding	—	3,600,319	3,600,319
Net pension liability	8,422,263	2,484,494	10,906,757
OPEB liability	2,216,590	805,428	3,022,018
Other liabilities	<u>492,137</u>	<u>1,604,096</u>	<u>2,096,233</u>
Total liabilities	<u>11,130,990</u>	<u>8,494,337</u>	<u>19,625,327</u>
Inflows for pensions	567,049	165,303	732,352
Inflows for OPEB	<u>753,459</u>	<u>250,041</u>	<u>1,003,500</u>
Total deferred inflows	<u>1,320,508</u>	<u>415,344</u>	<u>1,735,852</u>
Net position			
Net investment in capital assets	14,849,779	15,716,198	30,565,977
Restricted			
Expendable - Highways & Streets	96,362	—	96,362
Expendable - Debt service & capital activity	—	1,178,607	1,178,607
Nonexpendable - Perpetual Care	572,071	—	572,071
Unrestricted	<u>1,263,878</u>	<u>4,206,082</u>	<u>5,469,960</u>
Total net position	<u>\$ 16,782,090</u>	<u>\$ 21,100,887</u>	<u>\$ 37,882,977</u>

	2019 Net Position		
	Governmental Activities	Business- type Activities	Total
Current and other assets	\$ 11,217,390	\$ 8,640,701	\$ 19,858,091
Capital assets	<u>14,645,407</u>	<u>19,974,236</u>	<u>34,619,643</u>
Total assets	<u>25,862,797</u>	<u>28,614,937</u>	<u>54,477,734</u>
Deferred amount on refunding bonds	—	95,621	95,621
Outflows for pensions	2,042,393	597,534	2,639,927
Outflows for OPEB	<u>740,246</u>	<u>215,841</u>	<u>956,087</u>
Total deferred outflows	<u>2,782,639</u>	<u>908,996</u>	<u>3,691,635</u>
Long-term liabilities outstanding	434,821	4,035,424	4,470,245
Net pension liability	7,764,566	2,235,122	9,999,688
OPEB liability	<u>2,395,127</u>	<u>865,579</u>	<u>3,260,706</u>
Other liabilities	<u>748,824</u>	<u>1,513,079</u>	<u>2,261,903</u>
Total liabilities	<u>11,343,338</u>	<u>8,649,204</u>	<u>19,992,542</u>
Inflows for pensions	566,168	164,970	731,138
Inflows for OPEB	<u>486,586</u>	<u>148,853</u>	<u>635,439</u>
Total deferred inflows	<u>1,052,754</u>	<u>313,823</u>	<u>1,366,577</u>
Net position			
Net investment in capital assets	14,645,407	15,855,591	30,500,998
Restricted			
Expendable - Highways & Streets	69,100	—	69,100
Expendable - Debt service & capital activity	—	1,187,063	1,187,063
Nonexpendable - Perpetual Care	<u>559,747</u>	<u>—</u>	<u>559,747</u>
Unrestricted	<u>975,090</u>	<u>3,518,252</u>	<u>4,493,342</u>
Total net position	<u>\$ 16,249,344</u>	<u>\$ 20,560,906</u>	<u>\$ 36,810,250</u>

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

2020			
Changes in Net Position			
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 1,038,961	\$ 6,465,059	\$ 7,504,020
Operating grants and contributions	479,523	—	479,523
Capital grants and contributions	—	—	—
General revenues			
Property taxes	1,199,263	—	1,199,263
Occupational fees	2,301,645	—	2,301,645
Insurance premium fees	1,932,134	—	1,932,134
Franchise fees	103,477	—	103,477
Business license fees	930,043	—	930,043
Interest income	142,922	111,110	254,032
Miscellaneous income	104,646	42,311	146,957
Gain (loss) on the sale of assets	30,299	(18,619)	11,680
Transfers	—	—	—
Total revenues and transfers	<u>8,262,913</u>	<u>6,599,861</u>	<u>14,862,774</u>
Expenses			
General government	1,609,051	—	1,609,051
Public safety	3,618,714	—	3,618,714
Public services	1,694,316	—	1,694,316
Community and cultural	789,850	—	789,850
Interest expense on long-term debt	18,236	142,391	160,627
Water and wastewater	—	4,949,002	4,949,002
Sanitation	—	968,487	968,487
Total expenses	<u>7,730,167</u>	<u>6,059,880</u>	<u>13,790,047</u>
Change in net position	532,746	539,981	1,072,727
Net position, beginning of year	<u>16,249,344</u>	<u>20,560,906</u>	<u>36,810,250</u>
Net position, end of year	<u>\$ 16,782,090</u>	<u>\$ 21,100,887</u>	<u>\$ 37,882,977</u>

2019			
Changes in Net Position			
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 1,471,103	\$ 6,702,954	\$ 8,174,057
Operating grants and contributions	354,586	—	354,586
Capital grants and contributions	386,590	265,596	652,186
General revenues			
Property taxes	1,096,214	—	1,096,214
Occupational fees	2,456,405	—	2,456,405
Insurance premium fees	1,843,588	—	1,843,588
Franchise fees	95,732	—	95,732
Business license fees	833,930	—	833,930
Interest income	111,785	33,997	145,782
Miscellaneous income	77,774	46,275	124,049
Gain on the sale of assets	17,708	(36,508)	(18,800)
Transfers	—	—	—
Total revenues and transfers	<u>8,745,415</u>	<u>7,012,314</u>	<u>15,757,729</u>
Expenses			
General government	2,079,834	—	2,079,834
Public safety	3,223,501	—	3,223,501
Public services	1,654,596	—	1,654,596
Community and cultural	1,871,177	—	1,871,177
Interest expense on long-term debt	24,593	145,158	169,751
Water and wastewater	—	5,142,628	5,142,628
Sanitation	—	941,971	941,971
Total expenses	<u>8,853,701</u>	<u>6,229,757</u>	<u>15,083,458</u>
Change in net position	(108,286)	782,557	674,271
Net position, beginning of year	<u>16,357,630</u>	<u>19,778,349</u>	<u>36,135,979</u>
Net position, end of year	<u>\$ 16,249,344</u>	<u>\$ 20,560,906</u>	<u>\$ 36,810,250</u>

Financial Analysis of the Government's Funds

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$9,853,654 compared to \$9,365,547 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 represent 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 5.5% of budget. As a point of reference, a 5% budget to actual variance is the overall goal. With the 5.5% variance being slightly over the 5% goal it shows that management's revenue projection strategies have been effective in ensuring a tighter and more accurate budget to actual projection for our operations. Budgeted expenses were slightly less than final budgetary estimates (by 8.0%). Although a little above our 5% or less budget variance goal, the variance was within an acceptable range.

Total proprietary fund revenues for the year were within acceptable parameters (<1% of budget), in total, with final budgetary estimates while expenses were less than final budgetary estimates (by 16.9%).

Most of the budget expenditure variances, for both the General Fund and Proprietary Fund, were due to excess in the capital reserve budget. Due to the uncertainty of the pandemic, capital projects were put on hold for FY2020.

Proprietary Funds

Operating revenues of the City's proprietary funds decreased 3.5% from the prior year to \$6,465,059. The City saw a decrease in their proprietary funds due to implementing a moratorium on late fees due to the economic hardship created by the Covid-19 pandemic. The City rates for water, sewer and sanitation did not change in FY2020. Operating revenues from Water and Wastewater decreased by 4.2% to \$5,458,197 while operating revenues from Sanitation services decreased 0.2% to \$1,006,862. Operating expenses for Water & Wastewater decreased by 3.7% to \$4,943,632 while operating expenses for Sanitation services increased by 2.8% to \$968,487.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2020, the City's investment in capital assets net of related debt for its governmental and business-type activities was \$30,565,977 and \$30,500,998 as of June 30, 2019. 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 \$248,000 to acquire property on Witt Road and East Madison Street and to clean up the acquired property. The City purchased this property with plans to clean up the property and build a Police Department within the next 3 to 5 years.
 - The City expended approximately \$14,000 in facility plan and design fees for the new Police Department.
 - The City expended approximately \$16,000 in software and equipment to update the security and protection system in place at City Hall and to also update video equipment for commission meetings.
 - The City expended approximately \$228,000 in capital needs for the Police Department. This included the purchase of 25 body cameras; 6 KYOPS approved/certified mobile dispatching tablets; 1 drone; and the purchase of six new, fully equipped, patrol units. One patrol unit was a replacement of totaled unit. In 2019 the City implemented a Capital Replacement Plan, along with a corresponding Capital Sinking Fund, to adequately budget the replacement of significant capital items.
 - The City purchased two new salt spreading attachments for a total of \$13,000.
 - The City expended approximately \$47,000 for a new public works service truck.
 - The City spent over \$305,000 in street paving and repairs.

- Franklin Municipal Utilities
 - Capital expenditures of \$176,000 for improvements and additions to the City's waste water system, specifically related to the following:
 - Rehabilitation of Cardinal Drive sewer line, \$92,000
 - Rehabilitation of East Kentucky Street sewer line, \$40,000
 - Rehabilitation of Filter Plant Road sewer line, \$28,000
 - Hwy 100 generator rehabilitation and new pump, \$16,000
 - Capital Expenditures of \$48,000 for the Water Treatment Plant (WTP). This included the replacement of outside pole lights, the purchase of various equipment, such as replacement of drive chains and drag chains, rebuilding of flash mixer gear box, and the replacement of all bleach & coagulant tank valves.
 - Capital Expenditures of \$107,000 at the Wastewater Treatment Plant (WWTP). This included rehabilitation to one of the plants aeration basins and electrical upgrade.
 - Capital Expenditures of \$33,000 within the Water Distribution Department. The purchases include a forklift, DLD listening device and a vehicle.
 - Capital Expenditures of \$14,000 to replace the garage doors at the Public Works/Water Distribution building on newer, more energy efficient doors.
 - Capital Expenditures of \$4,500 for GPS receivers to capture detailed, real time data to integrate into our GIS program.

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

- General Fund
 - Capital Expenditures of \$318,000 to acquire property on Witt Road and East Madison Street. The City purchased this property with plans to clean up the property and build a Police Department within the next 3 to 5 years.
 - The City expended approximately \$28,000 in replacing HVAC units (each of which were older than 20 years) at City Hall, the Cemetery and the Police Department. In the prior year approximately \$22,000 was also spent to replace old and poorly functioning HVAC units. All HVAC units have now been upgraded.
 - The City adopted the streets and stormwater infrastructure, after a thorough development and construction inspection process and a year long mitigation period, of Westwoods Subdivision. The infrastructure was capitalized at a cost of \$386,000.
 - The City expended approximately \$12,000 in software and equipment to update the security and protection system in place at City Hall.
 - The City, in partnership with Franklin Municipal Utilities, expended \$95,000 in FY2018 to implement a fully integrated financial software program. An additional \$6,000 was spent in the current year. This investment has significantly improved operating efficiency within the Finance and Billing Departments and these costs have already been recouped in labor savings. Departments and these costs are expected to be recouped within 3 years in labor savings.
 - The City expended approximately \$173,000 in capital needs for the Police Department. This included the purchase of 25 digitally enhanced mobile radios for cruisers; 6 KYOPS approved/certified mobile dispatching tablets; and the purchase of four new, fully equipped, patrol units. In 2019 the City implemented a Capital Replacement Plan, along with a corresponding Capital Sinking Fund, to adequately budget the replacement of significant capital items. This purchase was in accordance with this Replacement Plan.
 - The City purchased a new zero turn mower and replaced the roof on the building used to house street salt for a total of \$15,000.
 - The City spent over \$239,000 in street paving and repairs.
- Franklin Municipal Utilities
 - Capital expenditures of \$275,000 for improvements and additions to the City's waste water system, specifically related to the following:
 - Completion of a significant upgrade to a sewer lift station, located North of 31W, near the Methodist Home, \$267,000
 - Installation of various small Lift Stations and related equipment, \$8,000

- Capital Expenditures of \$39,500 for rehabilitation work on two sewer lift stations – Broadway and Macedonia Road.
- The City adopted the following infrastructure within Westwoods Subdivision: 6” water lines and 8” sewer lines. This infrastructure was formally adopted after a thorough development and construction inspection process and a year long mitigation period. The infrastructure was capitalized at a cost of \$265,000.
- Capital Expenditures of \$38,000 for the Water Treatment Plant (WTP). This included the replacement of energy efficient light fixtures within the entire plant, the purchase of various equipment, such as a chlorine analyzer, water purification system, speed pumps, and a hydro gate actuator for the Dam. This also includes improvements to the plants raw water pumps and filter basin equipment.
- Capital Expenditures of \$80,000 at the Wastewater Treatment Plant (WWTP). This included rehabilitation to one of the plants aeration basins and the replacement of an HVAC unit.
- Capital Expenditures of \$89,000 within the Water Distribution Department. In FY2018 the City launched a partnership with the Electric Plant Board and their Automated Metering Infrastructure. In 2018, \$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. In 2019 the final \$89,000 was expended on over 500 meters and ERTS to complete the replacement program. 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.
- Capital Expenditures of \$14,000 to replace the garage doors at the Public Works/Water Distribution building on newer, more energy efficient doors.
- Capital Expenditures of \$4,500 for GPS receivers to capture detailed, real time data to integrate into our GIS program.

Long-term Debt

The City had \$3,810,000 in revenue bonds and capital lease obligations outstanding as of June 30, 2020, which is a decrease of \$985,000 from the previous year. In the previous year, the City had \$4,795,000 in revenue bonds and capital lease obligations outstanding as of June 30, 2019, which was a decrease of \$632,760 from the previous year. Subsequent to year end, in December 2019, the City called two of its outstanding bonds for a defeasance of \$710,000 worth of debt. The City called its 2009 General Obligation Bond with a principal pay off of \$445,000 and its 2009 Water & Sewer Revenue Bond with a principal pay off of \$265,000. At the date of this defeasance, the City had no further outstanding debt in its General Fund.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$11,378,841 at June 30, 2020, excluding capital assets and long-term debt. Included in this year's total change in fund balance is an increase of \$488,106 in the City's General Fund. For the previous year, the City's governmental funds reported a combined fund balance of \$10,657,347 at June 30, 2019, excluding capital assets and long-term debt. Included in last year's total change in fund balance was an increase of \$868,823 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, 2020.

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 FY2017 Moody's Investors Service upgraded the City's General Obligation Rating to Aa3 from A3. The City maintains this rating as of the date of this report. 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 FY2019 year Moody's Investors Service issued an Annual Issue Comment Report for the City's Franklin Municipal Utilities. Some of the comments were as follows:

- **Franklin Municipal Utilities**

Franklin Water & Sewer provides water and wastewater service to Simpson County, Kentucky, which has a population of 17,881 and a low population density of 76 people per square mile. The county's median family income is \$55,820 (3rd quarter) and the June 2019 unemployment rate was 4.8% (3rd quarter). 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 Franklin Water & Sewer has a favorable credit position though its A1 rating is slightly under the US water and wastewater systems median of Aa3. Notable credit factors include a modest debt profile, healthy debt service coverage, ample liquidity, but a weak income service area and a small system size.

System Characteristics: *The system profile of Franklin Water & Sewer is weak in relation to its A1 rating. The median family income is a low 60.8% of the US level. Moreover, the system size, measured as operating and maintenance expenses (\$3.4 million), is smaller than the US median.*

Financial Strength: *The financial position of Franklin Water & Sewer is strong in comparison to its A1 rating. The debt to operating revenues (0.68x) is lower than the US median, and was stable from 2014 to 2018. Furthermore, both the coverage of the annual debt service by net revenues (4.1x) and the days cash on hand (481 days) greatly exceed other Moody's-rated water and wastewater systems nationwide.*

- In the FY2020 year Moody's Investors Service issued an Annual Issue Comment Report for the City's Franklin Municipal Utilities. Some of the comments were as follows:

- **Franklin Municipal Utilities**

Franklin Water & Sewer provides water and wastewater service to City of Franklin as well as limited sewer system services outside the city limits to residents in Simpson County, Kentucky. Simpson County has a population of 18,063 and a low population density of 76 people per square mile. The county's median family income is \$58,547 (3rd quartile) and the August 2020 unemployment rate was 7% (2nd 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

Franklin Water & Sewer has a sound credit position. Its A1 rating is slightly beneath the US water and wastewater systems median of Aa3. Notable credit factors include a low debt profile, robust liquidity, healthy debt service coverage and a low income service area and small system size.

System Characteristics: *The system profile of Franklin Water & Sewer is weak and is very unfavorable in relation to the assigned rating of A1. Median family income equates to a mere 65.4% of the US level. The system size, measured as operating and maintenance expenses (\$3.6 million), is similar to the US median.*

Financial Strength: *The financial position of Franklin Water & Sewer is superlative and is very strong with respect to its A1 rating. Debt to operating revenues (0.61x) is excellent and lower than the US median. Both days cash on hand (583 days) and coverage of annual debt service by net revenues (4.2x) are excellent and greatly exceed other Moody's-rated water and wastewater systems nationwide.*

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, concluding in FY2019, 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. Accordingly, City leadership continues to revisit these plans, projections and needs. These are continually changing and evolving as time goes on. 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 was completed in two phases. Phase I was completed in FY2017, for a total cost of \$400,040. Phase II was completed in FY2018, for a total 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.

Beginning in FY2020, the second sub-basin was identified as needing significant rehabilitation work – located around Cardinal Drive in Franklin. This sub-basin rehab has been targeted for project completion by December 2020. The preliminary opinion of probable cost is estimating project expenditures of \$550,000. In FY2019 the City implemented a Capital Replacement Program, identifying this as capital replacement need. As a result, \$300,000 was budgeted to be invested into a Capital sinking fund in both FY2019 and FY2020. Therefore, as of the end of FY2020, \$600,000 will be available to cover these rehabilitation costs. City Leaders are also 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 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.

- In FY2018 the City partnered with the Franklin Electric Plant Board to utilize a new Automated Metering Infrastructure system. This system allowed City staff to reduce its Distribution personnel by one (through natural turnover.) This system also allows 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 and has an ongoing cost of \$60,000 per year.
- In the current year the City worked within its third year of a mass Water Meter Replacement Program. Over 1800 meters were replaced by the end of the current year. Over 500 were replaced this year. Now that this program is completed, a scheduled meter replacement program is being established and will be set to be 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. As mentioned above, in FY2019 the City began to reserve funds, at \$300,000 per year, 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 have 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, 2020, the City has accumulated a fund balance of \$743,200 within this program.

Industrial Expansion & Economic Development

- For the past several years, Franklin has enjoyed positive industrial growth and low unemployment and FY2020 is no exception. Despite the COVID-19 crisis, Franklin had several new industries and businesses either locate a new facility or expand at their existing facility during the past year. During FY2020, the City contributed approximately \$687,000 to the Industrial Authority. Here is a summary of activity, related to the Franklin-Simpson Industrial Authority, and 2020's new and Expanding Industry:
 - **Virtus Precision Tube**- This major manufacturer added 6,600 square feet to their facility adding 15 new jobs with an investment of \$8,000,000.
 - **Compton and Compton Eye Care**- This long-established business in Franklin is investing over \$2,000,000 in a new eye care facility on 31-W South in Franklin.
 - **Tractor Supply Company**- One of Kentucky's largest distribution centers added 160 new jobs to their Franklin location. The company now employs some 600 people making it one of the largest employers in Simpson County.
 - **Pool and Spa Depot**- This Nashville based company purchased the Harman Building in October. They plan on making it their distribution hub and may eventually bring manufacturing to the building creating over 100 jobs and investing \$10,000,000.
 - **Shyne Labs**- This CBD hemp manufacturer out of California moved into an available building in the Wilkey North Industrial Park. They now employ 40 people at their facility and invest \$7,000,000.

- **ON-7-** This Tennessee distribution company has located in an available building on Brown Road just off of Highway 1008. They currently employ five people at their place and invested \$1,000,000.
- **Fortline-** The company built a new building on Trotter's Lane for their distribution center investing some \$2,000,000. They are a major distributor of sewer and storm water utility products.
- **Franklin Pallet-** The manufacturer that started in Franklin 25 years ago has added a 12,000 square foot addition to their plant located on Ogles Avenue. The addition will create 10 new jobs and investing \$3,000,000.
- **The Mint-** Kentucky Downs has added a new addition to their facility called The Mint. This \$6,000,000 addition will create 130 new jobs for Simpson County.
- **Stark Truss-** A leading manufacturer of wood components, the company has added 12,000 square feet to their facility. The company invested some \$2,000,000 and at least 20 new jobs will be added at Stark Truss to accommodate this expansion.
- **Aviette Bioprocessing-** This Canadian company has located in a 12,000 square foot building in Franklin. The company invested some \$5,000,00 and will have as many as 25 employees at their new plant in Franklin..
- This represents a total investment in our community of \$44,000,000 and the addition of 510 new jobs.
- 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, Lexington Place Subdivision, the Willows Subdivision, Williamsburg Subdivision, and Windsor Park Subdivision.)
 - In FY2020 the City of Franklin completed 94 residential water taps in the subdivisions mentioned above.
 - In February of 2019 plans were announced for a major new subdivision on US Highway 31-W North adjacent to the Lewis Memorial Home property. The Windsor Park Subdivision is currently being developed. This new subdivision will be developed in phases and calls for a total of approximately 110 lots for new homes in Franklin. Currently this project is operating within Phase II and, as of the time of this report, has approximately 31 available lots to be built on. At this completion of this development, this will be one of the largest subdivisions in Franklin and will provide much needed housing and potential new workers for the growing industrial community in Franklin.

- 2020 was a decent year for our community where it relates to the number of new, single family residential construction projects. Approximately 100 permits were issued. Our community did not see as much growth as we saw in 2019, but with the presence of Covid-19 the number of new housing units was a bright point of the year.
- 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 at a relatively stable level, rates increasing slightly – from 4.1% in December 2019 to 4.4% in December 2020; however, this rate is lower than the state rate of 5.4% and the national rate of 6.7%.

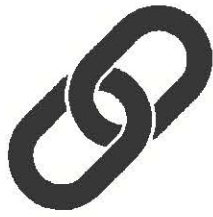
Communications Initiative:

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, over the past three years, over 6,000 copies of the first, second and third edition of the frankLINKentucky 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 and available on our website at www.franklinky.org.

Additionally, in February 2019, the City began posting short informational 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.



frankLINK Kentucky

linking you to city government

Volume 4 2021



From the Mayor

2020 was a turbulent year, but we learned to navigate and carry on business during a global pandemic. City employees adjusted schedules and adapted to new ways of conducting meetings and accomplishing tasks. Because of wonderful employees and good management, the City has been able to continue to operate and move our city forward.

2020 was the year to celebrate our City's 200th year of existence. Many things were planned, but due to COVID, several of those activities had to be cancelled. I feel honored and blessed to have been able to serve as your Mayor during the 200th year celebration. I look forward to a great 2021!

Larry Dixon

United States
**Census
2020**

2020 was the year for the decennial census as mandated by the Constitution. It counts our population and households, providing the basis for reapportioning congressional seats, redistricting, and distributing federal funds to support states, counties and communities' vital programs. Thank you to everyone that completed their census form. Our community thanks you!

RETURN RATE

City of Franklin.....68.6%
Simpson County.....71.9%
State of Kentucky.....68.2%

The data used for state and local redistricting is set to be released by March 31, 2021.

Celebrating 200 Years with 200 Miles!

2020 marked the 200th Birthday of the City of Franklin! On November 20, 1820 the City of Franklin was incorporated by the General Assembly of the Commonwealth of Kentucky.



On Friday, November 20, 2020 City and State officials celebrated that historic date as they gathered on the steps of the Capitol in Frankfort. A proclamation was read honoring the City of Franklin and the Bicentennial celebration. The proclamation was then placed in a tube and handed off to make its journey 200 miles to Franklin. The relay run was conducted by over 80 individuals running a portion of the route from Frankfort to Franklin.

The 200 mile route from Frankfort to Franklin took teams and runners through Frankfort, Versailles,



Lawrenceburg, Harrodsburg, Perryville, Springfield, Bardstown, Hodgenville, Munfordville, Cave City, and Bowling Green until the last runners reached the Historic Courthouse in Downtown Franklin. Once in Franklin, the baton containing the proclamation was handed off to Mayor Larry Dixon where he and city commissioners made a final lap around the historic courthouse to the steps of the courthouse where Mayor Dixon removed the proclamation and read it before a crowd of runners and community members.



Mayor Dixon said, "The Run was a great celebration. It was wonderful to stand on the steps of the Capitol in Frankfort and hand the baton to the City Manager. Then to receive the baton for a final lap around our beautiful Courthouse. We made history in a great way!"

New Police Department Proposal, Tentative Construction in 2022

The City procured the services of an architect and engineering firm to design and develop conceptual drawings of the new campus for the Franklin Police Department. The drawing to the side is just one of the concept drawings for the new building that will be constructed at 501 West Madison Street. Mayor Larry Dixon said, "We hope to be doing construction on the new



facility in early 2022. Our police force has out-grown the current facility which is in need of repairs and upgrades." The new facility will include a fitness room, a community room, expanded records office, evidence office and interview rooms for the officers and detectives. Chief Roger Solomon said, "The biggest difference is that our current facility was built when we had 11 officers and now we have over twice that many. Our biggest need is space and the new facility will provide this along with the ability to expand in the future."

Franklin Municipal Utilities

Out with the Old, In with the New



Cardinal Drive residents received an upgrade to their sewer system in 2020. Approximately 2,100 feet of new sewer line from Cardinal Drive to Witt Road was installed. The line was up-sized from an 8 inch line to a 12 inch line.

A portion of the sewer line on Rolling Road Drive was also replaced along with a manhole. A new manhole and 200 feet of sewer line were added on Strawberry Lane and 2 manholes and 150 feet of sewer line were replaced on East Kentucky Street.



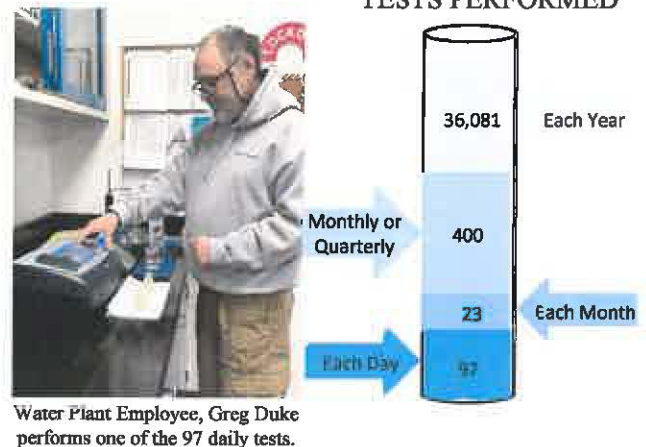
Fire Fighters Keith Dinkens and Shawn Gregory and Water Distribution Supervisor Kenny Massey work together to test the pressure on hydrants.



Working Together.....Testing for Safety

More than 500 fire hydrants were tested in 2020 through a joint effort of the Franklin Simpson Fire Department and the City of Franklin Water Distribution Department. Fire Chief Leslie Goodrum said, "We were looking for a project to benefit all. Realizing the city was not able to utilize inmate labor to assist with their normal functions, testing fire hydrants seemed to be a natural fit for the fire department while easing the workload on the city department." The joint project was beneficial in numerous ways. Chief Goodrum said, "This testing ensures that every hydrant is being touched annually, meaning caps are removed and greased, valves are opened, and water is flown. This simple measure increases the likelihood the hydrant will perform as expected when called upon. Secondly, any deficiencies are noted and shared with the water department so they can be worked into the city's repair plan and budget if necessary. Furthermore, a firefighter is more likely to remember the location and flow capability of a hydrant if they have personally invested time with that hydrant. That information becomes important when selecting a hydrant for water supply during an incident." The fire department also intends to work with the city water distribution department to perform light maintenance and paint hydrants this summer. This is a pilot project resulting from the COVID-19 pandemic but may parlay into a more permanent program.

TESTS PERFORMED



Testing! Testing! Testing! Seven days a week! 365 days a year!

Each day, the staff at the Franklin Water Treatment Plant performs 97 tests to ensure the quality of the drinking water leaving the plant is safe and exceeds industry standards. The Kentucky Division of Water requires certain tests be performed every four hours, however, the Franklin Plant chooses to do them every two hours in order to meet Area Wide Optimization Program certification standards.

The state requires certain tests be collected monthly and quarterly. The Franklin Plant is not certified to perform these tests in-house, so the samples must be sent to outside labs. This additional tests amounts to approximately 400 throughout the year. The Plant has been participating in the area-wide optimization program (AWOP) since 2002; it is a voluntary program designed by the EPA to recognize water plants that get their finished water contaminant levels below state levels thereby producing even better quality water for their consumers.

Making the Best Out of a Bad Situation

Domestic calls for assistance to the Franklin Police Department doubled in 2020 over previous years. Chief Roger Solomon said, "The increase in domestic calls correlates with the holidays, where people spend more time together and often in confined spaces. If you add in the economic impact with job concerns and the uncertainty as households deal with COVID, it was expected that calls would increase."

For years, officers of the Police Department have carried toys in the trunks of their cars to give to children. Chief Solomon said, "Giving a toy or a stuffed animal to a child at a domestic call or in some other critical situation helps us make the best out of a bad situation. It also allows us to bridge the gap with the community and our officers. Our detectives have used this approach for years as a way to comfort a small child. We have also given toys as a gift to children during Christmas for those that may not have the resources to purchase gifts."



Chief Solomon added, "Kids are our future. As police officers, we know that we need to foster those relationships to help build a brighter future. Many of us have children of our own which helps us know how kids respond and what their needs will be in different situations."

If you would like to donate new toys or stuffed animals for the officers to give children in our community, they can be dropped off at 100 South Court Street.



Re-Accredited

On August 24th, 2020, Chief Roger Solomon was presented with a Re-accreditation certificate from Shawn Butler, Executive Director of

the Kentucky Association of Chiefs of Police. The re-accreditation proves that the Franklin Police Department has examined all aspects of their operations and has made conscious decisions about policies and procedures that fit the law enforcement requirements of their jurisdictions. It also proves they have implemented those policies and trained officers in their use. Re-accreditation reflects that the agency was carefully measured against an established set of standards and had met or exceeded professionally accepted law enforcement practices.

Working Together! Improving Efficiency! Saving Money!

Spring of 2017 the City implemented the concept of LEAN management. This is an approach to manage and organize work that aims to improve a company's performance. Steve Akin took on the role of Scheduler. He works with multiple city departments to schedule jobs, tasks and projects as well as the use of equipment.

Prior to this implementation, the City had 5 backhoes, 5 dump trucks, 3 tractors, 7 employees in the water distribution department, and 7 employees in the wastewater collection department. As employees have retired and left, the positions have not been filled thereby reducing the work force and proving more efficient as departments work together. The equipment fleet has also been reduced and the City now has 2 backhoes, 4 dump trucks, 2 tractors, 5 employees in the water distribution department and 5 employees in the wastewater collection department. The vehicle fleet has also been reduced by 4 during this time. The reductions in equipment and vehicles has led to a cost savings in fuel, maintenance, operations, and insurance.

Scheduler Steve Akin said, "We are very fortunate to have such talented employees working for the City of Franklin. Increased communications has helped the departments work together." Public Works Superintendent Chris Klotter said, "Every Monday morning we have a meeting to discuss upcoming projects. The projects are then prioritized and scheduled with available equipment and staff from all departments. Almost daily, staff from different departments are working together to accomplish different tasks."

"The use of Geographic Information System (GIS) mapping has greatly increased efficiency by allowing for electronic work orders to be done in real time as opposed to paper work orders. These work orders can be assigned geographically as opposed to a list. This saves time and fuel and has greatly improved efficiency," said Klotter.



In early January 2021, employees from 4 departments worked together to repair a major water main break. Employees from the street department, wastewater collections and water distribution worked together to make the repair. Officers from the Police Department assisted with traffic control. A great example of working together to complete a project!



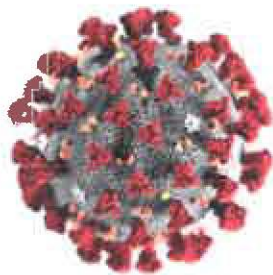
The concrete blocks were left on the site after the wood and metal were removed. The City donated 36 dump truck loads of block and concrete pieces to area farmers for fill material. The recycling of materials saved the City thousands of dollars in waste disposal fees and helped our environment.

The concrete pad on the site, will be jack hammered and removed in 2021 to make the property ready for the construction of the new police department facility.

Property Improvements

The City of Franklin purchased the property at 501 West Madison Street in November of 2018. In 2019 over 500,000 pallets on the property were ground and made in to mulch. In 2020 a company dismantled the buildings on the property. The property consisted of almost 3 acres under roof. The company salvaged all of the wood and metal in the building at no cost to the City.

Impacting Our Lives, Impacting Our Community, Impacting Our Work



Completing everyday tasks became more challenging in the midst of a global pandemic. Prior to March 2020, the City of Franklin utilized the labor of inmates in the Simpson County Detention Center. In a normal year, over 24,300 hours of service is provided by inmates to complete tasks and projects such as mowing, brush pick-up, leaf pick-up, trash removal, and more. But in 2020, without the help of these workers, many City services suffered and became challenging for City employees to keep up with the demand.

In April, Commissioner Herbert Williams and City Manager Kenton Powell joined the forces and assisted Public Works employees in the pick-up of brush. Powell said, "Our guys were struggling to keep up with the work load. I couldn't sit by and watch them work long days so I decided to join them. Then Commissioner Williams volunteered to join us. It was hard work, but very rewarding and enjoyable to work alongside the dedicated employees."

When the realization that the impact of COVID was going to last longer than a few months, the City Commission voted to hire 6 seasonal employees to assist with mowing, brush and leaf pick-up and other tasks. The employees hired were college students that worked until the end of December 2020.



Commissioner Williams assisting with brush pick-up.



Adapting to In Person & Virtual Meetings

2020 was the year for virtual meetings. The Franklin City Commission held 25 meetings in 2020 of which 8 were held virtually. Elected officials and city staff adapted to the new form of communication and meetings in order to keep services operating and projects moving.

At the December 14th meeting of the Franklin City Commission, Simpson Circuit Court Judge Janet J. Crocker joined the video/audio meeting to swear-in the newly elected City Commissioners Jamie Powell, Herbert Williams, Brownie Bennett and Wendell Stewart.

Continuing to Learn

City Commissioners Brownie Bennett and Herbert Williams were presented the Level I Achievement in City Governance certificate by Bill Dieruf, KLC President; and JD Chaney, KLC Executive Director/CEO. The City Officials Training Center is a voluntary continuing education program administered by Kentucky League of Cities. City officials can complete education levels by attending KLC training events and submitting outside training credit from other municipal training. There is no charge to enroll.



Leading Our City

Pictured (left to right): Commissioner Jamie Powell, Commissioner Herbert Williams, Mayor Larry Dixon, Commissioner Brownie Bennett and Commissioner Wendell Stewart



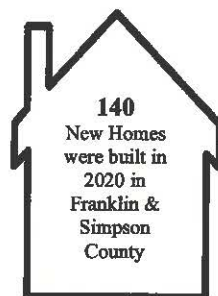
WORKING IN OUR COMMUNITY

At the end of December 2020 the unemployment rate in **Simpson County** was at **4.4%** the **national average** was **6.7%**

8,700 people are employed in Simpson



The majority of manufacturing facilities in Franklin are now hiring!



140
New Homes were built in 2020 in Franklin & Simpson County

Stay Informed on City Activities, Meetings, & More



Facebook: @thecityoffranklin
Website: www.franklinky.org
Comcast Cable: Channel 3



BASIC FINANCIAL STATEMENTS

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF NET POSITION

June 30, 2020

	Governmental	Primary Government	
	Activities	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,679,025	\$ 7,351,726	\$ 17,030,751
Certificates of deposit	254,427	—	254,427
Receivables (net of allowance for uncollectibles):			
Accounts	75,879	759,712	835,591
Taxes	1,010,695	—	1,010,695
Intergovernmental	33,351	—	33,351
Internal balances	243,982	(243,982)	—
Inventory	—	201,384	201,384
Prepaid items	111,521	70,423	181,944
Restricted assets:			
Cash and cash equivalents	98,284	796,525	894,809
Certificates of deposit	220,851	992,001	1,212,852
Capital assets, net of accumulated depreciation:			
Nondepreciable	12,845,113	380,530	13,225,643
Depreciable capital assets	1,978,736	18,585,367	20,564,103
Construction in progress	25,930	220,843	246,773
Total assets	<u>26,577,794</u>	<u>29,114,529</u>	<u>55,692,323</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding bonds	—	88,023	88,023
Outflows for pensions	1,854,258	557,525	2,411,783
Outflows for OPEB	801,531	250,491	1,052,022
Total deferred outflows	<u>2,655,789</u>	<u>896,039</u>	<u>3,551,828</u>
LIABILITIES			
Accounts payable	331,530	352,565	684,095
Other accrued liabilities	17,648	323,881	341,529
Accrued interest payable	—	21,303	21,303
Accrued vacation	142,959	55,086	198,045
Noncurrent liabilities:			
Customer deposits	—	641,261	641,261
OPEB liability	2,216,590	805,428	3,022,018
Net pension liability	8,422,263	2,484,494	10,906,757
Due within one year	—	210,000	210,000
Due in more than one year	—	3,600,319	3,600,319
Total liabilities	<u>11,130,990</u>	<u>8,494,337</u>	<u>19,625,327</u>
DEFERRED INFLOWS OF RESOURCES			
Inflows for pensions	567,049	165,303	732,352
Inflows for OPEB	753,459	250,041	1,003,500
Total deferred inflows	<u>1,320,508</u>	<u>415,344</u>	<u>1,735,852</u>
NET POSITION			
Net investment in capital assets	14,849,779	15,716,198	30,565,977
Restricted for:			
Expendable:			
Highways and streets	96,362	—	96,362
Debt service and capital activity	—	1,178,607	1,178,607
Nonexpendable:			
Perpetual care	572,071	—	572,071
Unrestricted	1,263,878	4,206,082	5,469,960
Total net position	<u>\$ 16,782,090</u>	<u>\$ 21,100,887</u>	<u>\$ 37,882,977</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF ACTIVITIES Year Ended June 30, 2020

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental activities:							
General government	\$ 1,609,051	\$ 557,401	\$ —	\$ —	(\$ 1,051,650)	\$ —	(\$ 1,051,650)
Public safety	3,618,714	10,172	181,071	—	(3,427,471)	—	(3,427,471)
Public services	1,694,316	353,938	290,354	—	(1,050,024)	—	(1,050,024)
Community and cultural	789,850	117,450	8,098	—	(664,302)	—	(664,302)
Interest on long-term debt	8,057	—	—	—	(8,057)	—	(8,057)
Total governmental activities	<u>7,719,988</u>	<u>1,038,961</u>	<u>479,523</u>	<u>—</u>	<u>(6,201,504)</u>	<u>—</u>	<u>(6,201,504)</u>
Business-type activities:							
Water and wastewater	5,084,932	5,458,197	—	—	—	373,265	373,265
Sanitation	<u>968,487</u>	<u>1,006,862</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,375</u>	<u>38,375</u>
Total business-type activities	<u>6,053,419</u>	<u>6,465,059</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>411,640</u>	<u>411,640</u>
Total primary government	<u>\$ 13,773,407</u>	<u>\$ 7,504,020</u>	<u>\$ 479,523</u>	<u>\$ —</u>	<u>(6,201,504)</u>	<u>411,640</u>	<u>(5,789,864)</u>
General revenues:							
Property taxes					1,199,263	—	1,199,263
Occupational taxes					2,301,645	—	2,301,645
Insurance premium taxes					1,932,134	—	1,932,134
Franchise taxes					103,477	—	103,477
Business license taxes					930,043	—	930,043
Interest income					142,922	111,110	254,032
Miscellaneous					104,646	42,311	146,957
Gain (loss) on sale of capital assets					30,299	(18,619)	11,680
Loss on debt retirement					(10,179)	(6,461)	(16,640)
Total general revenues and transfers					<u>6,734,250</u>	<u>128,341</u>	<u>6,862,591</u>
Change in net position					532,746	539,981	1,072,727
Net position, beginning of year					<u>16,249,344</u>	<u>20,560,906</u>	<u>36,810,250</u>
Net position, end of year					<u>\$ 16,782,090</u>	<u>\$ 21,100,887</u>	<u>\$ 37,882,977</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 8,535,942	\$ 1,143,081	\$ 9,679,023
Certificates of deposit	—	254,427	254,427
Receivables (net of allowance for uncollectibles):			
Accounts	26,133	37,308	63,441
Taxes	1,010,695	—	1,010,695
Intergovernmental	33,351	12,444	45,795
Due from other funds	253,245	202,652	455,897
Prepaid items	107,590	3,931	111,521
Restricted assets			
Cash and cash equivalents	<u>319,135</u>	<u>—</u>	<u>319,135</u>
Total assets	<u>\$ 10,286,091</u>	<u>\$ 1,653,843</u>	<u>\$ 11,939,934</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 314,850	\$ 16,680	\$ 331,530
Due to other funds	99,939	111,976	211,915
Accrued expenses	<u>17,648</u>	<u>—</u>	<u>17,648</u>
Total liabilities	<u>432,437</u>	<u>128,656</u>	<u>561,093</u>
Fund balances:			
Nonspendable:			
Prepaid items	107,590	3,931	111,521
Perpetual care	—	572,069	572,069
Restricted:			
Highways and streets	—	96,361	96,361
Committed:			
Stormwater	—	739,600	739,600
Assigned to:			
Retirement benefits	35,377	—	35,377
Drug enforcement	40,216	—	40,216
Other purposes	—	145,432	145,432
Unassigned	<u>9,670,471</u>	<u>(32,206)</u>	<u>9,638,265</u>
Total fund balances	<u>9,853,654</u>	<u>1,525,187</u>	<u>11,378,841</u>
Total liabilities and fund balances	<u>\$ 10,286,091</u>	<u>\$ 1,653,843</u>	<u>\$ 11,939,934</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, 2020

Total fund balances - governmental funds	\$ 11,378,841
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,849,779
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Compensated absences	(\$ 142,959)	
Net pension and OPEB liabilities	(10,638,853)	(10,781,812)

Net deferred inflows and outflows related to pensions and OPEB	<u>1,335,282</u>
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Net position of governmental activities	<u>\$ 16,782,090</u>
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See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2020**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes:			
Property	\$ 1,199,262	\$ —	\$ 1,199,262
Occupational	2,301,645	—	2,301,645
Insurance premium	1,932,133	—	1,932,133
Franchise	103,477	—	103,477
Business license	930,043	—	930,043
Intergovernmental	203,479	284,622	488,101
Charges for sales and services	—	328,389	328,389
Interfund charges	592,998	—	592,998
Fines and forfeitures	120,893	—	120,893
Contributions and donations	—	6,500	6,500
Investment income	124,199	18,724	142,923
Miscellaneous	<u>86,054</u>	<u>193</u>	<u>86,247</u>
Total revenues	<u>7,594,183</u>	<u>638,428</u>	<u>8,232,611</u>
Expenditures			
Current:			
General government	1,337,450	—	1,337,450
Public safety	2,863,281	—	2,863,281
Public services	867,039	589,043	1,456,082
Community services	539,913	253,997	793,910
Capital outlay	566,497	—	566,497
Debt service:			
Principal	525,000	—	525,000
Interest	<u>13,187</u>	<u>—</u>	<u>13,187</u>
Total expenditures	<u>6,712,367</u>	<u>843,040</u>	<u>7,555,407</u>
Excess (deficiency) of revenues over (under) expenditures	<u>881,816</u>	<u>(204,612)</u>	<u>677,204</u>
Other financing sources (uses):			
Transfers in	—	441,000	441,000
Transfers out	(438,000)	(3,000)	(441,000)
Sale of capital assets	<u>44,290</u>	<u>—</u>	<u>44,290</u>
Total other financing sources (uses)	<u>(393,710)</u>	<u>438,000</u>	<u>44,290</u>
Net change in fund balances	488,106	233,388	721,494
Fund balances, beginning of year	<u>9,365,548</u>	<u>1,291,799</u>	<u>10,657,347</u>
Fund balances, end of year	<u>\$ 9,853,654</u>	<u>\$ 1,525,187</u>	<u>\$ 11,378,841</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, 2020

	Total Governmental Funds
Net change in fund balances - total governmental funds	\$ 721,494
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.	218,362
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.	(13,990)
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.	514,821
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	(\$ 39,310)
OPEB expense	(27,050)
Accrued interest on long-term debt	5,130
Pension expense	(846,711)
	(907,941)
Change in net position of governmental activities	\$ 532,746

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2020

	<u>Enterprise Funds</u>		
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Total</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 207,969	\$ 144,596	\$ 352,565
Accrued liabilities	28,268	295,613	323,881
Accrued interest	21,303	—	21,303
Accrued vacation	55,086	—	55,086
Due to other funds	251,785	86,566	338,351
Payable from restricted assets:			
Current maturities of revenue bonds payable	210,000	—	210,000
Customer deposits	<u>641,261</u>	<u>—</u>	<u>641,261</u>
Total current liabilities	<u>1,415,672</u>	<u>526,775</u>	<u>1,942,447</u>
Noncurrent liabilities:			
OPEB liability	738,908	66,520	805,428
Net pension liability	2,484,494	—	2,484,494
Revenue bonds payable	<u>3,600,319</u>	<u>—</u>	<u>3,600,319</u>
Total noncurrent liabilities	<u>6,823,721</u>	<u>66,520</u>	<u>6,890,241</u>
Total liabilities	<u>8,239,393</u>	<u>593,295</u>	<u>8,832,688</u>
DEFERRED INFLOWS			
Inflows for pensions	165,303	—	165,303
Inflows for OPEB	<u>250,041</u>	<u>—</u>	<u>250,041</u>
Total deferred inflows	<u>415,344</u>	<u>—</u>	<u>415,344</u>
NET POSITION			
Net investment in capital assets	15,676,084	40,114	15,716,198
Restricted for debt service and capital activity	1,178,607	—	1,178,607
Unrestricted	<u>4,116,462</u>	<u>89,620</u>	<u>4,206,082</u>
Total net position	<u>\$ 20,971,153</u>	<u>\$ 129,734</u>	<u>\$ 21,100,887</u>

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
Year Ended June 30, 2020**

	<u>Enterprise Funds</u>		
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 5,338,544	\$ 991,900	\$ 6,330,444
Fines and forfeitures	<u>119,653</u>	<u>14,962</u>	<u>134,615</u>
Total operating revenues	<u>5,458,197</u>	<u>1,006,862</u>	<u>6,465,059</u>
Operating expenses			
Salaries, wages and benefits	2,193,622	—	2,193,622
Maintenance	295,242	758,987	1,054,229
Utilities	333,801	—	333,801
Administrative	243,498	209,500	452,998
Supplies	546,562	—	546,562
Other	179,276	—	179,276
Depreciation	<u>1,151,631</u>	<u>—</u>	<u>1,151,631</u>
Total operating expenses	<u>4,943,632</u>	<u>968,487</u>	<u>5,912,119</u>
Operating income	<u>514,565</u>	<u>38,375</u>	<u>552,940</u>
Nonoperating revenues (expenses):			
Investment income	104,652	6,458	111,110
Miscellaneous revenue	42,311	—	42,311
Interest and fiscal charges expense	(140,269)	—	(140,269)
Amortization expense	(1,031)	—	(1,031)
Gain (loss) on disposal of assets	(18,619)	—	(18,619)
Loss on retirement of debt	<u>(6,461)</u>	<u>—</u>	<u>(6,461)</u>
Total nonoperating revenues (expenses)	<u>(19,417)</u>	<u>6,458</u>	<u>(12,959)</u>
Change in net position	495,148	44,833	539,981
Net position, beginning of year	<u>20,476,005</u>	<u>84,901</u>	<u>20,560,906</u>
Net position, end of year	<u>\$ 20,971,153</u>	<u>\$ 129,734</u>	<u>\$ 21,100,887</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2020

	<u>Enterprise Funds</u>		
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers	\$ 5,558,491	\$ 1,009,017	\$ 6,567,508
Cash payments to employees and retirees	(1,900,555)	—	(1,900,555)
Cash payments to suppliers	(1,194,560)	(724,777)	(1,919,337)
Payments for administrative overhead	(243,498)	(209,500)	(452,998)
Net cash provided by operating activities	<u>2,219,878</u>	<u>74,740</u>	<u>2,294,618</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	(384,030)	—	(384,030)
Principal paid on bonds, notes and lease obligations	(470,000)	—	(470,000)
Interest paid on bonds, notes and lease obligations	(142,025)	—	(142,025)
Proceeds from sale of capital assets	<u>1,275</u>	<u>—</u>	<u>1,275</u>
Net cash used in capital and related financing activities	<u>(994,780)</u>	<u>—</u>	<u>(994,780)</u>
Cash flows from investing activities			
Purchase of certificates of deposit	(202,187)	—	(202,187)
Interest received	<u>104,652</u>	<u>6,458</u>	<u>111,110</u>
Net cash provided by investing activities	<u>(97,535)</u>	<u>6,458</u>	<u>(91,077)</u>
Net increase in cash and cash equivalents	1,127,563	81,198	1,208,761
Cash and cash equivalents, beginning of year	<u>6,546,444</u>	<u>393,046</u>	<u>6,939,490</u>
Cash and cash equivalents, end of year	<u>\$ 7,674,007</u>	<u>\$ 474,244</u>	<u>\$ 8,148,251</u>
Reflected in the Statement of Fund Net Position - Proprietary Funds as:			
Cash and cash equivalents	\$ 6,877,482	\$ 474,244	\$ 7,351,726
Restricted cash and cash equivalents	<u>796,525</u>	<u>—</u>	<u>796,525</u>
Total	<u>\$ 7,674,007</u>	<u>\$ 474,244</u>	<u>\$ 8,148,251</u>

See Notes to Financial Statements

(Continued)

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2020

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 514,565	\$ 38,375	\$ 552,940
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,151,631	—	1,151,631
Nonoperating revenues	42,311	—	42,311
Increase in deferred outflows of resources	5,359	—	5,359
Decrease in deferred inflow of resources	101,521	—	101,521
Change in assets and liabilities:			
Decrease in accounts receivable	4,699	2,155	6,854
(Increase) decrease in due from other funds	42,669	(38,075)	4,594
Decrease in inventory and prepaid items	(56,448)	—	(56,448)
Increase in accounts payable	74,347	3,177	77,524
Decrease in accrued liabilities	(4,060)	—	(4,060)
Increase in accrued vacation	6,385	—	6,385
Increase in customer deposits	47,924	—	47,924
Increase in due to other funds	99,754	69,108	168,862
Decrease in OPEB liability	(60,151)	—	(60,151)
Increase in pension liability	<u>249,372</u>	<u>—</u>	<u>249,372</u>
Net cash provided by operating activities	<u>\$ 2,219,878</u>	<u>\$ 74,740</u>	<u>\$ 2,294,618</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FIDUCIARY NET POSITION- FIDUCIARY FUND
June 30, 2020

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 7,674
Accounts receivable	12,786
Other receivables	<u>14,890</u>
Total assets	<u>\$ 35,350</u>
LIABILITIES	
Due to other governmental units	\$ 18,612
Other liabilities	<u>16,738</u>
Total liabilities	<u>\$ 35,350</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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, 2020

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, 2020

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, 2020

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, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sanitation Fund

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

Fiduciary Funds

Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. Trust funds account for assets held by the City under the terms of a formal trust agreement. The City does not report any trust funds. Agency funds generally are used to account for assets that the City holds on behalf of others as their agent, are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City reports the following agency fund:

911 Fund

The 911 Fund accounts for the collection of a County assessed 911 fee on water meters located within the City's water service territory pursuant to billing services agreement between the City and County dated August 26, 2019. The 911 fees are billed and collected by the City's Water and Wastewater Fund and transferred to the 911 Fund for monthly remittance to the County.

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2020, 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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2020

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, 2020

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, 2018.

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020, \$1,597,372 of the City's bank balances of \$14,659,675 was exposed to custodial credit risk as follows, while \$13,052,303 was covered by the FDIC:

Uninsured and collateral held by pledging financial institution	<u>\$ 1,597,372</u>
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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, 2020, the City had the following investments and maturities:

Type	Fair Value	Maturities In Years Less than 1
U. S. obligations	<u>\$ 388,827</u>	<u>\$ 388,827</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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, 2020, 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, 2020, 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	\$19,004,012
Investments	<u>388,827</u>
	<u>\$19,392,839</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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	\$17,030,749
Certificates of deposit	254,427
Restricted assets:	
Cash and cash equivalents	894,809
Certificates of deposit	<u>1,212,854</u>
 Total	 <u>\$ 19,392,839</u>

Investment Income

Investment income for the year ended June 30, 2020	
consisted of:	
Interest and dividend income	<u>\$ 254,032</u>

NOTE 3. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2020:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
Governmental activities:			
General Fund:			
Retiree Life fund	\$ 35,377	\$ —	\$ 35,377
Police fund	40,216	—	40,216
City of Franklin 2009 Bond Fund	—	—	—
Taeyang pledge	—	220,851	220,851
HRA/FSA fund	<u>22,691</u>	<u>—</u>	<u>22,691</u>
Total governmental activities	<u>98,284</u>	<u>220,851</u>	<u>319,135</u>
 Business-type activities:			
Enterprise Fund			
Water and Wastewater Fund:			
Customer deposits	369,811	240,108	609,919
Debt service reserve	426,714	303,460	730,174
Depreciation reserve	—	291,166	291,166
Maintenance and replacement reserve	<u>—</u>	<u>157,267</u>	<u>157,267</u>
Total business-type activities	<u>796,525</u>	<u>992,001</u>	<u>1,788,526</u>
 Total restricted assets	<u>\$ 894,809</u>	<u>\$ 1,212,852</u>	<u>\$ 2,107,661</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 995,563	\$ 251,609	\$ —	\$ 1,247,172
Streets and sidewalks	11,597,941	0	—	11,597,941
Construction in progress	15,531	16,474	(6,075)	25,930
Total capital assets, not being depreciated	12,609,035	268,083	(6,075)	12,871,043
Capital assets being depreciated:				
Buildings and improvements	2,047,910	—	—	2,047,910
Land improvements	19,440	—	—	19,440
Vehicles	1,378,480	242,683	(89,743)	1,531,420
Furniture, fixtures and equipment	1,128,195	63,235	(33,382)	1,158,048
Total capital assets, being depreciated	4,574,025	305,918	(123,125)	4,756,818
Less accumulated depreciation:				
Buildings and improvements	(866,243)	(54,055)	—	(920,298)
Land improvements	(3,240)	(1,296)	—	(4,536)
Vehicles	(967,312)	(184,275)	78,287	(1,073,300)
Furniture, fixtures and equipment	(700,858)	(108,308)	29,218	(779,948)
Total accumulated depreciation	(2,537,653)	(347,934)	107,505	(2,778,082)
Total capital assets, being depreciated, net	2,036,372	(42,016)	(15,620)	1,978,736
Governmental activities capital assets, net	\$ 14,645,407	\$ 226,067	(\$ 21,695)	\$ 14,849,779
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 380,530	\$ —	(\$ —)	\$ 380,530
Construction in progress	154,046	113,935	(47,138)	220,843
Total capital assets, not being depreciated	534,576	113,935	(47,138)	601,373
Capital assets being depreciated:				
Utility plant	39,847,005	237,495	(38,660)	40,045,839
Buildings	86,738	—	—	86,738
Furniture and equipment	2,664,296	48,244	(140,621)	2,571,919
Vehicles	613,559	23,693	—	637,252
Land improvements	42,719	7,800	—	50,519
Total capital assets being depreciated	43,254,316	317,232	(179,281)	43,392,267
Less accumulated depreciation:				
Utility plant	(21,382,792)	(963,767)	18,766	(22,327,793)
Buildings	(68,787)	(1,244)	—	(70,031)
Furniture and equipment	(1,880,964)	(131,688)	140,619	(1,872,033)
Vehicles	(468,483)	(51,825)	—	(520,308)
Land improvements	(13,627)	(3,108)	—	(16,735)
Total accumulated depreciation	(23,814,653)	(1,151,632)	159,385	(24,806,900)
Total capital assets, being depreciated, net	19,439,663	(834,400)	(19,896)	18,585,367
Business-type activities capital assets, net	\$ 19,974,239	(\$ 720,465)	(\$ 67,034)	\$ 19,186,740

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4. CAPITAL ASSETS (Continued)

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

Governmental activities:

General government	\$ 70,942
Public safety	181,748
Public works	92,745
Community and cultural	<u>2,699</u>

Total depreciation expense - governmental activities	<u>\$ 348,134</u>
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Business-type activities:

Water and wastewater	<u>\$ 1,151,631</u>
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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, 2020 were as follows:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Amounts Due in One Year
Governmental activities:					
Bonds payable	\$ 525,000	\$ —	(\$ 525,000)	\$ —	\$ —
Less: unamortized discount	(10,179)	—	10,179	—	—
Bonds payable, net	<u>514,821</u>	—	(514,821)	—	—
Total governmental activities	<u>\$ 514,821</u>	<u>\$ —</u>	<u>(\$ 514,821)</u>	<u>\$ —</u>	<u>\$ —</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 5. LONG-TERM LIABILITIES (Continued)

	<u>Balance</u> <u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Amounts Due</u> <u>in One Year</u>
Business-type activities:					
Revenue bonds	\$ 4,205,000	\$ —	(\$ 470,000)	\$ 3,735,000	\$ 210,000
Unamortized discounts, premiums, net	<u>75,425</u>	<u>—</u>	<u>(106)</u>	<u>75,319</u>	<u>—</u>
Total business-type activities	<u>\$ 4,280,425</u>	<u>\$ —</u>	<u>(\$ 470,106)</u>	<u>\$ 3,810,319</u>	<u>\$ 210,000</u>
Total governmental and business-type activities	<u>\$ 4,795,246</u>	<u>\$ —</u>	<u>(\$ 984,927)</u>	<u>\$ 3,810,319</u>	<u>\$ 210,000</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.

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, 2020

NOTE 5. LONG-TERM LIABILITIES (Continued)

Water and Wastewater Fund:

Revenue bonds outstanding at June 30, 2020 were as follows:

	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Principal at June 30, 2020</u>
Revenue bonds, Series 2012 (A)	2.00 - 3.75%	December 1, 2033	2,680,000
Revenue bonds, Series 2016 (B)	3.00 – 3.60%	February 1, 2037	<u>1,055,000</u>
			3,735,000
Unamortized discounts, premiums, net			<u>75,319</u>
Total revenue bonds payable - business-type activities			<u>\$ 3,810,319</u>

- (A) \$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.
- (B) \$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, 2020

NOTE 5. LONG-TERM LIABILITIES (Continued)

Annual Debt Service Requirements

The annual requirements to amortize long-term debt outstanding as of June 30, 2020 are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities		Government-Wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ —	\$ —	\$ 210,000	\$ 116,481	\$ 210,000	\$ 116,481
2022	—	—	210,000	110,981	210,000	110,981
2023	—	—	220,000	105,356	220,000	105,356
2024	—	—	225,000	99,394	225,000	99,394
2025	—	—	230,000	93,000	230,000	93,000
2026 - 2030	—	—	1,255,000	355,916	1,255,000	355,916
2031 - 2035	—	—	1,230,000	130,938	1,230,000	130,938
2036 - 2038	—	—	155,000	8,225	155,000	8,225
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,735,000</u>	<u>\$ 1,020,291</u>	<u>\$ 3,735,000</u>	<u>\$ 1,020,291</u>

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2020 are as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	\$ 269,983	\$ 99,939
Special Revenue Funds:		
Economic Development Revolving Loan Fund	50,993	—
Municipal Aid Fund	—	15,833
Greenlawn Shady Rest Cemetery Fund	—	38,946
Community Development Fund	31,750	32,206
Stormwater Fund	119,909	23,632
Permanent Fund		
Greenlawn Shady Rest Perpetual Fund	—	1,343
Francis M. Harris Trust	—	16
Total governmental funds	<u>472,635</u>	<u>211,915</u>
Proprietary Funds:		
Water and Wastewater Fund	1,780	266,675
Sanitation Fund	92,589	86,566
Total proprietary funds	<u>94,369</u>	<u>353,241</u>
	<u>\$ 581,894</u>	<u>\$ 581,894</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 7. INTERFUND TRANSFERS

Interfund transfers for the year ending June 30, 2020 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ —	\$ 438,000
Special Revenue Fund		
Municipal Aid Fund	155,000	—
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>\$ 441,000</u>	<u>\$ 441,000</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, 2020

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, 2020

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, 2020

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 78.545(33), normal contribution and past service contribution rates shall be determined by the Board of Trustees on the basis of the last annual valuation preceding 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 bases adopted by the Board.

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, 2020, the City contributed 24.06% (nonhazardous – 19.30% pension; 4.76% insurance) and 39.58% (hazardous – 30.06% pension; 9.52% 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, 2020 were \$764,404.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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, 2020, the City reported a liability of \$10,906,757 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 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, 2019, the City's proportion was 0.086054% (non-hazardous), a decrease of 0.001834% from its proportion measured as of June 30, 2018, and 0.175743% (hazardous), a decrease of .016406% from its proportion as of June 30, 2018.

For the year ended June 30, 2020, the City recognized pension expense of \$1,900,831. At June 30, 2020, 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	\$ 360,789	\$ 25,572
Difference between expected and actual experience	190,858	357,126
Change of assumptions	1,083,779	—
Change in proportion and differences between employer contributions and proportionate share of contributions	11,953	349,654
Contributions subsequent to the measurement date of June 30, 2019	<u>764,404</u>	<u>—</u>
Total	<u>\$ 2,411,783</u>	<u>\$ 732,352</u>

The amount shown above for "contributions subsequent to the measurement date of June 30, 2019," will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 8. RETIREMENT PLAN (Continued)

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:	
2021	\$ 685,036
2022	156,820
2023	61,874
2024	<u>11,297</u>
	<u>\$ 915,027</u>

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

Actuarial assumptions. The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement System 2018 Actuarial Experience Study for the period ending June 30, 2018. The total pension liability, as of June 30, 2019, was determined using these updated actuarial assumptions. The assumptions are:

Inflation	2.30 %
Payroll Growth Rate	2.00%
Salary increases	3.30% to 10.30% for CERS non-hazardous; 3.55% to 19.05% for CERS hazardous
Investment rate of return	6.25 %

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 8. RETIREMENT PLAN (Continued)

retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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>
Growth	62.50%	
US equity	18.75%	4.30%
Non-US equity	18.75%	4.80%
Private equity	10.00%	6.65%
Specialty credit/high yield	15.00%	2.60%
Liquidity	14.50%	
Core bonds	13.50%	1.35%
Cash	1.00%	.20%
Diversifying Strategies	23.00%	
Real estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real return	15.00%	4.10%

Discount rate. The projection of cash flows used to determine the discount rate of 6.25% for CERS hazardous and nonhazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the KRS plan's CAFR.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
City of Franklin's net pension liability			
Hazardous	\$ 6,069,265	\$ 4,854,541	\$ 3,858,642
Nonhazardous	<u>7,569,606</u>	<u>6,052,216</u>	<u>4,787,487</u>
Total	<u>\$ 13,638,871</u>	<u>\$ 10,906,757</u>	<u>\$ 8,646,129</u>

Pension Plan Fiduciary Net Position

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

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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 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, 2020 was 4.76% (non-hazardous) and 9.52% (hazardous) of covered payroll. Contributions to the Insurance Fund from the City were \$212,569 for the year ended June 30, 2020. 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 2019. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2020, the City's proportion was 0.086032% (non-hazardous) and 0.175708% (hazardous).

Net OPEB Liability

At June 30, 2020, the City reported a liability of \$2,747,012 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

actuarial valuation as of June 30, 2018 and rolled-forward using generally accepted actuarial principles. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the Insurance Fund relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2019, the City's proportion was 0.086032% (non-hazardous), a decrease of .001863% from its proportion measured as of June 30, 2018, and 0.175708% (hazardous), a decrease of .016452% from its proportion as of June 30, 2018.

Actuarial assumptions. The total OPEB liability in the June 30, 2019 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	3.30% to 10.30%, varies by service for CERS non-hazardous; 3.05% to 19.05%, varies by service for CERS hazardous
Investment rate of return	6.25%
Healthcare cost trend rates (Pre-65)	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to ultimate trend rate of 4.05% over a period of 12 years.
Healthcare cost trend rates (Post-65)	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to ultimate trend rate of 4.05% over a period of 10 years.

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth	62.50%	
US equity	18.75%	4.30%
Non-US equity	18.75%	4.80%
Private equity	10.00%	6.65%
Specialty credit/high yield	15.00%	2.60%
Liquidity	14.50%	
Core bonds	13.50%	1.35%
Cash	1.00%	.20%
Diversifying Strategies	23.00%	
Real estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real return	15.00%	4.10%

Discount rate. The discount rate used to measure the total OPEB liability was 5.68% for non-hazardous and 5.69% for hazardous employees. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019. 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 (24 years as of June 30, 2019).

However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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 5.69% (hazardous) and 5.68% (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 or 1 percentage point higher than the current discount rate:

	<u>1% Decrease (4.68%)</u>	<u>Current Discount (5.68%)</u>	<u>1% Increase (6.68%)</u>
City of Franklin's net OPEB liability			
Hazardous	\$ 1,813,752	\$ 1,299,993	\$ 882,970
Nonhazardous	<u>1,938,411</u>	<u>1,447,019</u>	<u>1,042,146</u>
Total	<u>\$ 3,752,163</u>	<u>\$ 2,747,012</u>	<u>\$ 1,925,116</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	\$ 904,555	\$ 1,299,993	\$ 1,782,406
Nonhazardous	<u>1,076,156</u>	<u>1,447,019</u>	<u>1,896,736</u>
Total	<u>\$ 1,980,711</u>	<u>\$ 2,747,012</u>	<u>\$ 3,679,142</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, 2020, the City recognized OPEB expense of \$301,126. At June 30, 2020, 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, 2020

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	\$ 18,415	\$ 678,440
Changes of assumptions	821,038	5,324
Net difference between projected and actual earnings on OPEB plan investments	—	157,427
Changes in proportion and difference between employer contributions and proportionate share of contributions	—	162,309
Contributions subsequent to the measurement date of June 30, 2019	<u>212,569</u>	<u>—</u>
Total	<u>\$ 1,052,022</u>	<u>\$ 1,003,500</u>

The amount shown above for “contributions subsequent to the measurement date of June 30, 2019,” will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2020, related to OPEB, are recognized in OPEB expense as follows:

Year ended June 30,	
2021	\$ 29,575
2022	(39,565)
2023	(58,169)
2024	(52,126)
2025	(37,079)
Thereafter	<u>(6,683)</u>
	(<u>\$ 164,047</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. Eleven 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 \$15,100 for the year ended June 30, 2020.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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, 2020, payments under the plan totaled \$56,107.

At June 30, 2020, the City reported a total OPEB liability of \$275,005. The City's total OPEB liability was measured as of June 30, 2020 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 5.10% per year initially, increased to an ultimate rate of 5.60% per year.

Discount rate - The discount rate used to measure the total OPEB liability was 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. No assets have been accumulated in an irrevocable trust, so the municipal rate has been applied to all periods. The discount rate was 3.13% for the June 30, 2019 measurement date.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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 (1.45%) or 1 percentage point higher (3.45%) than the current discount rate:

	<u>1% Decrease</u> <u>(1.45%)</u>	<u>Discount Rate</u> <u>(2.45%)</u>	<u>1% Increase</u> <u>(3.45%)</u>
City of Franklin's total OPEB liability	\$ 283,921	\$ 275,005	\$ 266,598

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:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
City of Franklin's total OPEB liability	\$ 268,637	\$ 275,005	\$ 281,624

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 \$19,500 for 2020, whichever is less. During the fiscal year ending June 30, 2020, contributions made on behalf of employees totaled \$75,140.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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 was for a five-year period beginning October 1, 2013 and ending September 30, 2018.

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 were for a five-year period beginning October 1, 2013 and ending September 30, 2018.

Amended and Restated Franchise Agreement

On August 15, 2019, the City and County entered into an amended and restated franchise agreement with Scott Waste Services, LLC (franchisee), for the collection of residential, commercial and industrial solid waste and wastewater treatment plant waste within the City and County. The City and County desired to combine their respective separate franchise agreements with franchisee for the extended term of this amended and restated franchise agreement. This agreement is effective August 15, 2019, shall terminate on June 30, 2026, and may be renewed for one additional seven-year term. Monthly rates for collection of City residential solid waste and recyclable materials by franchisee shall continue be billed by City as part of monthly resident's utility bills. Monthly rates for collection of commercial solid waste shall be billed to customers by franchisee.

The City shall withhold ten percent (10%) of the monthly gross receipts received from utility bill payments (residential franchise fee) and the franchisee shall pay the City a fee of ten percent (10%) of collected gross receipts from all commercial and industrial customers (commercial franchise fee). In addition, the City shall withhold three percent (3%) of the monthly gross receipts from residential utility bill payments as a collection fee for its billing and collection services provided.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION

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

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

Fire Station and Equipment

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

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION
(Continued)

Term

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

NOTE 14. RISK MANAGEMENT

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

NOTE 15. CONTINGENCIES

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

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2020 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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 15. CONTINGENCIES
(Continued)

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

NOTE 16. CONDUIT DEBT OBLIGATIONS

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

As of June 30, 2020, there were two series of Industrial Revenue Bonds outstanding, with an aggregate approximate 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, 2020, City tax abatements were approximately \$39,038 relating to the City's participation in the KBI program.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 18. RECENT PRONOUNCEMENTS

In January, 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The provisions of this statement were initially effective for fiscal years beginning after December 15, 2018, but was postponed by one year as a result of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. 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 were initially effective for fiscal years beginning after December 15, 2019, but was postponed by eighteen months as a result of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. 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, 2020

NOTE 18. RECENT PRONOUNCEMENTS (Continued)

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 were initially effective for fiscal years beginning after December 15, 2019, but was postponed by one year as a result of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. 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.

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The provisions of this Statement are effective immediately. This extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018 and includes Statement No. 84 *Fiduciary Activities*, Statement No. 87 *Leases*, and Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which the City has elected to postpone implementation.

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 19. COVID-19

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen, which may negatively affect the financial position, changes in financial position, and cash flows of the City. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

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

CITY OF FRANKLIN, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 1,067,396	\$ 1,150,803	\$ 1,199,262	\$ 48,459
Occupational taxes	2,093,000	2,213,927	2,301,645	87,718
Insurance premium taxes	1,767,000	1,838,070	1,932,133	94,063
Business license taxes	749,150	758,196	930,043	171,847
Franchise taxes	87,950	96,119	103,477	7,358
Intergovernmental	419,062	213,708	203,479	(10,229)
Interfund charges	592,998	592,998	592,998	—
Fines and forfeitures	57,000	91,102	120,893	29,791
Miscellaneous	<u>224,697</u>	<u>246,735</u>	<u>210,253</u>	<u>(36,482)</u>
Total revenues	<u>7,058,253</u>	<u>7,201,658</u>	<u>7,594,183</u>	<u>392,525</u>
Expenditures				
General government:				
Legislative:				
Personal services	122,985	132,913	129,065	3,848
Contractual services	19,695	19,624	18,395	1,229
Materials and supplies	750	750	1,226	(476)
Other	<u>22,250</u>	<u>21,308</u>	<u>18,609</u>	<u>2,699</u>
Total legislative	<u>165,680</u>	<u>174,595</u>	<u>167,295</u>	<u>7,300</u>
Administrative:				
Personal services	401,337	394,535	390,516	4,019
Contractual services	28,653	38,416	40,308	(1,892)
Materials and supplies	9,200	13,664	10,314	3,350
Other	<u>10,610</u>	<u>8,541</u>	<u>7,109</u>	<u>1,432</u>
Total administrative	<u>449,800</u>	<u>455,156</u>	<u>448,247</u>	<u>6,909</u>
Finance and accounting:				
Personal services	256,137	256,276	248,997	7,279
Contractual services	127,277	128,833	113,272	15,561
Materials and supplies	88,550	84,550	60,057	24,493
Other	<u>11,450</u>	<u>11,035</u>	<u>9,717</u>	<u>1,318</u>
Total finance and accounting	<u>483,414</u>	<u>480,694</u>	<u>432,043</u>	<u>48,651</u>
Risk management:				
Personal services	212,012	201,721	197,018	4,703
Contractual services	14,500	14,500	12,000	2,500
Materials and supplies	3,500	4,500	4,323	177
Other	<u>39,105</u>	<u>84,271</u>	<u>76,524</u>	<u>7,747</u>
Total risk management	<u>269,117</u>	<u>304,992</u>	<u>289,865</u>	<u>15,127</u>
Total general government	<u>1,368,011</u>	<u>1,415,437</u>	<u>1,337,450</u>	<u>77,987</u>

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Public safety:				
Police department:				
Administration:				
Personal services	\$ 257,001	\$ 252,394	\$ 255,711	(\$ 3,317)
Contractual services	5,020	5,020	2,363	2,657
Materials and supplies	3,525	3,925	2,628	1,297
Other	<u>2,900</u>	<u>2,849</u>	<u>2,750</u>	<u>99</u>
Total administration	<u>268,446</u>	<u>264,188</u>	<u>263,452</u>	<u>736</u>
Patrol:				
Personal services	1,806,734	1,944,489	1,878,166	66,323
Contractual services	47,800	53,574	43,978	9,596
Materials and supplies	68,300	75,605	72,366	3,239
Other	<u>9,100</u>	<u>9,100</u>	<u>5,715</u>	<u>3,385</u>
Total patrol	<u>1,931,934</u>	<u>2,082,768</u>	<u>2,000,225</u>	<u>82,543</u>
Non-sworn personnel:				
Personal services	91,781	87,776	85,181	2,595
Contractual services	52,877	52,008	48,959	3,049
Materials and supplies	10,800	10,800	6,005	4,795
Other	<u>881</u>	<u>881</u>	<u>85</u>	<u>796</u>
Total non-sworn personnel	<u>156,339</u>	<u>151,465</u>	<u>140,230</u>	<u>11,235</u>
Total police department	<u>2,356,719</u>	<u>2,498,421</u>	<u>2,403,907</u>	<u>94,514</u>
Fire department:				
Inspection and administration:				
Contractual services	<u>1,300</u>	<u>1,300</u>	<u>457</u>	<u>843</u>
Firefighting:				
Contractual services	<u>278,253</u>	<u>458,917</u>	<u>458,917</u>	<u>—</u>
Total fire department	<u>279,553</u>	<u>460,217</u>	<u>459,374</u>	<u>843</u>
Total public safety	<u>2,636,272</u>	<u>2,958,638</u>	<u>2,863,281</u>	<u>95,357</u>

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2020

	<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	\$ 518,225	\$ 524,186	\$ 513,631	\$ 10,555
Contractual services	171,963	194,690	189,785	4,905
Materials and supplies	113,600	99,020	80,857	18,163
Other	<u>2,100</u>	<u>600</u>	<u>902</u>	<u>(302)</u>
Total public works	<u>805,888</u>	<u>818,496</u>	<u>785,175</u>	<u>33,321</u>
Code enforcement:				
Personal services	80,694	79,904	78,171	1,733
Contractual services	3,019	3,343	1,522	1,821
Materials and supplies	2,550	1,700	1,187	513
Other	<u>3,910</u>	<u>2,118</u>	<u>984</u>	<u>1,134</u>
Total code enforcement	<u>90,173</u>	<u>87,065</u>	<u>81,864</u>	<u>5,201</u>
Total public services	<u>896,061</u>	<u>905,561</u>	<u>867,039</u>	<u>38,522</u>
Community services:				
Economic development	385,121	342,306	314,913	27,393
Parks and recreation	<u>225,000</u>	<u>225,000</u>	<u>225,000</u>	<u>—</u>
Total community services	<u>610,121</u>	<u>567,306</u>	<u>539,913</u>	<u>27,393</u>
Capital outlay:				
Vehicles	40,000	240,254	242,683	(2,429)
Equipment	64,000	62,521	61,806	715
Land and improvements	455,565	235,502	248,133	(12,631)
Buildings	15,000	13,875	13,875	—
Reserve for capital improvement	<u>105,000</u>	<u>362,581</u>	<u>—</u>	<u>362,581</u>
Total capital outlay	<u>679,565</u>	<u>914,733</u>	<u>566,497</u>	<u>348,236</u>
Debt service:				
Principal	525,000	525,000	525,000	—
Interest	<u>19,040</u>	<u>13,187</u>	<u>13,187</u>	<u>—</u>
Total debt service	<u>544,040</u>	<u>538,187</u>	<u>538,187</u>	<u>—</u>
Total expenditures	<u>6,734,070</u>	<u>7,299,862</u>	<u>6,712,367</u>	<u>587,495</u>

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Excess of revenues over expenditures	\$ 324,183	(\$ 98,204)	\$ 881,816	\$ 980,020
Other financing sources (uses):				
Sale of capital assets	15,000	16,825	44,290	27,465
Transfers out	(433,000)	(438,000)	(438,000)	—
Total other financing sources (uses)	(418,000)	(421,175)	(393,710)	27,465
Net change in fund balance	(93,817)	(519,379)	488,106	1,007,485
Fund balances, beginning of year	9,365,548	9,365,548	9,365,548	—
Fund balances, end of year	\$ 9,271,731	\$ 8,846,169	\$ 9,853,654	\$ 1,007,485

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

Infrastructure Condition and Maintenance Data June 30, 2020

Modified Approach to Infrastructure

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

		Square Feet of Road Area					
		2020		2019		2017	
	OCI Condition Rating	Square Feet	%	Square Feet	%	Square Feet	%
Acceptable	75 - 100	4,991,178	87.21	4,162,508	79.66	4,215,587	84.09
Marginally deficient	50 - 74	580,504	10.14	770,049	14.74	643,425	12.83
Moderately deficient	25 - 49	146,604	2.56	292,922	5.60	154,144	3.08
Severely deficient	0 - 24	5,104	.09	—	—	—	—
Total		<u>5,723,390</u>	<u>100.00</u>	<u>5,225,479</u>	<u>100.00</u>	<u>5,013,156</u>	<u>100.00</u>

Comparison of Estimated-to-Actual Maintenance/Preservation					
	2020	2019	2018	2017	2016
Original estimate	\$ 878,014	\$ 396,607	\$ 183,465	\$ 152,901	\$ 272,226
Actual	\$ 785,175	\$ 336,616	\$ 143,844	\$ 105,261	\$ 250,387

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**

	2020	2019	2018	2017	2016	2015
Total net pension liability for County Employees Retirement Systems	\$ 9,795,340,000	\$ 8,508,762,000	\$ 8,090,585,976	\$ 6,639,559,678	\$ 5,834,631,445	\$ 4,446,199,755
City's proportion of the net pension liability	.11346%	.1175%	.1188%	.1156%	.1150%	.1166%
City's proportionate share of the net pension liability	\$ 10,906,757	\$ 9,999,688	\$ 9,614,320	\$ 7,677,024	\$ 6,708,131	\$ 5,186,001
City's covered payroll	\$ 3,683,281	\$ 3,480,555	\$ 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	296.12%	287.30%	284.60%	236.00%	209.26%	163.98%
Plan fiduciary net position as a percentage of the total pension liability	49.43%	52.40%	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

	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 764,404	\$ 614,767	\$ 537,426	\$ 511,350	\$ 452,495	\$ 450,450
Contributions in relation to the actuarially determined contribution	(764,404)	614,767	537,426	511,350	452,495	450,450
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
City's covered payroll	\$ 3,683,281	\$ 3,480,555	\$ 3,378,134	\$ 3,253,039	\$ 3,205,636	\$ 3,162,531
Contributions as a percentage of covered payroll	20.75%	17.66%	15.91%	15.72%	14.12%	14.24%

Notes to Schedule:

Valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, closed
Remaining amortization period	26 years, closed
Payroll growth rate	2.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increase	3.05 to 18.55%, varies by service
Investment rate of return	6.25%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Seale BB (set back 1 year for female)

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**

	2020	2019	2018
Total net OPEB liability for County Employees' Retirement Systems	\$ 2,421,815,000	\$ 2,488,439,000	\$ 2,837,013,635
City's proportion of the net OPEB liability (asset)	.1134%	.1178%	.1204%
City's proportionate share of the net OPEB liability (asset)	\$ 2,747,013	\$ 2,930,581	\$ 3,414,788
City's covered payroll	\$ 3,683,281	\$ 3,480,555	\$ 3,378,134
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	74.58%	84.20%	101.09%
Total pension plan's fiduciary net position	\$ 3,910,225,000	\$ 3,695,108,000	\$ 3,401,537,049
Total pension plan's OPEB liability	\$ 6,332,040,000	\$ 6,183,547,000	\$ 6,288,550,680
Total pension plan's fiduciary net position as a percentage of the total OPEB liability	61.75%	59.76%	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 2020 measurement date is 06/30/19.

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**

	2020	2019	2018	2017
Actuarially determined OPEB contribution	\$ 212,569	\$ 223,998	\$ 212,332	\$ 200,741
Contributions in relation to the actuarially determined OPEB contribution	<u>212,569</u>	<u>223,998</u>	<u>212,332</u>	<u>200,741</u>
OPEB contribution deficiency (excess)	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
City's covered payroll	\$ 3,683,281	\$ 3,480,555	\$ 3,378,134	\$ 3,253,039
OPEB contributions as a percentage of covered payroll	5.77%	6.43%	6.26%	6.17%

Notes to Schedule:

Valuation date	June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	26 years, closed
Payroll growth rate	2.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increase	3.05% to 18.55%, varies by service
Investment rate of return	6.25%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
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
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

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

See Independent Auditor's Report

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

	2020	2019	2018	2017
Total OPEB liability	<u>\$ 275,005</u>	<u>\$ 330,124</u>	<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

	2020	2019	2018	2017
City OPEB contributions	<u>\$ 71,207</u>	<u>\$ 85,242</u>	<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.

See Independent Auditor's Report

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.

<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Perpetual</u>	
\$ 318,111	\$ 1,143,081
254,427	254,427
1,000	37,308
—	12,444
—	202,652
—	<u>3,931</u>
<u>\$ 573,538</u>	<u>\$ 1,653,843</u>
\$ 109	\$ 16,680
<u>1,360</u>	<u>111,976</u>
<u>1,469</u>	<u>128,656</u>
—	3,931
572,069	572,069
—	96,361
—	739,600
—	145,432
<u>—</u>	<u>(32,206)</u>
<u>572,069</u>	<u>1,525,187</u>
<u>\$ 573,538</u>	<u>\$ 1,653,843</u>

CITY OF FRANKLIN, KENTUCKY

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS**

June 30, 2020

	<u>Francis Harris Cemetery Perpetual</u>	<u>Greenlawn- Shady Rest Cemetery Perpetual</u>	<u>Total Nonmajor Permanent Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,124	\$ 314,987	\$ 318,111
Certificates of deposit	50,000	204,427	254,427
Accounts receivable	<u>—</u>	<u>1,000</u>	<u>1,000</u>
Total assets	<u>\$ 53,124</u>	<u>\$ 520,414</u>	<u>\$ 573,538</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 16	\$ 93	\$ 109
Due to other funds	<u>16</u>	<u>1,343</u>	<u>1,359</u>
Total liabilities	<u>32</u>	<u>1,436</u>	<u>1,468</u>
Fund balances			
Nonspendable:			
Cemetery maintenance	53,092	—	53,092
Perpetual care	<u>—</u>	<u>518,978</u>	<u>518,978</u>
Total fund balances	<u>53,092</u>	<u>518,978</u>	<u>572,070</u>
Total liabilities and fund balances	<u>\$ 53,124</u>	<u>\$ 520,414</u>	<u>\$ 573,538</u>

See Independent Auditor's Report

<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Perpetual</u>	
\$ —	\$ 284,622
—	328,389
6,500	6,500
<u>8,849</u>	<u>18,917</u>
<u>15,349</u>	<u>638,428</u>
—	589,043
<u>25</u>	<u>253,997</u>
<u>25</u>	<u>843,040</u>
<u>15,324</u>	<u>(204,612)</u>
—	441,000
<u>(3,000)</u>	<u>(3,000)</u>
<u>(3,000)</u>	<u>438,000</u>
12,324	233,388
<u>559,745</u>	<u>1,291,799</u>
<u>\$ 572,069</u>	<u>\$ 1,525,187</u>

CITY OF FRANKLIN, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
Year Ended June 30, 2020**

	Francis Harris Cemetery Perpetual	Greenlawn- Shady Rest Cemetery Perpetual	Total Nonmajor Permanent Funds
Revenues			
Investment income	\$ 488	\$ 8,362	\$ 8,850
Contributions	<u>—</u>	<u>6,500</u>	<u>6,500</u>
Total revenues	488	14,862	15,350
Expenditures			
Current:			
Community services	<u>25</u>	<u>—</u>	<u>25</u>
Excess of revenues over expenditures	463	14,862	15,325
Other financing uses			
Transfers out	<u>—</u>	<u>(3,000)</u>	<u>(3,000)</u>
Net change in fund balance	463	11,862	12,325
Fund balance, beginning of year	<u>52,629</u>	<u>507,116</u>	<u>559,745</u>
Fund balance, end of year	<u>\$ 53,092</u>	<u>\$ 518,978</u>	<u>\$ 572,070</u>

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Greenlawn - Shady Rest Cemetery Special Revenue Fund
Year Ended June 30, 2020**

	<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	\$ 77,000	\$ 67,000	\$ 72,450	\$ 5,450
Investment income	157	814	717	(97)
Miscellaneous	<u>450</u>	<u>450</u>	<u>193</u>	<u>(257)</u>
Total revenues	<u>77,607</u>	<u>68,264</u>	<u>73,360</u>	<u>5,096</u>
Expenditures				
Current:				
Community services:				
Personal services	6,844	6,844	8,732	(1,888)
Contractual services	195,292	195,504	192,076	3,428
Materials and supplies	1,392	1,426	751	675
Administrative overhead	45,000	45,000	45,000	—
Other	<u>8,392</u>	<u>8,380</u>	<u>7,414</u>	<u>966</u>
Total community services	256,920	257,154	253,973	3,181
Capital outlay	<u>5,000</u>	<u>5,000</u>	<u>—</u>	<u>5,000</u>
Total expenditures	<u>261,920</u>	<u>262,154</u>	<u>253,973</u>	<u>8,181</u>
Deficiency of revenues under expenditures	(184,313)	(193,890)	(180,613)	13,277
Other financing sources:				
Transfers in	<u>186,000</u>	<u>186,000</u>	<u>186,000</u>	<u>—</u>
Net change in fund balance	1,687	(7,890)	5,387	13,277
Fund balance, beginning of year	<u>89,382</u>	<u>89,382</u>	<u>89,382</u>	<u>—</u>
Fund balance, end of year	<u>\$ 91,069</u>	<u>\$ 81,492</u>	<u>\$ 94,769</u>	<u>\$ 13,277</u>

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Municipal Aid Special Revenue Fund
Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental:				
Liquid fuel tax	\$ 168,592	\$ 252,714	\$ 265,158	\$ 12,444
Mineral and coal severance tax	19,775	17,253	19,464	2,211
Investment income	<u>2,100</u>	<u>1,146</u>	<u>962</u>	<u>(184)</u>
Total revenues	190,467	271,113	285,584	14,471
Expenditures				
Current:				
Public works	<u>340,250</u>	<u>440,388</u>	<u>413,323</u>	<u>27,065</u>
Excess (deficiency) of revenues over(under) expenditures	(149,783)	(169,275)	(127,739)	41,536
Other financing sources (uses)				
Transfers in	<u>150,000</u>	<u>155,000</u>	<u>155,000</u>	<u>—</u>
Net change in fund balance	217	(14,275)	27,261	41,536
Fund balance, beginning of year	<u>69,100</u>	<u>69,100</u>	<u>69,100</u>	<u>—</u>
Fund balance, end of year	<u>\$ 69,317</u>	<u>\$ 54,825</u>	<u>\$ 96,361</u>	<u>\$ 41,536</u>

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Stormwater Special Revenue Fund
Year Ended June 30, 2020

	<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	\$ 247,500	\$ 250,000	\$ 252,552	\$ 2,552
Fines and forfeitures	5,500	4,000	3,386	(614)
Investment income	<u>9,902</u>	<u>9,125</u>	<u>8,196</u>	<u>(929)</u>
Total revenues	<u>262,902</u>	<u>263,125</u>	<u>264,134</u>	<u>1,009</u>
Expenditures				
Current:				
Public works:				
Personal services	143,353	142,615	137,541	5,074
Contractual services	42,348	44,900	23,764	21,136
Materials and supplies	27,950	24,950	14,313	10,637
Other	<u>153</u>	<u>53</u>	<u>102</u>	<u>(49)</u>
Total expenditures	<u>213,804</u>	<u>212,518</u>	<u>175,720</u>	<u>36,798</u>
Excess of revenues over expenditures	49,098	50,607	88,414	37,807
Other financing sources:				
Transfers in	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>—</u>
Net change in fund balance	149,098	150,607	188,414	37,807
Fund balance, beginning of year	<u>554,785</u>	<u>554,785</u>	<u>554,785</u>	<u>—</u>
Fund balance, end of year	<u>\$ 703,883</u>	<u>\$ 705,392</u>	<u>\$ 743,199</u>	<u>\$ 37,807</u>

See Independent Auditor's Report

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, 2020

	<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	\$ 2,955,500	\$ 2,884,490	\$ 2,919,936	\$ 35,446
Wastewater division	<u>2,545,250</u>	<u>2,558,850</u>	<u>2,538,261</u>	<u>(20,589)</u>
Total operating revenues	<u>5,500,750</u>	<u>5,443,340</u>	<u>5,458,197</u>	<u>14,857</u>
Nonoperating revenues:				
Investment income	187,773	118,418	104,652	(13,766)
Sales of assets	5,000	12,375	(18,619)	(30,994)
Miscellaneous	<u>28,950</u>	<u>31,834</u>	<u>42,311</u>	<u>10,477</u>
Total nonoperating revenues	<u>221,723</u>	<u>162,627</u>	<u>128,344</u>	<u>(34,283)</u>
Total revenues	<u>5,722,473</u>	<u>5,605,967</u>	<u>5,586,541</u>	<u>(19,426)</u>
Expenditures				
Administration division:				
Administrative:				
Personal services	611,675	608,799	669,692	(60,893)
Contractual services	53,018	56,530	59,247	(2,717)
Materials and supplies	9,200	30,696	24,426	6,270
Other	<u>158,655</u>	<u>158,229</u>	<u>163,829</u>	<u>(5,600)</u>
Total administration division	<u>832,548</u>	<u>854,254</u>	<u>917,194</u>	<u>(62,940)</u>
Water division:				
Production:				
Personal services	446,505	467,606	545,809	(78,203)
Contractual services	248,788	237,554	223,003	14,551
Materials and supplies	162,293	193,862	174,992	18,870
Other	<u>10,150</u>	<u>2,750</u>	<u>4,183</u>	<u>(1,433)</u>
Total water production	<u>867,736</u>	<u>901,772</u>	<u>947,987</u>	<u>(46,215)</u>

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CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Water and Wastewater Fund

Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Distribution:				
Personal services	\$ 279,331	\$ 258,210	\$ 300,137	(\$ 41,927)
Contractual services	73,156	79,984	33,392	46,592
Materials and supplies	84,730	79,813	52,699	27,114
Other	<u>6,850</u>	<u>4,605</u>	<u>4,630</u>	<u>(25)</u>
Total water distribution	<u>444,067</u>	<u>422,612</u>	<u>390,858</u>	<u>31,754</u>
Meter reading and maintenance:				
Personal services	69,082	69,626	82,231	(12,605)
Contractual services	9,532	9,631	3,339	6,292
Materials and supplies	239,775	201,484	166,376	35,108
Other	<u>1,140</u>	<u>1,064</u>	<u>1,080</u>	<u>(16)</u>
Total water meter reading and maintenance	<u>319,529</u>	<u>281,805</u>	<u>253,026</u>	<u>28,779</u>
Total water division	<u>2,463,880</u>	<u>2,460,443</u>	<u>2,509,065</u>	<u>(48,622)</u>
Wastewater division:				
Treatment:				
Personal services	262,544	292,112	331,045	(38,933)
Contractual services	282,136	274,042	247,061	26,981
Materials and supplies	92,040	88,333	68,407	19,926
Other	<u>3,500</u>	<u>2,456</u>	<u>1,928</u>	<u>528</u>
Total wastewater treatment	<u>640,220</u>	<u>656,943</u>	<u>648,441</u>	<u>8,502</u>
Collection and rehabilitation:				
Personal services	252,666	227,255	258,949	(31,694)
Contractual services	107,590	87,836	72,148	15,688
Materials and supplies	72,750	73,900	56,967	16,933
Other	<u>3,050</u>	<u>3,777</u>	<u>2,932</u>	<u>845</u>
Total wastewater collection and rehabilitation	<u>436,056</u>	<u>392,768</u>	<u>390,996</u>	<u>1,772</u>
Total wastewater division	<u>1,076,276</u>	<u>1,049,711</u>	<u>1,039,437</u>	<u>10,274</u>
Administrative overhead	<u>243,498</u>	<u>243,498</u>	<u>243,498</u>	<u>—</u>

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CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Water and Wastewater Fund

Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Debt service:				
Principal	\$ 470,000	\$ 467,917	\$ 470,000	(\$ 2,083)
Interest	133,756	128,994	137,069	(8,075)
Administrative fees	<u>3,200</u>	<u>2,896</u>	<u>3,200</u>	<u>(304)</u>
Total debt service	<u>606,956</u>	<u>599,807</u>	<u>610,269</u>	<u>(10,462)</u>
Capital outlays	<u>1,001,778</u>	<u>1,404,155</u>	<u>384,030</u>	<u>1,020,125</u>
Total expenditures	<u>5,392,388</u>	<u>5,757,614</u>	<u>4,786,299</u>	<u>971,315</u>
Excess of revenues over expenditures	<u>\$ 330,085</u>	<u>(\$ 151,647)</u>	800,242	<u>\$ 951,889</u>
Add:				
Principal payments			470,000	
Capital outlays, including capitalized labor and materials			384,030	
Less:				
Depreciation expense			(1,151,631)	
Amortization expense			(1,032)	
Loss on retirement of debt			<u>(6,461)</u>	
Change in net position			495,148	
Net position, beginning of year			<u>20,476,005</u>	
Net position, end of year			<u>\$20,971,153</u>	

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CITY OF FRANKLIN, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
Sanitation Fund
Year Ended June 30, 2020

	<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	\$ 725,000	\$ 752,000	\$ 755,431	\$ 3,431
Collection fees	18,000	18,500	22,770	4,270
Fines and forfeitures	26,000	17,500	14,962	(2,538)
Franchise fee	<u>223,000</u>	<u>233,000</u>	<u>213,699</u>	<u>(19,301)</u>
Total operating revenues	992,000	1,021,000	1,006,862	(14,138)
Nonoperating revenues:				
Investment income	<u>7,500</u>	<u>7,192</u>	<u>6,458</u>	<u>(734)</u>
Total revenues	<u>999,500</u>	<u>1,028,192</u>	<u>1,013,320</u>	<u>(14,872)</u>
Expenditures				
Sanitation operations:				
Contractual services	725,000	750,000	758,987	(8,987)
Administrative overhead	<u>209,500</u>	<u>209,500</u>	<u>209,500</u>	<u>—</u>
Total expenditures	<u>934,500</u>	<u>959,500</u>	<u>968,487</u>	<u>(8,987)</u>
Excess of revenues over expenditures	<u>\$ 65,000</u>	<u>\$ 68,692</u>	44,833	<u>(\$ 23,859)</u>
Net position, beginning of year			<u>84,901</u>	
Net position, end of year			<u>\$ 129,734</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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 1, 2021.

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 (2020-1).

Compliance and Other Matters

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

City of Franklin, Kentucky's Response to Findings

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

Purpose of this Report

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

A handwritten signature in dark ink, appearing to read "Kim Moore, LLP". The signature is written in a cursive, flowing style.

Bowling Green, Kentucky
February 1, 2021

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2020

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2020-1 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.