CITY OF FRANKLIN, KENTUCKY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2017

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KIRBY & MOORE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Franklin, Kentucky (City) as of and for the year ended June 30, 2017, 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, 2017, 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 71 - 74, infrastructure condition and maintenance data on page 75, OPEB schedules of funding progress and employer contributions on pages 76 - 77, and pension schedules on pages 78 - 79 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 80 - 90 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 April 5, 2018, 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.

Kirby & Moore, LLP

Bowling Green, Kentucky
April 5, 2018

KIRBY & MOORE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 5, 2018.

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 (2017-1).

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.

Kerby & Moore, LLP

Bowling Green, Kentucky
April 5, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Franklin (City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2017. 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 $37,371,204 and $33,934,951 for the prior fiscal year.

- As of the close of the current fiscal year, the City's governmental activities reported ending net position of $17,520,371 which includes unrestricted net position of $1,937,642. Respectively for the prior fiscal year $15,680,230 of net position and $1,091,671 of unrestricted net position.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $5,815,887with $4,677,623 for the prior fiscal year.

- For the year ended June 30, 2017, total debt decreased by a net amount of $2,628,450 during the year. For the prior fiscal year, total debt decreased by $863,562 during the year due to principal reductions.

- The City had total revenues of $15,753,293 for the year ended June 30, 2017 which includes: program revenues (charges for service) of $7,645,719, operating grants and contributions of $416,641, capital grants and contributions of $1,705,657, and general revenues of $2,985,276. The City had total expenses of $12,317,040 for the year ended June 30, 2017. Comparatively, City had total revenues of $13,833,558 for the year ended June 30, 2016 which includes: program revenues (charges for service) of $7,071,001, operating grants and contributions of $436,832, capital grants and contributions of $0.00 and general revenues of $6,325,725. The City had total expenses of $11,949,941 for the year ended June 30, 2016.

- The City's total capital outlays were $3,371,299 for the current fiscal year and $2,498,482 for the prior fiscal year. For the Governmental Funds, capital outlays were $1,141,137 for the current fiscal year and $560,436 for the prior fiscal year. For the Proprietary Funds, capital outlays for the current fiscal year were $2,230,162 and the prior fiscal year of $1,938,046.

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, 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 34 through 70 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 $37,371,204 for the current fiscal year and $33,934,951 at the close of the prior fiscal year.

By far the largest portion of the City's net position (82%) 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.

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

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

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

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

	2016 Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	$ 1,256,930	$ 5,814,071	$ 7,071,001
Operating grants and contributions	436,832	–	436,832
Capital grants and contributions	–	–	–
General revenues			
Property taxes	992,101	–	992,101
Occupational fees	2,182,981	–	2,182,981
Insurance premium fees	1,518,542	–	1,518,542
Franchise fees	86,834	–	86,834
Business license fees	745,088	–	745,088
Interest income	34,579	5,841	40,420
Miscellaneous income	384,970	113,044	498,014
Gain (loss) on the sale of assets	(40,278)	302,023	261,745
Transfers	2,500,000	(2,500,000)	–
Total revenues and transfers	10,098,579	3,734,979	13,833,558
Expenses			
General government	1,829,143	–	1,829,143
Public safety	2,524,387	–	2,524,387
Public services	1,417,270	–	1,417,270
Community and cultural	678,036	–	678,036
Interest expense on long-term debt	122,380	129,513	251,893
Water and wastewater	–	4,380,694	4,380,694
Sanitation	–	868,518	868,518
Fiber Optic	–	–	–
Total expenses	6,571,216	5,378,725	11,949,941
Change in net position	3,527,363	(1,643,746)	1,883,617
Net position, beginning of year	12,333,721	19,940,654	32,274,375
Prior period adjustment	(180,854)	(42,187)	(223,041)
Net position, beginning of year, restated	12,152,867	19,898,467	32,051,334
Net position, end of year	$ 15,680,230	$ 18,254721	$ 33,934,951

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 $7,186,101 compared to $6,847,510 for the prior fiscal year. The City's major sources of revenues are insurance premium fees, payroll occupational fees and property taxes. The fund balances primarily represents the accumulation of revenues in excess of expenditures not reimbursed by funding sources.

General Fund & Proprietary Fund Budgetary Highlights

Total general fund revenues for the year were within acceptable parameters (within 3% of budget), in total, with final budgetary estimates while expenses were slightly less than final budgetary estimates (by 2.3%).

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 8.5%). This relates primarily to the timing of capital project completions (FY2017 budgeted capital projects weren't completed until FY2018.)

Proprietary Funds

Operating revenues of the City's proprietary funds increased 5.9% from the prior year to $6,162,862. The City approved a 5% Water & Sewer rate increase, effective January 1, 2017, due to the completion of a capital needs Utility Rates Study, discussed below under Economic Factors. The City also implemented a 2.30% cost of living increase in the Sanitation Fund, pursuant to the City's garbage hauler contract. Operating revenues from Water and Wastewater increased by 6.3% to $5,253,546 while operating revenues from Sanitation services increased 0.38% to $909,316. Operating expenses for Water & Wastewater increased by 4.7% to $4,583,881 while operating expenses for Sanitation services increased by 3.3% to $897,520. This decrease relates directly to the structure of the garbage hauler contract, the current garbage hauler bills commercial customers directly, as the prior contract required the City to bill all residential and commercial customers.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, the City's investment in capital assets net of related debt for its governmental and business-type activities was $30,469,541 and $29,147,516 as of June 30, 2016. 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 $19,500 to repave the parking lot at the Franklin-Simpson Fire Department.
    - Purchase of cruisers/vehicles and related equipment for the Police Department and the Code Enforcement Department, $158,500.
    - Purchase of rifles, body armor, and new portable radios (compatible with upcoming communications technology, replacing soon to be incompatible portable radios) for the Police Department, $77,570.
    - Purchase of a Dump Truck by the City's Public Works Department, $96,500.
    - Investment in City Hall's Customer Service office renovation, office equipment, and city wide job costing software totaling (mid implementation as of June 30, 2017), $75,000.
    - Construction of a Pole Barn for storage of equipment and materials at the Public Works Department, $46,000.
    - The City accepted the following subdivision streets into its system as City infrastructure. The development costs of these streets were capitalized and also recognized as in-kind revenue in the current fiscal year. The impact on the City's net position is neutral.
        - Garvin Lane, Myra Lane, Reasonover Drive, Hunters Crossing, $566,000
- Franklin Municipal Utilities
    - Capital expenditures of $1,877,800 for improvements and additions to the City's waste water system, specifically related to the following:
        - 31W Sewer Line Replacement/Betterment from 31W Widening Projects, $1,267,000. (The total cost of these projects were capitalized and also recognized as in-kind revenue, from the State of Kentucky, in the current fiscal year. The impact on the City's net position is neutral.)
        - Sunset Circle Sewer Rehabilitation Project, $421,600
        - West Madison Sewer Line Extension, $113,200
        - Macedonia Road Force Main replacement, $41,000
        - Repair of manhole collapse on Colonial Drive, $35,000

- Capital expenditures of $280,000 for equipment and vehicles for the City's water and wastewater system (Clean filter media and repair/overhaul of valves and actuators at the Water Treatment Plant, repair/overhaul to the wastewater treatment plant's screw pump, a service truck for water distribution, and new Flow Meters and an excavator for the collections department)

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

- General Fund
  - Capital Expenditures of $40,800 to repair/replace windows at City Hall as well as replace carpet.
  - Purchase of cruisers and related equipment for the Police Department of $148,117
  - Purchase of a Dump Truck by the City's Public Works Department, $120,000
  - Investment in office equipment, finance department, furniture at the police department, and city-wide job costing software totaling $49,900.
- Franklin Municipal Utilities
  - Capital expenditures of $21,000 to repave the parking lot at the Water Treatment Plant
  - Capital expenditures for the installation of 5 new fire hydrants on 31W South, $26,000
  - Capital expenditures of $456,900 for the replacement of a water main and related service taps, specifically entitled the "Strawberry Lane" project. This project took approximately 3.5 years to complete.
  - Capital expenditures of $788,000 for improvements and additions to the City's waste water system, specifically related to the 31W South Sewer Line Expansion.
  - Capital expenditures of $218,800 for equipment and vehicles for the City's water and wastewater system (repairs to the wastewater treatment plant's belt press, a service truck and backhoe for water distribution, new SCADA system for the collections department, a streaming current monitor for the water treatment plant, etc.)

Long-term Debt

The City had $6,035,274 in revenue bonds and capital lease obligations outstanding as of June 30, 2017, which is a decrease of $2,628,450 from the previous year. The City made principal payments of $3,830,666 during fiscal year 2017, and issued a Water & Sewer Bond for $1,190,000. In the previous year, the City had $8,663,725 in revenue bonds and capital lease obligations outstanding as of June 30, 2016, which is a decrease of $863,562 from the previous year. The City made principal payments of $861,769 during fiscal year 2016.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of $8,255,929 at June 30, 2017, excluding capital assets and long-term debt. Included in this year's total change in fund balance is an increase of $1,148,809 in the City's General Fund. For the previous year, the City's governmental funds reported a combined fund balance of $6,847,510 at June 30, 2016, excluding capital assets and long-term debt. Included in last year's total change in fund balance was an increase of $3,204,344 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, 2017.

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

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

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

Economic Factors and Next Year's Budgets and Rates

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

> *The upgrade to Aa3 reflects a significantly improved risk profile following the sell 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."*

Detailed Rating Considerations

Economy and Tax Base: Stable Tax Base with Modest Annual Expansion

Franklin's tax base will continue to exhibit modest annual expansion given ongoing residential and commercial development. Located in Simpson County, in southwestern Kentucky (Aa3 stable), Franklin is about 40 miles north of Nashville, TN (Aa2 stable) and 20 miles south of Bowling Green, KY (Aa2) along Interstate 65. The city's tax base has expanded 3.4% on average over the past five years, including a 6.7% increase in 2016 to $748 million. Currently, the city has a number of residential subdivisions under construction expected to add roughly 400-500 homes over the next few years in addition to a $14 million luxury apartment complex that will add 90 market rate units.

Resident wealth levels are weak with a median family income of 57.7% and 26% of the population living below the poverty line. However, the cost of living in Franklin is very affordable with a median home value equal to 54.5% of the US. The tax base exhibits slight concentration with the ten largest taxpayers accounting for 13.1% of assessed value. Simpson County's unemployment rate of 4.3% in May 2017 was on par with state (4.7%) and national (4.1%) levels during the same period.

Financial Operations and Reserves: Healthy General Fund Balance After Sale of Fiber Optic Enterprise

The city's General Fund reserve position will remain healthy in the near term as the sale of the fiber optic enterprise replenished reserves and removed the annual General Fund support of the enterprise. On July 1, 2015 (fiscal 2016), the city sold the fiber enterprise to the Franklin Electric Plant Board (EPB) for $2.5 million. While the Franklin mayor appoints the EPB's five directors and the City Council approves the appointments, financial reporting is wholly distinct and separate from the City of Franklin. To acquire the fiber enterprise from the city, the EPB issued revenue bonds for the purchase price and acquired a $650,000 line of credit from a local bank for operations and system upgrades. The local bank required the city to guarantee the line of credit through the June 2020 maturity should the EPB fail to make the required interest only payments. At the close of fiscal 2016, the EPB held $1.8 million in cash and investments, $1.3 million in unrestricted net position, and posted an $885,000 operating profit (excluding depreciation), inclusive of the first year of fiber operations.

Coupled with the sale of the fiber enterprise in fiscal 2016, improved property, occupational, and insurance premium tax revenues pushed the General Fund to a $3.2 million surplus and an ending available fund balance of $6 million; representing a healthy 61% of revenues. Included in the available fund balance is $1 million reserved in a money market account to satisfy approximately $600,000 in Fiber Optic debt that becomes callable in 2019; the remaining $400,000 will revert to unassigned fund balance when the debt is called. The city will continue to pay the existing debt service through 2019 from General Fund revenues. Management estimates fiscal 2017 will add approximately $600,000 to fund balance on continued growth of the city's various tax revenues. Management budgeted a $250,000 surplus for fiscal 2018. Management's ability to maintain balanced operations and fund balance will be a key consideration of future reviews.

LIQUIDITY

General Fund cash and investments totaled $5.3 million at the close of fiscal 2016, representing a healthy 54% of revenues. The city's cash position will improve as management builds reserves.

Debt and Pensions: Elimination of Unconventional Debt Structures Reduces Risk Profile

In late 2009, in an effort to save approximately 300 jobs within the city, Franklin issued a $4.0 million private placement note with a bullet payment due in January 2014 to fund the expansion of World Color (USA), LLC (subsequently purchase by Quad/Graphics) who agreed to make lease payments through 2031. Franklin refunded the $3.5 million bullet payment with a local bank and the note was due to mature in January 2017. However, the company exercised its option to purchase the property in December 2016 (fiscal 2017), paying the city $3.4 million; approximately $238,000 more than the city owed on the note. The note was subsequently paid off.

At the close of fiscal 2016, the city's direct debt burden was 0.6% of full value, however, the elimination of the bullet maturity will reduce the direct debt burden to a very manageable 0.2% of full value. Additionally, the remaining outstanding GO debt will be called in 2019 and the city has already reserved the funds required to do so. At this time, management does not anticipate issuing any debt in the near term.

As mentioned above, the city was required to guarantee a line of credit extended to the Franklin EPB as a part of its purchase of the city's fiber enterprise. Given the financial strength of the EPB, Moody's does not anticipate Franklin's guarantee of the EPB line of credit will pose a material threat to the city's existing general obligation commitments; there was no outstanding balance on the line of credit as of July 2017.

DEBT STRUCTURE

All of the city's debt is fixed rate and matures in the medium term (final maturity fiscal 2025). However, as noted above, the city intends to call the outstanding debt in 2019 (fiscal 2020).

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

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

- In FY2016 the City completed a project related to the expansion of its existing sewer lines. This project is now providing service to an area that was annexed into the City south of Franklin in fiscal year 2013, extending all the way to the KY/TN line, well past Exit 2 on Interstate 65. This project, including all engineering work, was completed for a total cost of $775,000.

- In FY2015 the City's Waste Water Treatment Department identified a lift station and sub-basin that needed significant rehabilitation work. The expectation was that this investment and improvement will decrease some of the water's run off infiltration into the sewer systems as well as improve the overall systems operating capacity for the citizens using the sewer system within that sub-basin. This project is being completed in two phases. Phase I was completed in FY2016, for a total cost of $400,040. Phase II was completed in the current year with an estimated cost, including all engineering work, of $421,600. Additionally, the City has been awarded a Federal Grant, in the amount of $97,000, to apply toward the cost of the Phase II project.

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

  With that said, however, the City is experiencing significant growth throughout the entire city. Although the original rate study was focused on anticipated infrastructure needs toward the south of town, as discussed above, the city now feels it would be prudent to complete a Municipal Growth Study to better anticipate growth patterns in our area, in conjunction with economic development patterns. This study could shift the entire direction of the City's utility infrastructure needs and investments. This study is expected to be completed within the next 2-4 years.

- The City's Water Distribution Department is working within its fourth year of a substantial water main replacement initiative. Currently, the City is working toward replacing all of its **2"** galvanized water lines with new, sustainable water lines. The expectation is that the replacement of this old and corroded line will provide better water service to the City's customers as well as reduce some of the annual water loss that the City experiences.

- The City partnered with the Franklin Electric Plant Board to utilize a new Automated Metering Infrastructure system. This system will allow City staff to reduce its Distribution personnel by one (through natural turnover.) This system will allow City staff to read meters and complete customer consumption analysis directly from the billing office. It also has leak and tamper indicators that can be investigated as needed. The launch of this system is expected to occur in April 2018.

- In the current year the City launched a mass Water Meter Replacement Program. Over 1800 meters are expected to be replaced by FY2018. At that time – a scheduled meter replacement program will be established and methodically completed on an annual basis.

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

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

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

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

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

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

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

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

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

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

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

This initiative is unique to the City and 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.

- 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, 2017, the City has accumulated a fund balance of $253,000 within this program.

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

Here is a summary of activity, related to the Franklin-Simpson Industrial Authority, and 2017's new and Expanding Industry:

In January of this year it was announced that Stark Truss would relocate its Kentucky operation from nearby Auburn to the long-vacant former Wal-Mart store on North Main Street in Franklin. The location will help the company better serve current and future customers in Kentucky and Tennessee and improve logistics for the company. Stark Truss has now renovated the facility and has recently opened in Franklin employing 25 employees in addition to the new hires that will be added to their workforce. Founded in 1963 and family owned, Stark Truss is headquartered in Canton, Ohio. The company manufactures roof and floor trusses, wall panels, engineered wood products and joists. Its customers include residential homebuilders, general contractors on commercial projects and lumber wholesalers. Stark Truss has 10 manufacturing facilities in seven states including Kentucky.

In March of this year it was announced that Traughber Mechanical Services, a custom steel fabrication and mechanical contracting company would expand its Franklin operation and create 10 new full-time jobs. Traughber Mechanical Services has been in Simpson County for 25 years. Having outgrown its current manufacturing facility Traughber Mechanical Services has added another 6,000 square feet, pushing its total building size to 19,000 square feet. The additional space will accommodate new offices, machinery, and other equipment. The company currently has some 40 employees.

For the fifth time since they opened in 2002, New Mather Metals has expanded their facility in Franklin. The company this year has invested $12 million dollars in building and equipment. When completed New Mather Metals will add an additional 49,000 square feet to their building in the Sanders Interstate Industrial Park plus extra parking spaces for the facility. The additional space which is being constructed by Scott, Murphy, and Daniel brings New Mather Metal's total square footage to approximately 379,000 square feet, making it one of the largest industrial buildings in Franklin. After the expansion, the company will employ close to 600 People. New Mather Metals is now the second largest employer in Simpson County. New Mather Metals, is a subsidiary of NHK Spring Company, LTD of Yokohama, Japan. The Franklin facility is the largest stabilizer bar manufacturer in the United States and the world, manufacturing both solid and seam-welded, hollow tube stabilizer bars for the automotive industry. These suspension stabilizer bars are found in all types of on and off-road passenger cars, pick-up trucks, SUV's, and ATV's across North America.

This summer, the Methodist Church broke ground for a multimillion dollar expansion of the Lewis Memorial Home on Highway 31-W. Fourteen assisted living residential units are being constructed next to the Lewis Memorial Home. These much needed new residential units are located on a twenty acre site which will include park-like amenities for the residents. The existing Lewis Memorial Home has provided housing for Franklin residents since 1965. Construction of the units is expected to take at least 15 months. It is hoped that more assisted living units can be built in this same area upon completion of the current project.

Warren Rural Electric Cooperative, one of the largest cooperatives in the TVA area, has made significant investments in Simpson County throughout the years. Just two years ago they built a $5 million dollar substation in the Sanders Interstate Industrial Park in order to support our growing industrial base in that area. This year Warren RECC made an even larger commitment in our Wilkey North Industrial Park. Their new substation is on a five-acre tract. It has a distribution capacity of 80 megawatts and a transmission service capacity of 125 megawatts. This substation will serve the new Fritz Winter plant as well as surrounding industry and residential areas. The substation represents a $9 million dollar investment in Franklin. It is now the third largest substation in Warren RECC's territory, with room to expand in the future.

In October, Holley Performance Products, Incorporated, a top name in automotive racing and performance parts manufacturing and marketing, announced plans to establish a $9.15 million dollar facility in Franklin. The company, which is expected to open in early 2018 in the Sanders Interstate Industrial Park, is creating 30 full-time jobs. Established in 1903, Holley is the world's largest marketer and manufacturer of specialty products for racing and performance customers in the automotive aftermarket. Its products include fuel injection, fuel pumps, intake manifolds, ignition products, exhaust and many other products for street performance. The company will be locating in a 200,000 square foot facility located on Red Rock Way in the Sanders Interstate Industrial Park. Based in Warren County, Holley has over 300 employees in south central Kentucky.

In October of this year it was announced that Meritor would be adding new equipment and jobs at their Franklin plant. Headquartered in Troy, Michigan, Meritor began as Timken Detroit Axle in 1909. The Franklin, Kentucky facility is the only Meritor plant that manufactures the STEELite brake drums for heavy-duty commercial and industrial vehicles. STEELite brake drums have been manufactured in Franklin since 1997. In order to respond to the market growth and demand of their customers, Meritor is investing some $8 million dollars in their Franklin facility over the next five years. They will also be adding an additional 15 jobs to their current workforce.

Worldwide Technologies, which is located in the Wilkey North Industrial Park also expanded its operations in Franklin this year. During the next few years, Worldwide Technologies will be adding 14 new jobs and investing over a half a million dollars in new equipment as a part of their expansion. The company was established in 2006 and occupies a 27,000 square foot building in the northern part of Franklin. The manufacturing facility is a machine shop and provides production machining for industries throughout Kentucky and Tennessee.

This year has ended on a very positive note in regard to economic development. In late November, it was announced that Taeyang Metals North America would be locating a $20 million dollar manufacturing plant in Franklin, Kentucky. This is the first Korean manufacturing company to locate in Franklin. It is also Taeyang's first facility in North America. Taeyang, which manufactures screws and fasteners for the automotive industry is locating on a thirty acre site in the Henderson Interstate Industrial Park. The new plant, being built by Gray Construction, will be 100,000 square feet and eventually employ some 100 people. Dirt is currently being moved at the site. It is expected that Taeyang Metals will be manufacturing product by the last quarter of 2018. We are planning a groundbreaking ceremony in early January when representatives from Korea can be here in person for the ceremony.

Collectively these industries are investing over $80 million dollars in Franklin and Simpson County and providing over 240 new jobs. Simpson County has one of the strongest economies in Kentucky. Probably the strongest economy of any median size community in this region.

- For many years the City has participated along with the Commonwealth of Kentucky in the state's Kentucky Business Incentive (KBI) Program. This program provides state income tax credits of 3% of each qualified employee's wages (i.e. ½ of the state's income tax) to new and existing agribusinesses, regional and national headquarters for certain business operations, manufacturing companies, and non-retail service or technology related companies that locate or expand operations in Kentucky by rebating this money back to the company to assist with starting or expanding the business. This credit is available to the company for ten (10) years. As part of this participation, the local government which is the situs for the business is required to forego collection of a total of 1% occupational taxes on, essentially, the base number of jobs created under the KBI program for each qualified employee, for a period of 10 years. In other words, the state contributes 3%, and one or more local government(s) separately or together must contribute a total of 1%. Alternatively, the local government can make a one time "in lieu of" contribution in an amount that approximates the 1% contribution and aids the company, such as providing water and sewer improvements, etc. The City of Franklin and County of Simpson have agreed to participate in the KBI program. Although this has been a wonderful program for industrial and commercial expansion within the Commonwealth, the City's has, to date, exclusively provided the local 1% "match," which is beginning to create some financial hardship on the City given that basically all industrial growth and expansion will not generate any new occupational fee revenue for the City for a period of up to ten (10) years while causing the City to provide services as regular costs. In FY2016, the City reached an agreement with the Simpson County Fiscal Court, via an interlocal agreement, wherein the Fiscal Court will begin to provide its entire .75% occupational fee per employee (with the City providing .25%) in an effort to lessen the financial impact on the City and share this burden. When the City and the County have reached an equal total contribution amount in the KBI program as a whole (including the amounts the City has contributed in the past), the City and County will thereafter each contribute an equal .50% per qualified employee per local governmental entity. At that point, the City will realize a net .50% occupational fee for the ten (10) year participation period, instead of receiving nothing. Obviously, this will have a positive economic impact on the City going forward.

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

    - Five subdivisions are under development, all of which will allow for approximately 450 homes to be constructed (the Retreat at Fox Chase Subdivision, Fox Chase Phase II Subdivision, Pleasant Valley Subdivision, the Willows Subdivision, Windsor Park Subdivision, and the development of eight homes on West Madison Street by Bullington-Patton Enterprises.)

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

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

- Overall, all leaders within our community are excited for growth and expansion. The end result, primarily, is the desire for our community to have the capacity and availability to provide jobs to our citizens. City leaders are noting that several industrial management teams are shifting their workforce from temporary labor to full time labor which is interpreted as an overall sign of stabilization within our local economy. We are excited to see our community's unemployment rates maintain a stable level, rates increasing slightly – from 3.4% in December 2017 to 3.6% in January 2018; however, this rate is still below the state rate of 4.3% and the national rate of 4.5%.

Contacting the City's Financial Management

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

BASIC FINANCIAL STATEMENTS

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF NET POSITION
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 5,718,714	$ 4,075,036	$ 9,793,750
Certificates of deposit	439,762	—	439,762
Receivables (net of allowance for uncollectibles):			
Accounts	47,598	767,695	815,293
Taxes	986,033	—	986,033
Intergovernmental	45,495	—	45,495
Internal balances	1,565	(1,565)	—
Inventory	—	342,222	342,222
Prepaid items	81,111	36,434	117,545
Restricted assets:			
Cash and cash equivalents	1,362,397	681,401	2,043,798
Certificates of deposit	—	1,085,838	1,085,838
Capital assets, net of accumulated depreciation:			
Nondepreciable	12,935,030	383,391	13,318,421
Depreciable capital assets	2,094,437	19,675,436	21,769,873
Construction in progress	79,149	377,248	456,397
Total assets	23,791,291	27,423,136	51,214,427
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding bonds	—	108,691	108,691
CERS pension contributions	1,345,093	393,575	1,738,668
Total deferred outflows	1,345,093	502,266	1,847,359
LIABILITIES			
Accounts payable	372,249	394,887	767,136
Other accrued liabilities	59,856	332,427	392,283
Accrued interest payable	9,443	25,590	35,033
Accrued vacation	102,801	30,248	133,049
Noncurrent liabilities:			
Customer deposits	—	482,073	482,073
OPEB liability	28,047	101,198	129,245
Net pension liability	5,971,656	1,705,368	7,677,024
Due within one year 260,000	345,000	605,000	
Due in more than one year 781,399	4,648,875	5,430,274	
Total liabilities	7,585,451	8,065,666	15,651,117
DEFERRED INFLOWS OF RESOURCES			
CERS net pension investment difference	30,562	8,903	39,465
NET POSITION			
Net investment in capital assets	14,805,945	15,663,596	30,469,541
Restricted for:			
Expendable:			
Highways and streets	244,131	—	244,131
Debt service and capital activity	—	1,227,224	1,227,224
Nonexpendable:			
Perpetual care	532,653	—	532,653
Unrestricted	1,937,642	2,960,013	4,897,655
Total net position	$ 17,520,371	$ 19,850,833	$ 37,371,204

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Function/Programs							
Primary Government							
Governmental activities:							
General government	$ 1,932,189	$ 954,456	$ –	$ 566,157	($ 411,576)	$ –	($ 411,576)
Public safety	2,667,643	47,362	169,061	–	(2,451,220)	–	(2,451,220)
Public services	1,312,057	339,542	223,323	–	(749,192)	–	(749,192)
Community and cultural	650,244	141,497	24,257	27,000	(457,490)	–	(457,490)
Interest on long-term debt	74,748	–	–	–	(74,748)	–	(74,748)
Total governmental activities	6,636,881	1,482,857	416,641	593,157	(4,144,226)	–	(4,144,226)
Business-type activities:							
Water and wastewater	4,782,639	5,253,546	–	1,112,500	–	1,583,407	1,583,407
Sanitation	897,520	909,316	–	–	–	11,796	11,796
Total business-type activities	5,680,159	6,162,862	–	1,112,500	–	1,595,203	1,595,203
Total primary government	$ 12,317,040	$ 7,645,719	$ 416,641	$ 1,705,657	(4,144,226)	1,595,203	(2,549,023)
General revenues:							
Property taxes					975,159	–	975,159
Occupational taxes					2,351,500	–	2,351,500
Insurance premium taxes					1,641,950	–	1,641,950
Franchise taxes					88,182	–	88,182
Business license taxes					659,817	–	659,817
Interest income					47,766	6,665	54,431
Miscellaneous					216,787	31,135	247,922
Gain (loss) on sale of assets					(20,080)	(13,605)	(33,685)
Transfers					23,286	(23,286)	–
Total general revenues and transfers					5,984,367	909	5,985,276
Change in net position					1,840,141	1,596,112	3,436,253
Net position, beginning of year					15,680,230	18,254,721	33,934,951
Net position, end of year					$ 17,520,371	$ 19,850,833	$ 37,371,204

CITY OF FRANKLIN, KENTUCKY

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 5,222,941	$ 495,773	$ 5,718,714
Certificates of deposit	—	439,762	439,762
Receivables (net of allowance for uncollectibles):			
Accounts	20,507	27,091	47,598
Taxes	986,033	—	986,033
Intergovernmental	25,842	19,653	45,495
Due from other funds	45,700	52,936	98,636
Prepaid items	78,817	2,294	81,111
Restricted assets			
Cash and cash equivalents	1,291,397	71,000	1,362,397
Total assets	$ 7,671,237	$ 1,108,509	$ 8,779,746
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 367,172	$ 5,076	$ 372,248
Due to other funds	63,466	33,605	97,071
Accrued expenses	54,498	—	54,498
Total liabilities	485,136	38,681	523,817
Fund balances:			
Nonspendable:			
Prepaid items	78,817	2,294	81,111
Perpetual care	—	532,653	532,653
Restricted:			
Highways and streets	—	119,260	119,260
Committed:			
Stormwater	—	260,838	260,838
Assigned to:			
Debt service	1,234,774	—	1,234,774
Retirement benefits	45,369	—	45,369
Drug enforcement	11,254	—	11,254
Other purposes	—	154,783	154,783
Unassigned	5,815,887	—	5,815,887
Total fund balances	7,186,101	1,069,828	8,255,929
Total liabilities and fund balances	$ 7,671,237	$ 1,108,509	$ 8,779,746

CITY OF FRANKLIN, KENTUCKY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2017

Total fund balances - governmental funds		$ 8,255,929
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		15,108,615
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable	($ 1,041,399)	
Compensated absences	(108,159)	
Accrued interest on long-term obligations	(9,442)	
Net pension and OPEB liabilities	(5,999,704)	(7,158,704)
Contributions to the CERS pension plan have been deferred in the Statement of Net Position		1,345,093
Investment earnings on pension plan assets have been deferred in the Statement of Net Position		(30,562)
Net position of governmental activities		$ 17,520,371

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes:			
Property	$ 975,159	$ –	$ 975,159
Occupational	2,351,500	–	2,351,500
Insurance premium	1,641,950	–	1,641,950
Franchise	88,182	–	88,182
Business license	659,817	–	659,817
Intergovernmental	225,092	211,260	436,352
Charges for sales and services	–	339,194	339,194
Interfund charges	984,347	–	984,347
Fines and forfeitures	76,941	–	76,941
Contributions and donations	–	24,257	24,257
Investment income	45,051	2,715	47,766
Note collections	3,574,105	–	3,574,105
Miscellaneous	134,144	–	134,144
Total revenues	10,756,288	577,426	11,333,714
Expenditures			
Current:			
General government	$ 1,772,194	$ –	$ 1,772,194
Public safety	2,320,528	–	2,320,528
Public services	843,702	327,194	1,170,896
Community services	400,925	247,153	648,078
Capital outlay	525,225	26,469	551,694
Debt service:			
Principal	3,386,426	–	3,386,426
Interest	76,999	–	76,999
Total expenditures	9,325,999	600,816	9,926,815
Excess (deficiency) of revenues over (under) expenditures	1,430,289	(23,390)	1,406,899
Other financing sources (uses):			
Transfers in	–	286,000	286,000
Transfers out	(283,000)	(3,000)	(286,000)
Sale of capital assets	1,520	–	1,520
Total other financing sources (uses)	(281,480)	283,000	1,520
Net change in fund balances	1,148,809	259,610	1,408,419
Fund balances, beginning of year	6,037,292	810,218	6,847,510
Fund balances, end of year	$ 7,186,101	$ 1,069,828	$ 8,255,929

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, 2017

		Total Governmental Funds
Net change in fund balances - total governmental funds		$ 1,408,419
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.		266,424
Donations and transfers of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.		589,443
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.		(21,600)
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.		3,384,716
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	($ 13,839)	
OPEB expense	(469)	
Accrued interest on long-term debt	3,961	
Pension expense	(350,857)	
		(361,204)
Principal collections on notes receivable are included in governmental funds. Principal collections reduce long-term notes receivable in the government-wide statement of net position.		(3,426,057)
Change in net position of governmental activities		$ 1,840,141

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2017

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 3,728,159	$ 346,877	$ 4,075,036
Accounts receivable, net	696,447	71,248	767,695
Due from other funds	11,329	2,422	13,751
Inventory	342,222	–	342,222
Prepaid items	35,945	489	36,434
Restricted assets:			
Cash and cash equivalents	681,401	–	681,401
Certificates of deposit	1,085,838	–	1,085,838
Total current assets	6,581,341	421,036	7,002,377
Noncurrent assets:			
Capital assets:			
Land	343,277	40,114	383,391
Depreciable capital assets, net	19,675,436	–	19,675,436
Construction in progress	377,248	–	377,248
Total noncurrent assets	20,395,961	40,114	20,436,075
Total assets	26,977,302	461,150	27,438,452
DEFERRED OUTFLOWS			
Deferred amount on refunding bonds	108,691	–	108,691
CERS pension contributions	393,575	–	393,575
Total deferred outflows	502,266	–	502,266

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2017

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
LIABILITIES			
Current liabilities:			
Accounts payable	$ 284,588	$ 110,299	$ 394,887
Accrued liabilities	34,302	298,125	332,427
Accrued interest	25,590	–	25,590
Accrued vacation	30,248	–	30,248
Due to other funds	15,316	–	15,316
Payable from restricted assets:			
Current maturities of revenue bonds payable	345,000	–	345,000
Customer deposits	482,073	–	482,073
Total current liabilities	1,217,117	408,424	1,625,541
Noncurrent liabilities:			
OPEB liability	56,262	44,936	101,198
Net pension liability	1,705,368	–	1,705,368
Revenue bonds payable	4,648,875	–	4,648,875
Total noncurrent liabilities	6,410,505	44,936	6,455,441
Total liabilities	7,627,622	453,360	8,080,982
DEFERRED INFLOWS			
CERS net investment difference	8,903	–	8,903
NET POSITION			
Net investment in capital assets	15,623,482	40,114	15,663,596
Restricted for debt service and capital activity	1,227,224	–	1,227,224
Unrestricted (deficit)	2,992,337	(32,324)	2,960,013
Total net position	$ 19,843,043	$ 7,790	$ 19,850,833

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
Year Ended June 30, 2017

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
Operating revenues			
Charges for services	$ 5,123,788	$ 884,309	$ 6,008,097
Fines and forfeitures	129,758	25,007	154,765
Total operating revenues	5,253,546	909,316	6,162,862
Operating expenses			
Salaries, wages and benefits	1,500,556	11,456	1,512,012
Maintenance	307,612	676,564	984,176
Utilities	353,196	–	353,196
Administrative	635,000	209,500	844,500
Supplies	470,496	–	470,496
Other	240,987	–	240,987
Depreciation	1,076,034	–	1,076,034
Total operating expenses	4,583,881	897,520	5,481,401
Operating income	669,665	11,796	681,461
Nonoperating revenues (expenses):			
Investment income	6,326	339	6,665
Intergovernmental revenue	97,000	–	97,000
Miscellaneous revenue	31,135	–	31,135
Interest and fiscal charges expense	(196,148)	–	(196,148)
Amortization expense	(2,610)	–	(2,610)
Gain (loss) on disposal of assets	(13,605)	–	(13,605)
Total nonoperating revenues	(77,902)	339	(77,563)
Income before contributions and transfers	591,763	12,135	603,898
Capital contributions	1,015,500	–	1,015,500
Transfers out	(23,286)	–	(23,286)
Change in net position	1,583,977	12,135	1,596,112
Net position (deficit), beginning of year	18,259,066	(4,345)	18,254,721
Net position, end of year	$ 19,843,043	$ 7,790	$ 19,850,833

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2017

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
Cash flows from operating activities			
Cash received from customers	$ 5,214,254	$ 909,562	$ 6,123,816
Cash payments to employees and retirees	(1,412,289)	(8,162)	(1,420,451)
Cash payments to suppliers	(1,147,832)	(684,364)	(1,832,196)
Payments for administrative overhead	(635,000)	(209,500)	(844,500)
Net cash provided by operating activities	2,019,133	7,536	2,026,669
Cash flows from capital and related financing activities			
Proceeds from issuance of debt	1,153,801	–	1,153,801
Proceeds of grants	97,000	–	97,000
Purchase of capital assets	(1,237,948)	–	(1,237,948)
Principal paid on bonds, notes and lease obligations	(444,240)	–	(444,240)
Interest paid on bonds, notes and lease obligations	(130,333)	–	(130,333)
Net cash provided by (used in) capital and related financing activities	(561,720)	–	(561,720)
Cash flows from investing activities			
Purchases of certificates of deposit	(2,120)	–	(2,120)
Interest received	6,326	339	6,665
Net cash provided by investing activities	4,206	339	4,545
Net increase in cash and cash equivalents	1,461,619	7,875	1,469,494
Cash and cash equivalents, beginning of year	2,947,941	339,002	3,286,943
Cash and cash equivalents, end of year	$ 4,409,560	$ 346,877	$ 4,756,437
Reflected in the Statement of Fund Net Position - Proprietary Funds as:			
Cash and cash equivalents	$ 3,728,159	$ 346,877	$ 4,075,036
Restricted cash and cash equivalents	681,401	–	681,401
Total	$ 4,409,560	$ 346,877	$ 4,756,437

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2017

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 669,665	$ 11,796	$ 681,461
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,076,034	–	1,076,034
Nonoperating revenues	31,135	–	31,135
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(117,923)	246	(117,677)
Increase in due from other funds	(5,979)	(2,421)	(8,400)
(Increase) decrease in inventory and prepaid items	160,344	(16)	160,328
Increase in deferred outflows of resources	(99,917)	–	(99,917)
Increase in accounts payable	57,428	2,150	59,578
Decrease in accrued liabilities	(31,918)	(2,163)	(34,081)
Decrease in accrued vacation	(1,880)	–	(1,880)
Increase in customer deposits	47,496	–	47,496
Increase (decrease) in due to other funds	12,667	(5,350)	7,317
Increase in OPEB liability	7,641	3,294	10,935
Increase in pension liability	215,250	–	215,250
Decrease in deferred inflow of resources	(910)	–	(910)
Net cash provided by operating activities	$ 2,019,133	$ 7,536	$ 2,026,669

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

Related Organizations and Jointly Governed Organizations

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Joint Ventures

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

B. Government-wide and Fund Financial Statements

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

Government-wide Financial Statements

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

General Fund

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds

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

Permanent Funds

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

Proprietary Funds

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

Enterprise Funds

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

Water and Wastewater Fund

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sanitation Fund

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

C. Measurement Focus and Basis of Accounting

Government-wide and Proprietary Funds

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

In proprietary funds, operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Financial Statements

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents

The City considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017, cash equivalents consisted primarily of certificates of deposit and short-term instruments with local financial institutions.

Receivables and Payables

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

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

Inventories

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

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

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

Investments and Investment Income

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

Unbilled Revenue

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

Capital Assets

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Compensated Absences

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

Long-term Obligations

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Unearned Revenue

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources

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

Deferred Outflows - include the differences between reacquisition price and the net carrying amount of refunded debt obligations that is recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. In addition, it includes contributions to pension plans made subsequent to the City's measurement date of June 30, 2016.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification

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

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

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

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

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

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

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses

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

Interfund Activity

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Estimates

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

G. Budgetary Information

Budget Policy

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

Legal Compliance

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

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

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017, $11,193,991 of the City's bank balances of $12,812,881 was exposed to custodial credit risk as follows, while $1,618,890 was covered by the FDIC:

Uninsured and collateral held by pledging financial institution	$11,193,991

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, 2017, the City had the following investments and maturities:

Type	Fair Value	Maturities In Years Less than 1
U. S. obligations	$ 665,158	$ 665,158

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, 2017, 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, 2017, 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	$12,697,990
Investments	665,158
	$13,363,148

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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	$ 9,793,750
Certificates of deposit	439,762
Restricted assets:	
Cash and cash equivalents	2,043,798
Certificates of deposit	1,085,838
Total	$ 13,363,148

Investment Income

Investment income for the year ended June 30, 2017 consisted of:	
Interest and dividend income	$ 54,431

NOTE 3. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2017:

	Cash	Certificates of Deposit	Total
Governmental activities:			
General Fund:			
Retiree Life fund	$ 45,369	$ –	$ 45,369
Police fund	11,254	–	11,254
City of Franklin 2009 Bond Fund	1,234,774	–	1,234,774
Total General Fund	1,291,397	–	1,291,397
Special Revenue Fund			
Community Development	71,000	–	71,000
Total governmental activities	1,362,397	–	1,362,397
Business-type activities:			
Enterprise Fund			
Water and Wastewater Fund:			
Customer deposits	184,998	355,017	540,015
Debt service reserve	496,403	307,993	804,396
Depreciation reserve	–	280,060	280,060
Maintenance and replacement reserve	–	142,768	142,768

Total business-type activities	681,401	1,085,838	1,767,239
Total restricted assets	$ 2,043,798	$ 1,085,838	$ 3,129,636

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,745,278	$ –	($ 21,600)	$ 1,723,678
Streets and sidewalks	10,638,169	573,182	–	11,211,351
Construction in progress	–	79,150	–	79,150
Total capital assets, not being depreciated	12,383,447	652,332	(21,600)	13,014,179
Capital assets being depreciated:				
Buildings and improvements	1,961,077	94,654	–	2,055,731
Vehicles	1,364,248	255,193	(45,264)	1,574,177
Furniture, fixtures and equipment	1,183,092	138,958	–	1,322,050
Total capital assets, being depreciated	4,508,417	488,805	(45,264)	4,951,958
Less accumulated depreciation:				
Buildings and improvements	(719,645)	(51,463)	–	(771,108)
Vehicles	(954,014)	(154,252)	45,264	(1,063,002)
Furniture, fixtures and equipment	(943,855)	(79,556)	–	(1,023,411)
Total accumulated depreciation	(2,617,514)	(285,271)	45,264	(2,857,521)
Total capital assets, being depreciated, net	1,890,903	203,534	–	2,094,437
Governmental activities capital assets, net	$ 14,274,350	$ 855,866	($ 21,600)	$ 15,108,616
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 383,391	$ –	$ –	$ 383,391
Construction in progress	337,938	39,310	–	377,248
Total capital assets, not being depreciated	721,329	39,310	–	760,639
Capital assets being depreciated:				
Utility plant	37,807,141	2,005,140	(208,177)	39,604,104
Buildings	72,738	–	–	72,738
Furniture and equipment	3,214,812	145,781	(188,263)	3,172,330
Vehicles	548,307	39,931	–	588,238
Land improvements	39,858	–	–	39,858
Total capital assets being depreciated	41,682,856	2,190,852	(396,440)	43,477,268
Less accumulated depreciation:				
Utility plant	(19,982,128)	(878,561)	194,572	(20,666,117)
Buildings	(66,807)	(762)	–	(67,569)
Furniture and equipment	(2,582,120)	(153,827)	188,263	(2,547,684)
Vehicles	(472,494)	(40,036)	–	(512,530)
Land improvements	(5,084)	(2,848)	–	(7,932)
Total accumulated depreciation	(23,108,633)	(1,076,034)	382,835	(23,801,832)
Total capital assets, being depreciated, net	18,574,223	1,114,818	(13,605)	19,675,436
Business-type activities capital assets, net	$ 19,295,552	$ 1,154,128	($ 13,605)	$ 20,436,075

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4. CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	$ 69,437
Public safety	134,509
Public works	79,672
Community and cultural	1,653
Total depreciation expense - governmental activities	$ 285,271
Business-type activities:	
Water and wastewater	$ 1,076,034

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, 2017 were as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Due in One Year
Governmental activities:					
Bonds payable	$ 1,305,000	$ –	($ 250,000)	$ 1,055,000	$ 260,000
Less: unamortized discount	(15,312)	–	1,711	(13,601)	–
Bonds payable, net	1,289,688	–	(248,289)	1,041,399	260,000
Notes payable	3,136,426	–	(3,136,426)	–	–
Total governmental activities	$ 4,426,114	$ –	($ 3,384,715)	$ 1,041,399	$ 260,000

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5. LONG-TERM LIABILITIES (Continued)

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Due in One Year
Business-type activities:					
Revenue bonds	$ 4,020,000	$ 1,190,000	($ 300,000)	$ 4,910,000	$ 345,000
Unamortized discounts, premiums, net	73,370	14,430	(3,925)	83,875	–
Bonds payable, net	4,093,370	1,204,430	(303,925)	4,993,875	345,000
Notes payable	144,240	–	(144,240)	–	–
Total business-type activities	$ 4,237,610	$ 1,204,430	($ 448,165)	$ 4,993,875	$ 345,000
Total governmental and business-type activities	$ 8,663,724	$ 1,204,430	($ 3,832,880)	$ 6,035,274	$ 605,000

Governmental activities:

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

Governmental activities long-term debt of the City consisted of the following at June 30, 2017:

General Obligation Bonds:

$2,695,000 City of Franklin, Kentucky General Obligation Public Project Refunding and Improvement Bonds, Series 2009, dated October 13, 2009; fully registered bonds in the denomination of $5,000 or any integral multiple thereof; maturing on October 1 in annual installments of $160,000 to $365,000 through 2024; interest at 2% to 4% payable semi-annually on April 1 and October 1; issued to refund five general obligation lease purchase agreements and one general obligation note payable (outstanding principal balances totaling $1,505,311) and to finance the costs of the acquisition of five police cruisers and a portion of the construction and installation costs of a City fiber optic loop project; secured by the full faith, credit and taxing power of the City.	$ 1,055,000

Revenue bonds

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

NOTE 5. LONG-TERM LIABILITIES (Continued)

Water and Wastewater Fund:

Revenue bonds outstanding at June 30, 2017 were as follows:

	Interest Rates	Final Maturity Date	Principal at June 30, 2017
Revenue bonds, Series 2009 (A)	2.00 - 4.375%	December 1, 2024	$ 580,000
Revenue bonds, Series 2012 (B)	2.00 - 3.75%	December 1, 2033	3,140,000
Revenue bonds, Series 2016 (C)	3.00 – 3.60%	February 1, 2037	1,190,000
			4,910,000
Unamortized discounts, premiums, net			83,875
Total revenue bonds payable - business-type activities			$ 4,993,875

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

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

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

NOTE 5. LONG-TERM LIABILITIES (Continued)

Annual Debt Service Requirements

The annual requirements to amortize long-term debt outstanding as of June 30, 2017 are as follows:

Year Ending	Governmental Activities		Business-Type Activities		Government-Wide	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 260,000	$ 33,870	$ 345,000	$ 149,724	$ 605,000	$ 183,594
2019	270,000	25,245	360,000	139,936	630,000	165,181
2020	80,000	19,040	245,000	131,756	325,000	150,796
2021	80,000	16,080	250,000	125,206	330,000	141,286
2022	85,000	12,900	255,000	118,006	340,000	130,906
2023 - 2027	280,000	17,000	1,290,000	472,520	1,570,000	489,520
2028 - 2032	–	–	1,340,000	272,834	1,340,000	272,834
2033 - 2037	–	–	825,000	56,881	825,000	56,881
	$ 1,055,000	$ 124,135	$ 4,910,000	$ 1,466,863	$ 5,965,000	$ 1,590,998

Industrial Development Project Financing

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

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

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5. LONG-TERM LIABILITIES (Continued)

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

On December 3, 2010, the City ("holder") and Authority ("maker") entered into a Promissory Note in the principal amount of $4,000,000. As of June 30, 2016, the City had recorded a note receivable from the Authority and unearned revenues of $3,548,353 in the General Fund. In December, 2016, World Color exercised its option to purchase the real property, as a result, the City's note receivable balance from the Authority was collected and the City's original $3,572,008 Franklin Bank & Trust Company General Obligation Refunding Note, Series 2013, dated December 20, 2013, was paid off.

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2017 are as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	$ 45,700	$ 63,466
Special Revenue Funds:		
Economic Development Revolving Loan Fund	50,993	—
Community Development Fund	—	32,206
Stormwater Fund	1,943	1,399
Total governmental funds	98,636	97,071
Proprietary Funds:		
Water and Wastewater Fund	11,329	15,316
Sanitation Fund	2,422	—
Total proprietary funds	13,751	15,316
	$ 112,387	$ 112,387

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, 2017 are summarized as follows:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	$ 31,322	$ 283,000
Special Revenue Fund		
Greenlawn-Shady Rest Cemetery Fund	186,000	–
Stormwater Fund	100,000	8,039
Permanent Fund		
Greenlawn-Shady Rest Cemetery Perpetual Fund	–	3,000
Total governmental funds	317,322	294,039
Proprietary Funds:		
Water and wastewater	–	23,283
	$ 317,322	$ 317,322

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 (KRS) 78.520. CERS is administered by the Board of Trustees of Kentucky Retirement Systems (KRS) and covers substantially all regular full-time City employees (members) employed in nonhazardous and hazardous duty positions. The KRS issues a publicly available annual report that includes financial statements and required supplementary information for CERS. That report may be obtained at https://kyret.ky.gov.

NOTE 8. RETIREMENT PLAN (Continued)

Benefits Provided

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

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

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.

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 KRS Section 61.565(3), normal contribution and the actuarially accrued liability contribution rates shall be determined by the Board of Trustees on the basis of the annual actuarial valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The normal contribution rate (the percent computed of employee creditable compensation) shall be determined by the entry age normal cost funding method. The actuarially accrued liability shall be determined by actuarial method consistent with the methods prescribed for determining the normal contribution rate. The actuarially accrued liability contribution shall be computed by amortizing the total unfunded actuarially accrued liability over a period of 30 years using the level-percentage-of-payroll amortization method. Administrative costs of CERS are financed through employer contributions and investment earnings.

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

For the year ended June 30, 2017, the City contributed 18.68% (nonhazardous - 13.95% pension; 4.73% insurance) and 31.06% (hazardous – 21.71% pension; 9.35% insurance) of each employee's creditable compensation to CERS, in accordance with its actuarially determined contribution rate. The City's employer's contributions to CERS for pension benefits for the year ended June 30, 2017 were $511,349.

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, 2017, the City reported a liability of $7,677,024 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was .115625 percent.

For the year ended June 30, 2017, the City recognized pension expense of $979,799. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 690,366	$ –
Difference between expected and actual experience	66,187	–
Change of assumptions	421,012	–
Change in proportion and differences between employer contributions and proportionate share of contributions	49,753	39,465
Contributions subsequent to the measurement date of June 30, 2016	511,350	–
Total	$ 1,738,668	$ 39,465

The amount shown above for "contributions subsequent to the measurement date of June 30, 2016," will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

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:

2018	$	380,113
2019		296,963
2020		344,477
2021		166,300
	$	1,187,853

NOTE 8. RETIREMENT PLAN (Continued)

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

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

The rates of mortality used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality tables used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2013. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. The KRS Board of Directors lowered the three actuarial assumptions in May, 2017. The inflation rate was lowered from 3.25% to 2.3%, the active member payroll growth was lowered from 4% to 0%, and the investment rate of return was lowered from 7.5% to 6.25%. These assumption changes will become effective for the actuarial valuation as of the June 30, 2017 measurement date.

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

NOTE 8. RETIREMENT PLAN (Continued)

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

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

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

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

NOTE 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 7.50 percent, as well as the net pension liability if calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City of Franklin's net pension liability			
Hazardous	$ 4,081,215	$ 3,248,636	$ 2,561,874
Nonhazardous	5,518,382	4,428,388	3,493,887
Total	$ 9,599,597	$ 7,677,024	$ 6,055,761

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description and Contribution Information

In addition to the pension benefits described above in Note 9, the City maintains an informal retirement plan authorized by the Mayor/Commission. The City does not issue a separate, publicly available OPEB financial report. City employees who retired prior to May 1, 1988, plus employees/spouses who retired after May 1, 1988 but who elected not to participate in the CERS plan (above), are paid a $100 per month retirement benefit. 18 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 $20,700 for the year ended June 30, 2017.

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, 2017, payments under the plan totaled $96,444.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 133,804
Interest on net OPEB obligation	–
Adjustment to annual required contribution	–
Annual OPEB cost (expense)	133,804
Contributions made	(122,400)
Increase (decrease) in net OPEB obligation	11,404
Net OPEB obligation—beginning of year	117,841
Net OPEB obligation—end of year	$ 129,245

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2017, 2016 and 2015 were as follows:

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$133,805	91.48%	$ 129,245
2016	$144,346	84.74%	$ 117,841
2015	$123,582	113.14%	$ 85,603

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

Funded Status and Funding Progress

As of June 30, 2017, the actuarial accrued liability for benefits was $1,243,606, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

The following simplifying assumptions were made:

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

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

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

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

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

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4 percent was used. In addition, a simplified version of the unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized over retiree life expectancy not to exceed thirty years. The remaining amortization period at June 30, 2017 was thirty years.

NOTE 10. DEFERRED COMPENSATION PLAN

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

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or $18,000 for 2017, whichever is less. During the fiscal year ending June 30, 2017, contributions made on behalf of employees totaled $63,580.

NOTE 11. 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

NOTE 11. SOLID WASTE COLLECTION FRANCHISE AGREEMENTS (Continued)

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

Industrial

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

NOTE 12. INTERLOCAL AGREEMENT FOR FIRE PROTECTION

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

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

Fire Station and Equipment

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

NOTE 12. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

Personnel

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

Financial Contributions

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

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

Term

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

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 13. 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 14. CONTINGENCIES

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

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2017 may be impaired. In the opinion of the City, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

Board's note payable has a note maturity date of May 14, 2020 and the City's guaranty remains in effect until the Board's Franklin Bank & Trust debt is paid in full.

NOTE 15. 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, 2017, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of $51,787,290.

NOTE 16. 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, 2017, City tax abatements were approximately $148,800 relating to the City's participation in the KBI program.

NOTE 17. RECENT PRONOUNCEMENTS

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

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

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

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 952,900	$ 915,141	$ 975,159	$ 60,018
Occupational taxes	2,140,000	2,237,500	2,351,500	114,000
Insurance premium taxes	1,437,000	1,482,000	1,641,950	159,950
Business license taxes	645,450	677,450	659,817	(17,633)
Franchise taxes	99,000	99,000	88,182	(10,818)
Intergovernmental	205,259	216,907	225,093	8,186
Interfund charges	903,446	984,346	984,346	—
Fines and forfeitures	62,000	75,183	76,941	1,758
Note collections	3,058,907	3,574,104	3,574,104	—
Miscellaneous	514,506	174,964	179,196	4,232
Total revenues	10,018,468	10,436,595	10,756,288	319,693
Expenditures				
General government:				
Legislative:				
Personal services	120,406	120,233	124,105	(3,872)
Contractual services	9,697	14,197	10,951	3,246
Materials and supplies	1,200	1,200	539	661
Other	17,000	17,000	16,422	578
Total legislative	148,303	152,630	152,017	613
Administrative:				
Personal services	508,673	511,767	516,931	(5,164)
Contractual services	53,145	77,214	87,483	(10,269)
Materials and supplies	7,500	8,550	9,383	(833)
Other	11,500	11,500	4,802	6,698
Total administrative	580,818	609,031	618,599	(9,568)
Finance and accounting:				
Personal services	554,522	557,458	562,360	(4,902)
Contractual services	136,649	151,205	132,360	18,845
Materials and supplies	52,000	52,000	58,219	(6,219)
Other	10,750	10,750	10,297	453
Total finance and accounting	753,921	771,413	763,236	8,177
Risk management:				
Personal services	206,669	209,078	191,979	17,099
Contractual services	18,500	18,500	12,000	6,500
Materials and supplies	5,000	5,000	3,703	1,297
Other	53,804	44,308	30,660	13,648
Total risk management	283,973	276,886	238,342	38,544
Total general government	1,767,015	1,809,960	1,772,194	37,766

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Public safety:				
Police department:				
Administration:				
Personal services	$ 210,859	$ 241,788	$ 243,642	($ 1,854)
Contractual services	4,475	4,618	2,975	1,643
Materials and supplies	4,838	4,600	1,837	2,763
Other	3,815	2,906	2,050	856
Total administration	223,987	253,912	250,504	3,408
Patrol:				
Personal services	1,725,705	1,553,354	1,521,885	31,469
Contractual services	39,105	48,815	58,794	(9,979)
Materials and supplies	59,050	75,289	75,633	(344)
Other	14,650	16,600	10,300	6,300
Total patrol	1,838,510	1,694,058	1,666,612	27,446
Non-sworn personnel:				
Personal services	72,052	71,758	73,010	(1,252)
Contractual services	73,163	66,644	59,509	7,135
Materials and supplies	13,165	12,465	8,017	4,448
Other	400	400	319	81
Total non-sworn personnel	158,780	151,267	140,855	10,412
Total police department	2,221,277	2,099,237	2,057,971	41,266
Fire department:				
Inspection and administration:				
Contractual services	1,375	1,300	610	690
Firefighting:				
Contractual services	261,947	261,947	261,947	–
Total fire department	263,322	263,247	262,557	690
Total public safety	2,484,599	2,362,484	2,320,528	41,956

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Public services:				
Public works:				
Personal services	$ 491,135	$ 531,009	$ 537,161	($ 6,152)
Contractual services	187,512	180,310	159,441	20,869
Materials and supplies	93,370	89,444	65,880	23,564
Other	6,800	7,443	3,073	4,370
Total public works	778,817	808,206	765,555	42,651
Code enforcement:				
Personal services	70,870	72,162	72,756	(594)
Contractual services	7,084	4,978	1,523	3,455
Materials and supplies	2,900	3,539	3,044	495
Other	3,450	3,450	824	2,626
Total code enforcement	84,304	84,129	78,147	5,982
Total public services	863,121	892,335	843,702	48,633
Community services:				
Economic development	204,917	236,765	208,430	28,335
Parks and recreation	200,000	200,000	192,495	7,505
Total community services	404,917	436,765	400,925	35,840
Capital outlay:				
Vehicles	229,218	261,964	255,193	6,771
Equipment	127,385	176,054	174,324	1,730
Land and improvements	20,000	46,440	46,440	—
Buildings	71,000	70,326	49,268	21,058
Reserve for capital improvement	30,000	25,198	—	25,198
Total capital outlay	477,603	579,982	525,225	54,757
Debt service:				
Principal	3,497,930	3,386,426	3,386,426	—
Interest	110,497	76,999	76,999	—
Total debt service	3,608,427	3,463,425	3,463,425	—
Total expenditures	9,605,682	9,544,951	9,325,999	218,952

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Excess of revenues over expenditures	$ 412,786	$ 891,644	$ 1,430,289	$ 538,645
Other financing sources (uses):				
Sale of capital assets	5,000	5,000	1,520	(3,480)
Transfers out	(283,000)	(283,000)	(283,000)	–
Total other financing sources (uses)	(278,000)	(278,000)	(281,480)	(3,480)
Net change in fund balance	134,786	613,644	1,148,809	535,165
Fund balances, beginning of year	6,037,292	6,037,292	6,037,292	–
Fund balances, end of year	$ 6,172,078	$ 6,650,936	$ 7,186,101	$ 535,165

CITY OF FRANKLIN, KENTUCKY

Infrastructure Condition and Maintenance Data
June 30, 2017

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

	Comparison of Estimated-to-Actual Maintenance/Preservation				
	2017	2016	2015	2014	2013
Original estimate	$ 152,901	$ 272,226	$ 243,770	$ 188,190	$ 126,344
Actual	$ 105,261	$ 250,387	$ 222,785	$ 162,560	$ 120,453

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

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

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

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

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF FUNDING PROGRESS - OPEB
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Unit Credit Cost (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
6/30/2011	$ –	$ 1,595,663	$ 1,595,663	0.0%	N/A	N/A
6/30/2012	$ –	$ 1,455,926	$ 1,455,926	0.0%	N/A	N/A
6/30/2013	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2014	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2015	–	$ 1,243,606	$ 1,243,606	0.0%	N/A	N/A
6/30/2016	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2017	N/A	N/A	N/A	N/A	N/A	N/A

N/A - Actuarial valuation not performed.

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

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
June 30, 2017

Fiscal Year Ended June 30	Employer Contributions	Annual Required Contribution	Percentage Contributed
2011	$ 148,623	$ 158,818	93.58%
2012	128,804	151,095	85.25%
2013	119,202	151,095	78.89%
2014	113,635	151,095	75.21%
2015	139,818	123,582	113.14%
2016	122,323	123,582	98.98%
2017	122,400	123,582	99.04%

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

CITY OF FRANKLIN, KENTUCKY

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

	2017	2016	2015
Total net pension liability for County Employees Retirement Systems	$ 6,639,559,678	$ 5,834,631,445	$ 4,446,199,755
City's proportion of the net pension liability	.1156%	.1150%	.1166%
City's proportionate share of the net pension liability	$ 7,677,024	$ 6,708,131	$ 5,186,001
City's covered-employee payroll	$ 3,253,039	$ 3,205,636	$ 3,162,531
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	236.00%	209,26%	163.98%
Plan fiduciary net position as a percentage of the total pension liability	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.

CITY OF FRANKLIN, KENTUCKY

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

	2017	2016	2015
Actuarially determined contribution	$ 511,350	$ 452,495	$ 450,450
Contributions in relation to the actuarially determined contribution	511,350	452,495	450,450
Contribution deficiency (excess)	$ –	$ –	$ –
City's covered-employee payroll	$ 3,253,039	$ 3,205,636	$ 3,162,531
Contributions as a percentage of covered-employee payroll	15.72%	14.12%	14.24%

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

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

Permanent Funds

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

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

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

CITY OF FRANKLIN, KENTUCKY

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

	Special Revenue					
	Cemetery	Community Development	Municipal Aid	Economic Development	Stormwater	Total
ASSETS						
Cash and cash equivalents	$ 61,246	$ —	$ 99,880	$ —	$ 241,756	$ 402,882
Certificates of deposit	—	—	—	—	—	—
Receivables (net of allowance for uncollectibles):						
Accounts	3,770	—	—	—	23,321	27,091
Intergovernmental	—	—	19,653	—	—	19,653
Due from other funds	—	—	—	50,993	1,943	52,936
Prepaid items	532	—	—	—	1,762	2,294
Restricted assets:						
Cash and cash equivalents	—	71,000	—	—	—	71,000
Total assets	$ 65,548	$ 71,000	$ 119,533	$ 50,993	$ 268,782	$ 575,856
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 20	$ —	$ 273	$ —	$ 4,783	$ 5,076
Due to other funds	—	32,206	—	—	1,399	33,605
Total liabilities	20	32,206	273	—	6,182	38,681
Fund balances:						
Nonspendable:						
Prepaid items	532	—	—	—	1,762	2,294
Perpetual care	—	—	—	—	—	—
Restricted						
Highway and streets	—	—	119,260	—	—	119,260
Committed						
Stormwater	—	—	—	—	260,838	260,838
Assigned to:						
Other purposes	64,996	38,794	—	50,993	—	154,783
Total fund balances	65,528	38,794	119,260	50,993	262,600	537,175
Total liabilities and fund balances	$ 65,548	$ 71,000	$ 119,533	$ 50,993	$ 268,782	$ 575,856

Permanent Funds	
Cemetery Perpetual	Total Nonmajor Governmental Funds
$ 92,891	$ 495,773
439,762	439,762
–	27,091
–	19,653
–	52,936
–	2,294
–	71,000
$ 532,653	$ 1,108,509
$ –	$ 5,076
–	33,605
–	38,681
–	2,294
532,653	532,653
–	119,260
–	260,838
–	154,783
532,653	1,069,828
$ 532,653	$ 1,108,509

CITY OF FRANKLIN, KENTUCKY

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
June 30, 2017

	Francis Harris Cemetery Perpetual	Greenlawn-Shady Rest Cemetery Perpetual	Total Nonmajor Permanent Funds
ASSETS			
Cash and cash equivalents	$ 1,659	$ 91,232	$ 92,891
Certificates of deposit	50,000	389,762	439,762
Total assets	$ 51,659	$ 480,994	$ 532,653
FUND BALANCES			
Nonspendable:			
Cemetery maintenance	$ 51,659	$ –	$ 51,659
Perpetual care	–	480,994	480,994
Total fund balances	$ 51,659	$ 480,994	$ 532,653

CITY OF FRANKLIN, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS Year Ended June 30, 2017

Revenue	Special					
	Cemetery	Community Development	Municipal Aid	Economic Development	Stormwater	Total
Revenues						
Intergovernmental	$ —	$ —	$ 211,260	$ —	$ —	$ 211,260
Charges for sales and services	96,650	—	—	—	242,544	339,194
Contributions	—	—	—	—	—	—
Investment income	552	—	124	—	—	676
Total revenues	97,202	—	211,384	—	242,544	551,130
Expenditures						
Current:						
Public works	—	—	134,957	—	192,237	327,194
Community services	247,128	—	—	—	—	247,128
Capital outlay	8,435	—	—	—	18,034	26,469
Total expenditures	255,563	—	134,957	—	210,271	600,791
Excess (deficiency) of revenues over (under) expenditures	(158,361)	—	76,427	—	32,273	(49,661)
Other financing sources (uses):						
Transfers in	186,000	—	—	—	100,000	286,000
Transfers out	—	—	—	—	—	—
Total other financing sources (uses)	186,000	—	—	—	100,000	286,000
Net change in fund balances	27,639	—	76,427	—	132,273	236,339
Fund balances, beginning of year	37,889	38,794	42,832	50,993	130,329	300,837
Fund balances, end of year	$ 65,528	$ 38,794	$ 119,259	$ 50,993	$ 262,602	$ 537,176

Permanent Funds	
Cemetery Perpetual	Total Nonmajor Governmental Funds
$ —	$ 211,260
—	339,194
24,257	24,257
2,039	2,715
26,296	577,426
—	327,194
25	247,153
—	26,469
25	600,816
26,271	(23,390)
—	286,000
(3,000)	(3,000)
(3,000)	283,000
23,271	259,610
509,381	810,218
$ 532,652	$ 1,069,828

CITY OF FRANKLIN, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR PERMANENT FUNDS Year Ended June 30, 2017

	Francis Harris Cemetery Perpetual	Greenlawn-Shady Rest Cemetery Perpetual	Total Nonmajor Permanent Funds
Revenues			
Investment income	$ 481	$ 1,558	$ 2,039
Contributions	–	24,257	24,257
Total revenues	481	25,815	26,296
Expenditures			
Current:			
Community services	25	–	25
Excess of revenues over expenditures	456	25,815	26,271
Other financing uses			
Transfers out	–	(3,000)	(3,000)
Net change in fund balance	456	22,815	23,271
Fund balance, beginning of year	51,202	458,179	509,381
Fund balance, end of year	$ 51,658	$ 480,994	$ 532,652

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Greenlawn - Shady Rest Cemetery Special Revenue Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Charges for sales and services	$ 76,500	$ 87,000	$ 96,650	$ 9,650
Investment income	75	75	52	(23)
Miscellaneous	500	195	500	305
Total revenues	77,075	87,270	97,202	9,932
Expenditures				
Current:				
Community services:				
Personal services	17,976	9,982	8,615	1,367
Contractual services	183,600	182,838	181,427	1,411
Materials and supplies	2,600	4,300	1,976	2,324
Administrative overhead	44,846	44,846	44,846	–
Other	8,673	9,972	10,264	(292)
Total community services	257,695	251,938	247,128	4,810
Capital outlay	–	11,000	8,435	2,565
Total expenditures	257,695	262,938	255,563	7,375
Deficiency of revenues under expenditures	(180,620)	(175,668)	(158,361)	17,307
Other financing sources:				
Transfers in	186,000	186,000	186,000	–
Net change in fund balance	5,380	10,332	27,639	17,307
Fund balance, beginning of year	37,889	37,889	37,889	–
Fund balance, end of year	$ 43,269	$ 48,221	$ 65,528	$ 17,307

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Municipal Aid Special Revenue Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental:				
Liquid fuel tax	$ 160,550	$ 195,050	$ 198,648	$ 3,598
Mineral and coal severance tax	10,000	12,596	12,612	16
Investment income	250	200	124	(76)
Total revenues	170,800	207,846	211,384	3,538
Expenditures				
Current:				
Public works	135,500	200,000	134,957	65,043
Excess of revenues over expenditures	35,300	7,846	76,427	68,581
Fund balance, beginning of year	42,832	42,832	42,832	–
Fund balance, end of year	$ 78,132	$ 50,678	$ 119,259	$ 68,581

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Stormwater Special Revenue Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Charges for sales and services	$ 219,000	$ 226,000	$ 235,253	$ 9,253
Fines and forfeitures	7,500	7,500	7,289	(211)
Total revenues	226,500	233,500	242,542	9,042
Expenditures				
Current:				
Public works:				
Personal services	122,231	130,082	125,517	4,565
Contractual services	57,814	57,409	48,169	9,240
Materials and supplies	52,600	34,500	18,414	16,086
Other	3,850	2,912	137	2,775
Total public works	236,495	224,903	192,237	32,666
Capital outlay	41,000	39,995	18,034	21,961
Total expenditures	277,495	264,898	210,271	54,627
Excess (deficiency) of revenues over (under) expenditures	(50,995)	(31,398)	32,271	63,669
Other financing sources:				
Transfers in	100,000	100,000	100,000	–
Net change in fund balance	49,005	68,602	132,271	63,669
Fund balance, beginning of year	130,329	130,329	130,329	–
Fund balance, end of year	$ 179,334	$ 198,931	$ 262,600	$ 63,669

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, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for sales and services:				
Water division	$ 2,788,987	$ 2,806,109	$ 2,801,067	($ 5,042)
Wastewater division	2,282,726	2,434,000	2,452,479	18,479
Total operating revenues	5,071,713	5,240,109	5,253,546	13,437
Nonoperating revenues:				
Investment income	8,000	7,750	6,326	(1,424)
Sales of assets	2,000	2,000	(13,605)	(15,605)
Miscellaneous	10,000	25,217	31,135	5,918
Grant revenue	–	104,417	97,000	(7,417)
Bond proceeds	1,151,000	1,151,000	1,153,801	2,801
Total nonoperating revenues	1,171,000	1,290,384	1,274,657	(15,727)
Total revenues	6,242,713	6,530,493	6,528,203	(2,290)
Expenditures				
Administration division:				
Administrative:				
Personal services	138,257	107,829	106,513	1,316
Contractual services	–	755	1,083	(328)
Materials and supplies	–	274	1,028	(754)
Other	–	5,250	566	4,684
Total administration division	138,257	114,108	109,190	4,918
Water division:				
Production:				
Personal services	411,300	412,941	445,187	(32,246)
Contractual services	227,041	244,019	251,316	(7,297)
Materials and supplies	164,469	165,669	140,203	25,466
Other	68,344	70,992	73,316	(2,324)
Total water production	871,154	893,621	910,022	(16,401)

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Distribution:				
Personal services	$ 481,214	$ 374,614	$ 346,312	$ 28,302
Contractual services	73,730	87,992	48,789	39,203
Materials and supplies	232,200	208,627	130,817	77,810
Other	20,000	18,678	15,428	3,250
Total water distribution	807,144	689,911	541,346	148,565
Meter reading and maintenance:				
Personal services	66,539	65,704	64,754	950
Contractual services	13,812	13,123	8,300	4,823
Materials and supplies	196,100	186,600	121,881	64,719
Other	1,400	1,400	309	1,091
Total water meter reading and maintenance	277,851	266,827	195,244	71,583
Total water division	1,956,149	1,850,359	1,646,612	203,747
Wastewater division:				
Treatment:				
Personal services	240,827	247,394	272,938	(25,544)
Contractual services	291,960	286,811	318,585	(31,774)
Materials and supplies	94,183	84,867	81,564	3,303
Other	141,272	79,334	147,237	(67,903)
Total wastewater treatment	768,242	698,406	820,324	(121,918)
Collection and rehabilitation:				
Personal services	298,932	280,541	312,676	(32,135)
Contractual services	41,392	41,409	44,810	(3,401)
Materials and supplies	47,100	44,629	35,644	8,985
Other	6,800	6,340	3,355	2,985
Total wastewater collection and rehabilitation	394,224	372,919	396,485	(23,566)
Total wastewater division	1,162,466	1,071,325	1,216,809	(145,484)
Administrative overhead	554,100	635,000	635,000	–

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Debt service:				
Principal	444,240	462,990	444,240	18,750
Interest	120,557	141,826	144,349	(2,523)
Administrative fees	217	2,599	1,171	1,428
Total debt service	565,014	607,415	589,760	17,655
Capital outlays	1,314,571	1,552,530	1,138,183	414,347
Total expenditures	5,690,557	5,830,737	5,335,554	495,183
Excess of revenues over expenditures	552,156	699,756	1,192,649	492,893
Other financial sources				
Transfers in	–	34,500	–	(34,500)
Excess of revenues and other financing sources over expenditures	$ 552,156	$ 734,256	$ 1,192,649	$ 458,393
Add:				
Principal payments			444,240	
Capital outlays, including capitalized labor and materials			1,214,662	
Capital contributions			1,015,500	
Less:				
Depreciation expense			(1,076,034)	
Amortization expense			(2,610)	
Bond proceeds and issue costs			(1,204,430)	
Change in net position			1,583,977	
Net position, beginning of year			18,259,066	
Net position, end of year			$ 19,843,043	

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Sanitation Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for services:				
Hand pick-up	$ 666,600	$ 670,000	$ 676,550	$ 6,550
Collection fees	16,998	16,998	20,297	3,299
Fines and forfeitures	26,274	25,000	25,007	7
Franchise fee	174,235	188,535	187,462	(1,073)
Total operating revenues	884,107	900,533	909,316	8,783
Nonoperating revenues:				
Investment income	325	325	339	14
Total revenues	884,432	900,858	909,655	8,797
Expenditures				
Sanitation operations:				
Personal services	8,630	8,163	11,456	(3,293)
Contractual services	666,600	670,000	676,564	(6,564)
Administrative overhead	209,500	209,500	209,500	–
Total expenditures	884,730	887,663	897,520	(9,957)
Excess (deficiency) of revenues over (under) expenditures	($ 298)	$ 13,195	12,135	($ 1,160)
Net position, beginning of year			(4,345)	
Net position, end of year			$ 7,790	

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard*s, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Franklin, Kentucky (City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 5, 2018.

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 (2017-1).

Compliance and Other Matters

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

City of Franklin, Kentucky's Response to Findings

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

Purpose of this Report

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

Bowling Green, Kentucky
April 5, 2018

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2017-1 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.