

CITY OF FRANKLIN, KENTUCKY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2014

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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, 2014, 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, 2014, 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 - 16, General Fund budgetary comparison schedule on pages 61 - 64, infrastructure condition and maintenance data on page 65, and schedules of funding progress and employer contributions on pages 66 - 67 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.

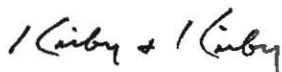
Other Information

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 68 - 79 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 3, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Bowling Green, Kentucky
April 3, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Franklin, Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

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, 2014. 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 at the close of the most recent fiscal year by \$36,244,071 and \$35,096,401 for the prior fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported ending net position of \$15,472,916 which includes unrestricted net position of \$1,805,720. Respectively for the prior fiscal year \$16,401,127 of net position and \$3,114,242 of unrestricted net position.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,948,127 with \$3,162,110 for the prior fiscal year.
- For the year ended June 30, 2014, total debt decreased by a net amount of \$747,719 during the year. Included in this fiscal year the City refunded its 2010 General Obligation Refunding Note in the amount of \$3,544,908. The City issued \$3,572,008 in a General Obligation Refunding note to refund its outstanding Note, Series 2010. For the prior fiscal year, total debt decreased by \$719,868 during the year due to principal reductions.
- The City had total revenues of \$12,876,304 for the year ended June 30, 2014 which includes: program revenues (charges for service) of \$6,459,676, operating grants and contributions of \$399,572, capital grants and contributions of \$372,000 and general revenues of \$5,645,056. The City had total expenses of \$11,538,075 for the year ended June 30, 2014. Comparatively, City had total revenues of \$13,244,205 for the year ended June 30, 2013 which includes: program revenues (charges for service) of \$6,561,190, operating grants and contributions of \$373,289, capital grants and contributions of \$631,173 and general revenues of \$5,678,553. The City had total expenses of \$12,244,093 for the year ended June 30, 2013.
- The City's total capital outlays were \$1,805,344 for the current fiscal year and \$4,176,368 for the prior fiscal year. For the Governmental Funds, capital outlays were \$674,322 for the current fiscal year and \$747,080 for the prior fiscal year. For the Proprietary Funds, capital outlays for the current fiscal year were \$1,131,023 and the prior fiscal year of \$3,429,288.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, *e.g.*, depreciation and earned but unused vacation leave.

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

The government-wide financial statements can be found on pages 17 and 18 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 27 through 60 of this report.

Government-wide Analysis

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

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$36,244,071 for the current fiscal year and \$35,096,401 at the close of the prior fiscal year.

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

	2014 Net Position		
	Governmental Activities	Business- type Activities	Total
Current and other assets	\$ 7,116,715	\$ 4,697,224	\$ 11,813,939
Capital assets	<u>14,210,210</u>	<u>22,167,534</u>	<u>36,377,744</u>
Total assets	<u>\$ 21,326,925</u>	<u>\$ 26,864,758</u>	<u>\$ 48,191,683</u>
Long-term liabilities outstanding	\$ 5,283,832	\$ 5,551,174	\$ 10,835,006
Other liabilities	<u>570,177</u>	<u>670,726</u>	<u>1,240,903</u>
Total liabilities	<u>\$ 5,854,009</u>	<u>\$ 6,221,900</u>	<u>\$ 12,075,909</u>
Net position			
Invested in capital assets, net of related debt	\$ 12,633,608	\$ 17,745,678	\$ 30,379,286
Restricted	1,033,588	1,193,143	2,226,731
Unrestricted	<u>1,805,720</u>	<u>1,832,334</u>	<u>3,638,054</u>
Total net position	<u>\$ 15,472,916</u>	<u>\$ 20,771,155</u>	<u>\$ 36,244,071</u>

	2013 Net Position		
	Governmental Activities	Business- type Activities	Total
Current and other assets	\$ 8,408,953	\$ 2,710,331	\$ 11,119,284
Capital assets	<u>14,038,498</u>	<u>22,728,605</u>	<u>36,767,103</u>
Total assets	<u>\$ 22,447,451</u>	<u>\$ 25,438,936</u>	<u>\$ 47,886,387</u>
Long-term liabilities outstanding	\$ 5,620,379	\$ 5,862,503	\$ 11,482,882
Other liabilities	<u>425,945</u>	<u>881,159</u>	<u>1,307,104</u>
Total liabilities	<u>\$ 6,046,324</u>	<u>\$ 6,743,662</u>	<u>\$ 12,789,986</u>
Net position			
Invested in capital assets, net of related debt	\$ 12,255,726	\$ 17,684,831	\$ 29,940,557
Restricted	1,031,159	1,338,085	2,369,244
Unrestricted	<u>3,114,242</u>	<u>(327,642)</u>	<u>2,786,600</u>
Total net position	<u>\$ 16,401,127</u>	<u>\$ 18,695,274</u>	<u>\$ 35,096,401</u>

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

2014
Changes in Net Position

	Governmental Activities	Business- type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 1,073,708	\$ 5,385,968	\$ 6,459,676
Operating grants and contributions	399,572	—	399,572
Capital grants and contributions	322,000	50,000	372,000
General revenues			
Property taxes	877,121	—	877,121
Occupational fees	1,941,492	—	1,941,492
Insurance premium fees	1,404,095	—	1,404,095
Franchise fees	100,226	—	100,226
Business license fees	605,816	—	605,816
Interest income	4,468	5,961	10,429
Miscellaneous income	358,761	106,950	465,711
Gain on the sale of assets	232,666	7,500	240,166
Transfers	(1,856,176)	1,856,176	—
Total revenues and transfers	<u>5,463,749</u>	<u>7,412,555</u>	<u>12,876,304</u>
Expenses			
General government	1,769,979	—	1,769,979
Public safety	2,594,500	—	2,594,500
Public works	1,118,853	—	1,118,853
Community and cultural	723,932	—	723,932
Interest expense on long-term debt	156,222	163,379	319,601
Water and wastewater	—	3,539,931	3,539,931
Sanitation	—	941,919	941,919
Fiber Optic	—	529,360	529,360
Total expenses	<u>6,363,486</u>	<u>5,174,589</u>	<u>11,538,075</u>
Change in net position	(899,737)	2,237,966	1,338,229
Net position, beginning of year	16,401,127	18,695,274	35,096,401
Change in accounting principle- GASB#65	(28,474)	(162,085)	(190,559)
Net position, end of year	<u>\$ 15,472,916</u>	<u>\$ 20,771,155</u>	<u>\$ 36,244,071</u>

2013
Changes in Net Position

	Governmental Activities	Business- type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 1,057,663	\$ 5,503,527	\$ 6,561,190
Operating grants and contributions	373,289	—	373,289
Capital grants and contributions	178,000	453,173	631,173
General revenues			
Property taxes	851,520	—	851,520
Occupational fees	2,195,926	—	2,195,926
Insurance premium fees	1,426,743	—	1,426,743
Franchise fees	93,281	—	93,281
Business license fees	471,685	—	471,685
Interest income	5,991	10,847	16,838
Miscellaneous income	369,349	232,558	601,907
Gain on the sale of assets	5,771	14,882	20,653
Transfers	—	—	—
Total revenues and transfers	<u>7,029,218</u>	<u>6,214,987</u>	<u>13,244,205</u>
Expenses			
General government	1,706,532	—	1,706,532
Public safety	2,489,314	—	2,489,314
Public works	1,005,609	—	1,005,609
Community and cultural	478,386	—	478,386
Interest expense on long-term debt	178,370	165,673	344,043
Water and wastewater	—	3,870,752	3,870,752
Sanitation	—	1,192,651	1,192,651
Fiber Optic	—	381,889	381,889
Total expenses	<u>5,858,211</u>	<u>5,610,965</u>	<u>11,469,176</u>
Change in net position	1,171,007	604,022	1,775,029
Net position, beginning of year	<u>15,230,120</u>	<u>18,091,252</u>	<u>33,321,372</u>
Net position, end of year	<u>\$ 16,401,127</u>	<u>\$ 18,695,274</u>	<u>\$ 35,096,401</u>

Financial Analysis of the Government's Funds

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$2,988,673 compared to \$4,312,637 for the prior fiscal year. The City's major sources of revenues are insurance premium fees, payroll occupational fees and property taxes. The fund balances primarily represents the accumulation of revenues in excess of expenditures not reimbursed by funding sources.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were approximately \$177,023 decrease in revenue and \$99,975 increase in appropriations which can be briefly summarized as follows:

- In Fiscal Year 2013 the City received a \$500,000 Community Development Block Grant and \$175,000 of those monies were expended and transferred into the General Fund to reimburse for the purchase and cleanup of several parcels of land. The remaining balance, of \$375,000, was budgeted in the General Fund; however, in order to comply with accounting standards, the revenue recognition of these funds was transferred out of the General Fund and into the City's Community Development Fund.
- Insurance fees were slightly stronger than anticipated in the original budget. Additionally the City's Alcohol Beverage Control income was much stronger than anticipated. Occupation fees were slightly increased during the budget revision, however, actual reported revenue was down approximately \$100,000. This is simply a revenue recognition timing issue, as some quarterly activity was recognized across two fiscal years.
- Legislative contractual services were up higher than budgeted. The City sold two tracts of land in this fiscal year and the selling expenses were budgeted in this category, however, for accounting recognition purposes, this was netted against land sales, recognized in Miscellaneous Revenue. Therefore, this variance is merely a classification issue between budgeting techniques and accounting standards.
- Risk management expenses were increased as a result of the City's unanticipated need for specialized legal counsel.
- The Police Department experienced a year of significant personnel turnover and promotional advances. As a result, the personnel budget reflected significant variances, as this turnover and subsequent promotions were unanticipated.

Additionally, the budget for Contractual Fire Services reflected a variance between budget versus actual. This was a result of the City's failure to increase the budget properly to reflect renegotiated rates for this service.

- The City's Public Works department reflects a variance related to contractual services. This is a result of the City's expectation to receive reimbursement of in-kind expenses related to the Community Development Block Grant discussed above in the amount of \$35,000. When the grant was concluded and all costs were consolidated, the funding was not available for this reimbursement.
- There is a budget to actual variance in "Other Financing Sources (Uses)." This is due to an unbudgeted, although anticipated, refinancing of a note payable. This note was refinanced in January 2014 on a three year note.

Total revenues for the year were right on target, in total, with final budgetary estimates while expenses were slightly higher than final budgetary estimates. There was an excess of expenditures over revenues primarily related to unanticipated changes in transactions within the City, all of which are discussed above. There was an overall net decrease in Fund Balance, of \$1,332,087. This relates to the increased expenditures as discussed above and an unbudgeted transfer of funds between the General Fund and Fiber Fund, to cover the deficit reflected within the Fiber Fund.

Proprietary Funds

Operating revenues of the City's proprietary funds decreased 2.14% from the prior year to \$5,385,968. The City kept rates static for the year, with the exception of a 2.7% cost of living increase in the Sanitation Fund, pursuant to the City's garbage hauler contract. Operating revenues from Water and Wastewater increased by 1.40% to \$4,346,810 while operating revenues from Sanitation services decreased 21.87% to \$914,816. The Fiber Optic services began its third year of providing services with revenues of \$124,342. Total operating expenses decreased 6.17% to \$5,082,051. Operating expenses for Water & Wastewater decreased by 6.01% to \$3,610,772 while operating expenses for Sanitation services decreased by 21.02% to \$941,919. 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. Fiber Optic service expenditures were \$529,360 compared to \$381,889 from the prior year.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2014, the City's investment in capital assets net of related debt for its governmental and business-type activities was \$30,379,286 and \$29,940,557 as of June 30, 2013. 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:

- Capital expenditures of \$67,000 for the standardization of technology City Wide – including the acquisition of new computers, servers, and wiring to convert to Voice Over IP for city phone services.
- Capital expenditure of \$45,571 for construction costs of Fiber Optic network.
- Capital expenditures of \$54,370 to install a new roof on the Water Treatment Plant.
- Capital expenditures of \$486,856 for improvements and additions to the City's water and waste water system.
- Capital expenditures of \$38,329 for equipment and vehicles for the City's water and waste water system.
- Equipment used by Street department of \$26,914.
- Vehicles for the Public Works Department \$24,480.
- Cruisers for the Police Department \$134,273.
- Acquisition of Land and Related Improvements of \$384,415.
- Capital expenditures of \$18,685 for improvements and additions to the City's storm water infrastructure.

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

- Capital expenditure of \$869,701 for design, make ready and construction costs of Fiber Optic network.
- Capital expenditures of \$349,570 for improvements and additions to the City's water and waste water system.
- Capital expenditures of \$263,040 for equipment and vehicles for the City's water and waste water system.
- Equipment used by Street department of \$27,691.
- Cruisers for the Police Department \$117,291.
- Acquisition of Land and Related Improvements of \$532,687
- Capital expenditures of \$62,971 for improvements and additions to the City's storm water infrastructure.

Long-term Debt

The City had \$10,256,457 in revenue bonds and capital lease obligations outstanding as of June 30, 2014, which is a decrease of \$747,719 from the previous year. The City made principal payments of \$505,000 during fiscal year 2014. The City refunded its 2010 General Obligation Refunding Note in the amount of \$3,544,908. The City issued \$3,572,008 in a General Obligation Refunding note to refund its outstanding Note, Series 2010. In the previous year, the City had \$11,004,176 in revenue bonds and capital lease obligations outstanding as of June 30, 2013, which is a decrease of \$719,868 from the previous year. The City made principal payments of \$835,262 during fiscal year 2013.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$2,988,673 at June 30, 2014, excluding capital assets and long-term debt. Included in this year's total change in fund balance is a decrease of \$1,332,087 in the City's General Fund. For the previous year, the City's governmental funds reported a combined fund balance of \$4,312,637 at June 30, 2013, excluding capital assets and long-term debt. Included in last year's total change in fund balance was an increase of \$243,565 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 annually for cracks, potholes, misalignment, drainage condition and number of specific safety hazards. There were no roads severely deficient in condition at June 30, 2014.

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

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

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

Economic Factors and Next Year's Budgets and Rates

In 2008 the City of Franklin was awarded a \$1,000,000 grant from the U.S. Department of Commerce, Economic Development administration to aid in the costs of the construction of a fiber optic project. The purpose of the project is to enhance economic development and City services by providing a reliable, advanced telecommunication service. During fiscal year 2011-2012, the City contracted for the purchase and installation of equipment, the construction of the fiber cable and the splicing and testing of the system. As of June 30,

2014, the construction was complete, the program was operating within its second year, and the program reflected total investment in capital assets, including infrastructure, buildings and equipment, of \$2,501,249. The City began offering its Fiber Services in May 2013 and is now servicing 38 customers.

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

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

- The City is currently executing a project related to the expansion of its existing sewer lines. This project will provide 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, has an estimated project cost of \$600,000.
- The City's Waste Water Treatment Department has identified a lift station and sub-basin that needs significant rehabilitation work. The expectation is that this investment and improvement will decrease some of the water's run off infiltration into the sewer systems as well as improve the overall systems operating capacity for the citizens using the sewer system within that sub-basin. This project, including all engineering work, has an estimated project cost of \$600,000 to \$700,000.
- 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. There are also expectations that the south area of Franklin will experience significant growth and expansion over the next several years. 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 has begun 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.

- The City's Water Distribution Department is working within its third year of a substantial water main replacement initiative. Currently, the City is working toward replacing all of its 2" galvanized water lines with new, sustainable water lines. The expectation is that the replacement of this old and corroded line will provide better water service to the City's customers as well as reduce some of the annual water loss that the City experiences. Additionally the City has begun replacing these lines in-house, rather than contracting the projects out. This allows the City to take advantage of its own synergy and cooperation among the City's departments, because what one department does always directly impacts another, therefore it provides for more timely reaction to any project related incidences. Additionally there is a major cost savings realized by completing the project in-house rather than paying a premium for contracted services.
- 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 September 2012, the City passed an Alcoholic Beverage Control Ordinance expanding the types of licenses for sale of alcoholic beverages. To date, fourteen malt beverage licenses have been issued, seven restaurant licenses have been issued and one application has been filed for a Distillery. The State of Kentucky has set the package liquor quota at three licenses. All three licenses have been issued and the packaged liquor stores are open and operational. With the changes in the City's Alcoholic Beverage Control Ordinance and our recent Annexation south of Franklin, the City really expects to see future growth in the area, given its proximity to Interstate 65, in part relating to some high-end chain restaurants.
- During Fiscal Year 2013, the City initiated a City-Wide Beautification Program. The program began July 2012 with the hiring of a full time Code Enforcement Officer, and has since been extremely proactive in the effort to make noticeable improvements to the City with regards to blighted and dilapidated structures. To date, twenty three blighted and dilapidated properties have been condemned by the City with thirteen of these properties having been subsequently demolished

and the lots cleared of all material and debris. There are currently eight properties which have been condemned and are pending action, and another eight properties which are currently in the condemnation process. These actions are the result of a combined effort by the City's Code Enforcement Officer and the City/County Planning and Zoning Office.

- 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, to be 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.
- In Fiscal Year 2013 the Franklin-Simpson Industrial Authority entered into a project where Alliance Corporation will build a 60,000 square foot Spec Building in the Henderson Industrial park. The City agreed to provide in-kind service by providing the labor and expertise needed to expand our existing sewer lines into the Industrial Park in order to service this Spec Building. Once this project is complete the Industrial Park will have two vacant buildings, one a large scale, move-in ready facility and one a smaller-scale move in ready facility. The hope is that these facilities will attract interest and provide for further industrial growth within our community.

- There have been three industries within Franklin that have announced their plans for expansion with one industry announcing its plan to locate within the City. Also, the Industrial Authority is seeing a significant increase in industries expressing interest in locating within one of the City's Industrial Parks. Additionally, a local construction company has announced their plans to build a subdivision within our City, targeting middle income, retirement aged citizens.
- 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 increase slightly— from 6.1% in December 2013 to 6.7% in January 2014, however, this rate is well below the state rate of 8.3% or the national rate of 7.0%.

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, 2014

	Governmental Activities	Primary Government Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,602,234	\$ 2,118,184	\$ 3,720,418
Certificates of deposit	437,946	—	437,946
Receivables (net of allowance for uncollectibles):			
Accounts	66,194	607,423	673,617
Taxes	857,292	—	857,292
Notes	3,661,333	—	3,661,333
Intergovernmental	156,634	24,369	181,003
Internal balances	19,351	(19,351)	—
Inventory	—	358,512	358,512
Prepaid items	11,175	6,820	17,995
Restricted assets:			
Cash and cash equivalents	304,556	523,775	828,331
Certificates of deposit	—	1,077,492	1,077,492
Capital assets, net of accumulated depreciation:			
Nondepreciable	12,193,487	374,238	12,567,725
Depreciable capital assets	2,016,723	21,248,333	23,265,056
Construction in progress	—	544,963	544,963
Total assets	<u>21,326,925</u>	<u>26,864,758</u>	<u>48,191,683</u>
DEFERRED OUTFLOWS			
Deferred amount on refunding bonds	—	128,297	128,297
LIABILITIES			
Accounts payable	308,974	248,653	557,627
Other accrued liabilities	157,733	371,420	529,153
Accrued interest payable	17,002	11,871	28,873
Accrued vacation	86,468	36,752	123,220
Unearned revenues	—	2,030	2,030
Noncurrent liabilities:			
Customer deposits	—	348,413	348,413
OPEB liability	11,591	90,248	101,839
Due within one year	240,000	435,370	675,370
Due in more than one year	5,032,241	4,677,143	9,709,384
Total liabilities	<u>5,854,009</u>	<u>6,221,900</u>	<u>12,075,909</u>
NET POSITION			
Net investment in capital assets	12,633,608	17,745,678	30,379,286
Restricted for:			
Expendable:			
Highways and streets	216,007	—	216,007
Debt service and capital activity	194,669	1,193,143	1,387,812
Economic development	89,787	—	89,787
Other purposes	38,886	—	38,886
Nonexpendable:			
Perpetual care	494,239	—	494,239
Unrestricted	1,805,720	1,832,334	3,638,054
Total net position	<u>\$ 15,472,916</u>	<u>\$ 20,771,155</u>	<u>\$ 36,244,071</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF ACTIVITIES Year Ended June 30, 2014

Function/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 1,769,979	\$ 801,721	\$ —	\$ —	(\$ 968,258)	\$ —	(\$ 968,258)
Public safety	2,594,500	45,987	159,855	—	(2,388,658)	—	(2,388,658)
Public works	1,118,853	90,000	236,417	—	(792,436)	—	(792,436)
Community and cultural	723,932	136,000	3,300	322,000	(262,632)	—	(262,632)
Interest on long-term debt	156,222	—	—	—	(156,222)	—	(156,222)
Total governmental activities	6,363,486	1,073,708	399,572	322,000	(4,568,206)	—	(4,568,206)
Business-type activities:							
Water and wastewater	3,703,310	4,346,810	—	—	—	643,500	643,500
Sanitation	941,919	914,816	—	—	—	(27,103)	(27,103)
Fiber optic	529,360	124,342	—	50,000	—	(355,018)	(355,018)
Total business-type activities	5,174,589	5,385,968	—	50,000	—	261,379	261,379
Total primary government	\$ 11,538,075	\$ 6,459,676	\$ 399,572	\$ 372,000	(4,568,206)	261,379	(4,306,827)
General revenues:							
Property taxes					877,121	—	877,121
Occupational taxes					1,941,492	—	1,941,492
Insurance premium taxes					1,404,095	—	1,404,095
Franchise taxes					100,226	—	100,226
Business license taxes					605,816	—	605,816
Interest income					4,468	5,961	10,429
Miscellaneous					358,761	106,950	465,711
Gain on sale of assets					232,666	7,500	240,166
Transfers					(1,856,176)	1,856,176	—
Total general revenues and transfers					3,668,469	1,976,587	5,645,056
Change in net position					(899,737)	2,237,966	1,338,229
Net position, beginning of year					16,401,127	18,695,274	35,096,401
Change in accounting principle—GASB #65					(28,474)	(162,085)	(190,559)
Net position, beginning of year, restated					16,372,653	18,533,189	34,905,842
Net position, end of year					\$ 15,472,916	\$ 20,771,155	\$ 36,244,071

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,318,992	\$ 283,241	\$ 1,602,233
Certificates of deposit	—	437,946	437,946
Receivables (net of allowance for uncollectibles):			
Accounts	57,444	8,750	66,194
Taxes	857,292	—	857,292
Notes	3,661,333	—	3,661,333
Intergovernmental	23,782	132,852	156,634
Due from other funds	207,888	50,993	258,881
Prepaid items	10,691	484	11,175
Restricted assets			
Cash and cash equivalents	<u>233,556</u>	<u>71,000</u>	<u>304,556</u>
Total assets	<u>\$ 6,370,978</u>	<u>\$ 985,266</u>	<u>\$ 7,356,244</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 307,440	\$ 1,535	\$ 308,975
Due to other funds	52,101	187,430	239,531
Accrued expenses	<u>157,732</u>	<u>—</u>	<u>157,732</u>
Total liabilities	<u>517,273</u>	<u>188,965</u>	<u>706,238</u>
Deferred inflows:			
Unavailable revenue	<u>3,661,333</u>	<u>—</u>	<u>3,661,333</u>
Fund balances:			
Nonspendable:			
Prepaid items	10,691	484	11,175
Perpetual care	—	494,238	494,238
Assigned to:			
Debt service	194,669	—	194,669
Retirement benefits	29,372	—	29,372
Drug enforcement	9,513	—	9,513
Other purposes	—	301,579	301,579
Unassigned	<u>1,948,127</u>	<u>—</u>	<u>1,948,127</u>
Total fund balances	<u>2,192,372</u>	<u>796,301</u>	<u>2,988,673</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 6,370,978</u>	<u>\$ 985,266</u>	<u>\$ 7,356,244</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
June 30, 2014**

Total fund balances - governmental funds		\$ 2,988,673
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		14,210,212
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable	(\$ 5,272,241)	
Compensated absences	(86,468)	
Accrued interest on long-term obligations	(17,002)	
OPEB liability	(11,591)	(5,387,302)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		<u>3,661,333</u>
Net position of governmental activities		<u>\$ 15,472,916</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS Year Ended June 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes:			
Property	\$ 877,121	\$ —	\$ 877,121
Occupational	1,941,492	—	1,941,492
Insurance premium	1,404,095	—	1,404,095
Franchise	100,226	—	100,226
Business license	605,816	—	605,816
Intergovernmental	190,729	554,139	744,868
Charges for sales and services	—	86,800	86,800
Interfund charges	839,614	—	839,614
Fines and forfeitures	73,566	—	73,566
Contributions and donations	—	9,200	9,200
Investment income	1,264	3,114	4,378
Miscellaneous	<u>513,367</u>	<u>90</u>	<u>513,457</u>
Total revenues	<u>6,547,290</u>	<u>653,343</u>	<u>7,200,633</u>
Expenditures			
Current:			
General government	\$ 1,702,188	\$ —	\$ 1,702,188
Public safety	2,451,829	—	2,451,829
Public works	913,171	164,113	1,077,284
Community services	444,027	275,677	719,704
Capital outlay	671,295	3,027	674,322
Debt service:			
Principal	379,279	—	379,279
Interest	<u>178,865</u>	<u>—</u>	<u>178,865</u>
Total expenditures	<u>6,740,654</u>	<u>442,817</u>	<u>7,183,471</u>
Excess (deficiency) of revenues over (under) expenditures	(<u>193,364</u>)	<u>210,526</u>	<u>17,162</u>
Other financing sources (uses):			
Transfers in	361,953	165,550	527,503
Transfers out	(2,015,726)	(367,953)	(2,383,679)
Sale of capital assets	487,950	—	487,950
Proceeds from refunding bonds	3,572,008	—	3,572,008
Debt service - refunding note principal	(3,544,908)	—	(3,544,908)
Total other financing sources (uses)	(<u>1,138,723</u>)	(<u>202,403</u>)	(<u>1,341,126</u>)
Net change in fund balances	(1,332,087)	8,123	(1,323,964)
Fund balances, beginning of year	<u>3,524,459</u>	<u>788,178</u>	<u>4,312,637</u>
Fund balances, end of year	<u>\$ 2,192,372</u>	<u>\$ 796,301</u>	<u>\$ 2,988,673</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2014

	Total Governmental Funds
Net change in fund balances - total governmental funds	(\$ 1,323,964)
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.	426,998
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.	350,468
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	\$ 4,985
OPEB expense	(13,920)
Accrued interest on long-term debt	<u>24,353</u>
	15,418
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.	(113,373)
In the statement of activities, only the gain on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the disposal increase financial resources. Thus the change in net position differs from the change in fund balance by the net book value of the assets disposed.	(<u>255,284</u>)
Change in net position of governmental activities	(\$ <u>899,737</u>)

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS

June 30, 2014

	<u>Enterprise Funds</u>			
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Fiber Optic</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,815,524	\$ 302,660	\$ —	\$ 2,118,184
Accounts receivable, net	530,344	75,021	2,058	607,423
Intergovernmental receivables	24,369	—	—	24,369
Due from other funds	1,108	4,593	—	5,701
Inventory	358,512	—	—	358,512
Prepaid items	6,088	700	32	6,820
Restricted assets:				
Cash and cash equivalents	523,775	—	—	523,775
Certificates of deposit	<u>1,077,492</u>	<u>—</u>	<u>—</u>	<u>1,077,492</u>
Total current assets	<u>4,337,212</u>	<u>382,974</u>	<u>2,090</u>	<u>4,722,276</u>
Noncurrent assets:				
Capital assets:				
Land	332,924	40,114	1,200	374,238
Depreciable capital assets, net	18,948,290	—	2,300,043	21,248,333
Construction in progress	<u>544,963</u>	<u>—</u>	<u>—</u>	<u>544,963</u>
Total noncurrent assets	<u>19,826,177</u>	<u>40,114</u>	<u>2,301,243</u>	<u>22,167,534</u>
Total assets	<u>24,163,389</u>	<u>423,088</u>	<u>2,303,333</u>	<u>26,889,810</u>
DEFERRED OUTFLOWS				
Deferred amount on refunding bonds	\$ <u>128,297</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>128,297</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS

June 30, 2014

	<u>Enterprise Funds</u>			
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Fiber Optic</u>	<u>Total</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 149,267	\$ 98,746	\$ 640	\$ 248,653
Accrued liabilities	60,477	306,117	4,826	371,420
Accrued interest	11,871	—	—	11,871
Accrued vacation	36,752	—	—	36,752
Due to other funds	25,052	—	—	25,052
Unearned revenue	—	—	2,030	2,030
Current maturities of notes payable	155,370	—	—	155,370
Payable from restricted assets:				
Current maturities of revenue bonds payable	280,000	—	—	280,000
Customer deposits	<u>348,413</u>	<u>—</u>	<u>—</u>	<u>348,413</u>
Total current liabilities	<u>1,067,202</u>	<u>404,863</u>	<u>7,496</u>	<u>1,479,561</u>
Noncurrent liabilities:				
OPEB liability	48,636	41,612	—	90,248
Notes payable	286,765	—	—	286,765
Revenue bonds payable	<u>4,390,378</u>	<u>—</u>	<u>—</u>	<u>4,390,378</u>
Total noncurrent liabilities	<u>4,725,779</u>	<u>41,612</u>	<u>—</u>	<u>4,767,391</u>
Total liabilities	<u>5,792,981</u>	<u>446,475</u>	<u>7,496</u>	<u>6,246,952</u>
NET POSITION				
Net investment in capital assets	15,404,321	40,114	2,301,243	17,745,678
Restricted for debt service and capital activity	1,193,143	—	—	1,193,143
Unrestricted	<u>1,901,241</u>	<u>(63,501)</u>	<u>(5,406)</u>	<u>1,832,334</u>
Total net position	<u>\$ 18,498,705</u>	<u>(\$ 23,387)</u>	<u>\$ 2,295,837</u>	<u>\$ 20,771,155</u>

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
Year Ended June 30, 2014**

	<u>Enterprise Funds</u>			
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Fiber Optic</u>	<u>Total</u>
Operating revenues				
Charges for services	\$ 4,223,817	\$ 890,325	\$ 124,326	\$ 5,238,468
Fines and forfeitures	<u>122,993</u>	<u>24,491</u>	<u>16</u>	<u>147,500</u>
Total operating revenues	<u>4,346,810</u>	<u>914,816</u>	<u>124,342</u>	<u>5,385,968</u>
Operating expenses				
Salaries, wages and benefits	1,238,963	21,925	137,731	1,398,619
Maintenance	215,150	710,494	173,819	1,099,463
Utilities	329,202	—	53,190	382,392
Administrative	500,114	209,500	—	709,614
Supplies	296,823	—	44,897	341,720
Other	22,278	—	3,130	25,408
Depreciation	<u>1,008,242</u>	<u>—</u>	<u>116,593</u>	<u>1,124,835</u>
Total operating expenses	<u>3,610,772</u>	<u>941,919</u>	<u>529,360</u>	<u>5,082,051</u>
Operating income (loss)	<u>736,038</u>	<u>(27,103)</u>	<u>(405,018)</u>	<u>303,917</u>
Nonoperating revenues (expenses):				
Investment income	5,575	386	—	5,961
Intergovernmental revenue	—	—	50,000	50,000
Miscellaneous revenue	106,950	—	—	106,950
Interest expense	(88,371)	—	—	(88,371)
Amortization expense	(3,031)	—	—	(3,031)
Administrative fees	(1,136)	—	—	(1,136)
Gain on disposal of assets	<u>7,500</u>	<u>—</u>	<u>—</u>	<u>7,500</u>
Total nonoperating revenues	<u>27,487</u>	<u>386</u>	<u>50,000</u>	<u>77,873</u>
Income (loss) before transfers	763,525	(26,717)	(355,018)	381,790
Transfers in	<u>—</u>	<u>—</u>	<u>1,856,176</u>	<u>1,856,176</u>
Change in net position	<u>763,525</u>	<u>(26,717)</u>	<u>1,501,158</u>	<u>2,237,966</u>
Net position, beginning of year	17,897,265	3,330	794,679	18,695,274
Change in accounting principle - GASB #65	<u>(162,085)</u>	<u>—</u>	<u>—</u>	<u>(162,085)</u>
Net position, beginning of year, restated	<u>17,735,180</u>	<u>3,330</u>	<u>794,679</u>	<u>18,533,189</u>
Net position, end of year	<u>\$ 18,498,705</u>	<u>(\$ 23,387)</u>	<u>\$ 2,295,837</u>	<u>\$ 20,771,155</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS Year Ended June 30, 2014

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Cash flows from operating activities				
Cash received from customers	\$ 4,313,556	\$ 936,657	\$ 124,991	\$ 5,375,204
Cash payments to employees and retirees	(1,207,220)	(12,000)	(136,840)	(1,356,060)
Cash payments to suppliers	(923,092)	(705,891)	(283,288)	(1,912,271)
Payments for administrative overhead	(500,113)	(209,500)	—	(709,613)
Net cash provided by (used in) operating activities	<u>1,683,131</u>	<u>9,266</u>	<u>(295,137)</u>	<u>1,397,260</u>
Cash flows from noncapital financing activities				
Proceeds from operating subsidies	—	—	50,000	50,000
Transfers in from other funds	—	—	333,666	333,666
Net cash provided by noncapital financing activities	<u>—</u>	<u>—</u>	<u>383,666</u>	<u>383,666</u>
Cash flows from capital and related financing activities				
Proceeds from the sale of capital assets	7,500	—	—	7,500
Purchase of capital assets	(440,834)	—	(88,529)	(529,363)
Principal paid on bonds, notes and lease obligations	(442,889)	—	—	(442,889)
Interest paid on bonds, notes and lease obligations	(170,283)	—	—	(170,283)
Administrative fees paid	(1,136)	—	—	(1,136)
Net cash used in capital and related financing activities	<u>(1,047,642)</u>	<u>—</u>	<u>(88,529)</u>	<u>(1,136,171)</u>
Cash flows from investing activities				
Purchases of certificates of deposit	(3,564)	—	—	(3,564)
Interest received	<u>5,849</u>	<u>386</u>	<u>—</u>	<u>6,235</u>
Net cash provided by investing activities	<u>2,285</u>	<u>386</u>	<u>—</u>	<u>2,671</u>
Net increase in cash and cash equivalents	637,774	9,652	—	647,426
Cash and cash equivalents, beginning of year	<u>1,701,525</u>	<u>293,008</u>	<u>—</u>	<u>1,994,533</u>
Cash and cash equivalents, end of year	<u>\$ 2,339,299</u>	<u>\$ 302,660</u>	<u>\$ —</u>	<u>\$ 2,641,959</u>
Reflected in the Statement of Fund Net Position - Proprietary Funds as:				
Cash and cash equivalents	\$ 1,815,524	\$ 302,660	\$ —	\$ 2,118,184
Restricted cash and cash equivalents	<u>523,775</u>	<u>—</u>	<u>—</u>	<u>523,775</u>
Total	<u>\$ 2,339,299</u>	<u>\$ 302,660</u>	<u>\$ —</u>	<u>\$ 2,641,959</u>

See Notes to Financial Statements

(Continued)

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED) Year Ended June 30, 2014

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 736,038	(\$ 27,103)	(\$ 405,018)	\$ 303,917
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,008,242	—	116,593	1,124,835
Nonoperating revenues	106,950	—	—	106,950
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(66,857)	21,842	649	(44,366)
(Increase)decrease in due from other funds	(1,109)	4,651	—	3,542
Increase in inventory and prepaid items	(88,649)	—	(10)	(88,659)
Increase (decrease) in accounts payable	(64,631)	3,759	(8,243)	(69,115)
Increase (decrease) in accrued liabilities	9,428	(3,808)	892	6,512
Increase in accrued vacation	8,701	—	—	8,701
Increase in customer deposits	15,290	—	—	15,290
Increase in due to other funds	6,114	—	—	6,114
Increase in OPEB liability	13,614	9,925	—	23,539
Net cash provided by (used in) operating activities	<u>\$ 1,683,131</u>	<u>\$ 9,266</u>	<u>(\$ 295,137)</u>	<u>\$ 1,397,260</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

Related Organizations and Jointly Governed Organizations

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Joint Ventures

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

B. Government-wide and Fund Financial Statements

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

Government-wide Financial Statements

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

General Fund

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 four 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), and economic development activities (Economic Development Revolving Loan Fund).

Permanent Funds

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

Proprietary Funds

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

Enterprise Funds

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

Water and Wastewater Fund

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sanitation Fund

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

Fiber Optic Fund

The Fiber Optic Fund accounts for the operations of the City's fiber optic system.

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental Fund Financial Statements

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

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

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014, 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, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

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

Investments and Investment Income

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

Unbilled Revenue

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

Capital Assets

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

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>Years</u>
Utility plant	25 - 50
Building and improvements	25 - 40
Furniture and equipment	10
Vehicles	4

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

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

Compensated Absences

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

Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities, business-type activities or proprietary fund Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as expenses effective for the period ended June 30, 2014.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

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 Commission). 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.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Commission establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. 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.

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Excess of Expenditures over Appropriations

The following funds that have budgets adopted annually had excess expenditures over appropriations for the fiscal year ended June 30, 2014:

General Fund	<u>\$ 127,594</u>
Community Development Fund	<u>\$ 546</u>
Sanitation Fund	<u>\$ 27,943</u>

Fund excess expenditures were funded by available net assets.

Fund Deficits

The Greenlawn-Shady Rest Cemetery Fund had a deficit fund balance at June 30, 2014 of \$3,730. The deficit is a result of lower than anticipated revenues for support of cemetery operations.

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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

At June 30, 2014, \$4,325,168 of the City's bank balances of \$5,345,475 were exposed to custodial credit risk as follows, while \$1,020,307 was covered by the FDIC:

Uninsured and collateral held by pledging financial institution	<u>\$ 4,325,168</u>
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Investments

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

At June 30, 2014, the City had the following investments and maturities:

<u>Type</u>	<u>Fair Value</u>	<u>Maturities In Years Less than 1</u>
U. S. obligations	<u>\$ 663,582</u>	<u>\$ 663,582</u>

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, 2014, investments in U. S. agency obligations not directly guaranteed by the U. S. government were rated AAA by Standard & Poor's.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

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, 2014, 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	\$ 5,400,605
Investments	<u>663,582</u>
	<u>\$ 6,064,187</u>

Included in the following balance sheet captions:

Government-wide Statement of Net Assets	
Cash and cash equivalents	\$ 3,720,418
Certificates of deposit	437,946
Restricted assets:	
Cash and cash equivalents	828,331
Certificates of deposit	<u>1,077,492</u>
Total	<u>\$ 6,064,187</u>

Investment Income

Investment income for the year ended June 30, 2014
consisted of:

Interest and dividend income	<u>\$ 10,429</u>
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CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 3. NOTES RECEIVABLE

Notes receivable at June 30, 2014 consists of the following:

General Fund:

Franklin-Simpson Industrial Authority promissory note receivable, dated December 3, 2010; receivable in 240 monthly installments of \$33,333, including interest at 7.95%; secured by real estate mortgage. \$ 3,661,333

NOTE 4. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2014:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Interest Receivable</u>	<u>Total</u>
Governmental activities:				
General Fund:				
Retiree Life fund	\$ 29,373	\$ —	\$ —	\$ 29,373
Police fund	9,513	—	—	9,513
City of Franklin 2009 Bond Fund	<u>194,670</u>	<u>—</u>	<u>—</u>	<u>194,670</u>
Total General Fund	233,556	—	—	233,556
Special Revenue Fund				
Community Development	<u>71,000</u>	<u>—</u>	<u>—</u>	<u>71,000</u>
Total governmental activities	<u>304,556</u>	<u>—</u>	<u>—</u>	<u>304,556</u>
Business-type activities:				
Enterprise Fund				
Water and Wastewater Fund:				
Customer deposits	54,862	353,262	—	408,124
Debt service reserve	468,913	306,232	—	775,145
Depreciation reserve	—	275,542	—	275,542
Maintenance and replacement reserve	<u>—</u>	<u>142,456</u>	<u>—</u>	<u>142,456</u>
Total business-type activities	<u>523,775</u>	<u>1,077,492</u>	<u>—</u>	<u>1,601,267</u>
Total restricted assets	<u>\$ 828,331</u>	<u>\$ 1,077,492</u>	<u>\$ —</u>	<u>\$ 1,905,823</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,334,665	\$ 387,442	(\$ 141,189)	\$ 1,580,918
Streets and sidewalks	10,593,884	18,685	—	10,612,569
Total capital assets, not being depreciated	11,928,549	406,127	(141,189)	12,193,487
Capital assets being depreciated:				
Buildings and improvements	2,093,660	—	(148,978)	1,944,682
Vehicles	1,857,520	158,753	(12,000)	2,004,273
Furniture, fixtures and equipment	1,329,562	109,441	—	1,439,003
Total capital assets, being depreciated	5,280,742	268,194	(160,978)	5,387,958
Less accumulated depreciation:				
Buildings and improvements	(604,296)	(47,617)	34,882	(617,031)
Vehicles	(1,509,335)	(117,230)	12,000	(1,614,565)
Furniture, fixtures and equipment	(1,057,162)	(82,477)	—	(1,139,639)
Total accumulated depreciation	(3,170,793)	(247,324)	46,882	(3,371,235)
Total capital assets, being depreciated, net	2,109,949	20,870	(114,096)	2,016,723
Governmental activities capital assets, net	\$ 14,038,498	\$ 426,997	(\$ 255,285)	\$ 14,210,210
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 374,238	\$ —	\$ —	\$ 374,238
Construction in progress	488,434	501,310	(453,781)	544,963
Total capital assets, not being depreciated	862,672	501,310	(453,781)	919,201
Capital assets being depreciated:				
Utility plant	37,576,199	586,384	(92,864)	38,069,719
Buildings	446,875	—	—	446,875
Furniture and equipment	3,559,184	38,329	(21,889)	3,575,624
Vehicles	578,012	5,000	(35,742)	547,270
Land improvements	16,366	—	—	16,366
Total capital assets being depreciated	42,176,636	629,713	(150,495)	42,655,854
Less accumulated depreciation:				
Utility plant	(17,688,008)	(850,397)	92,865	(18,445,540)
Buildings	(104,596)	(9,646)	—	(114,242)
Furniture and equipment	(2,210,765)	(222,565)	21,889	(2,411,441)
Vehicles	(429,267)	(41,136)	35,742	(434,661)
Land improvements	(546)	(1,091)	—	(1,637)
Total accumulated depreciation	(20,433,182)	(1,124,835)	150,496	(21,407,521)
Total capital assets, being depreciated, net	21,743,454	(495,122)	1	21,248,333
Business-type activities capital assets, net	\$ 22,606,126	\$ 15,188	(\$ 453,780)	\$ 22,167,534

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 5. CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	\$ 51,940
Public safety	155,835
Public works	38,441
Community and cultural	<u>1,108</u>
Total depreciation expense - governmental activities	<u>\$ 247,324</u>
Business-type activities:	
Water and wastewater	\$ 1,008,242
Fiber Optic	<u>116,593</u>
Total depreciation expense - business-type activities	<u>\$ 1,124,835</u>

NOTE 6. LONG-TERM LIABILITIES

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

Changes in long-term liabilities for the year ended June 30, 2014 were as follows:

	Balance <u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2014</u>	Amounts Due <u>in One Year</u>
Governmental activities:					
Bonds payable	\$ 2,020,000	\$ —	(\$ 230,000)	\$ 1,790,000	\$ 240,000
Less: unamortized discount	(20,445)	—	1,712	(18,733)	—
Bonds payable, net	1,999,555	—	(228,288)	1,771,267	240,000
Notes payable	<u>3,623,154</u>	<u>3,572,008</u>	(3,694,188)	<u>3,500,974</u>	—
Total governmental activities	<u>\$ 5,622,709</u>	<u>\$ 3,572,008</u>	(\$ 3,922,476)	<u>\$ 5,272,241</u>	<u>\$ 240,000</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6. LONG-TERM LIABILITIES (Continued)

	Balance <u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2014</u>	Amounts Due <u>in One Year</u>
Business-type activities:					
Revenue bonds	\$ 4,865,000	\$ —	(\$ 275,000)	\$ 4,590,000	\$ 280,000
Less: unamortized discount and deferred amount	(50,950)	—	3,031	(47,919)	—
Bonds payable, net	4,814,050	—	(271,969)	4,542,081	280,000
Notes payable	610,024	—	(167,889)	442,135	155,370
Total business-type activities	<u>\$ 5,424,074</u>	<u>\$ —</u>	<u>(\$ 439,858)</u>	<u>\$ 4,984,216</u>	<u>\$ 435,370</u>
Total governmental and business-type activities	<u>\$11,046,783</u>	<u>\$ 3,572,008</u>	<u>(\$ 4,362,334)</u>	<u>\$10,256,457</u>	<u>\$ 675,370</u>

Governmental activities:

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

Governmental activities long-term debt of the City consisted of the following at June 30, 2014:

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.

\$ 1,790,000

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6. LONG-TERM LIABILITIES (Continued)

Notes payable:

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

\$ 3,500,975

Business-type activities:

Notes payable:

Water and Wastewater Fund:

\$497,979 Kentucky Infrastructure Authority assistance agreement note, dated November 1, 1993; principal and interest at 1.6% payable semi-annually on June 1 and December 1 through December, 2014; proceeds used to finance improvements to wastewater treatment facility.

14,540

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

427,595

Total notes payable

\$ 442,135

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6. LONG-TERM LIABILITIES (Continued)

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.

Water and Wastewater Fund:

Revenue bonds outstanding at June 30, 2014 were as follows:

	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Principal at June 30, 2014</u>
Revenue bonds, Series 2009 (A)	2.00 - 4.375%	December 1, 2024	\$ 1,015,000
Revenue bonds, Series 2012 (B)	2.00 - 3.75%	December 1, 2033	<u>3,575,000</u>
			4,590,000
Less: unamortized premiums, discounts and deferred amounts			(<u>47,919</u>)
Total revenue bonds payable - business-type activities			<u>\$ 4,542,081</u>

- (A) \$1,545,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009, dated October 13, 2009; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on December 1 in annual installments of \$125,000 to \$160,000 through 2024; interest payable semi-annually on June 1 and December 1; issued to currently refund certain outstanding lease purchase obligations and finance the construction of improvements to City's water and sewer system; secured by water and sewer system revenues.
- (B) \$3,860,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding Bonds, Series 2012, dated July 24, 2012; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on December 1 in annual installments of \$135,000 to \$230,000 through 2033; interest payable semi-annually on June 1 and December 1; issued to currently refund the City's outstanding Water and Sewer Revenue Bonds, Series 2004; secured by water and sewer system revenues.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6. LONG-TERM LIABILITIES (Continued)

Annual Debt Service Requirements

The annual requirements to amortize long-term debt outstanding as of June 30, 2014 are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities		Government-Wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 240,000	\$ 135,872	\$ 435,370	\$ 138,555	\$ 675,370	\$ 274,427
2016	245,000	129,317	432,525	129,759	677,525	259,076
2017	3,750,974	81,706	444,240	120,556	4,195,214	202,262
2018	260,000	33,870	300,000	111,387	560,000	145,257
2019	270,000	25,245	315,000	102,949	585,000	128,194
2020 - 2024	430,000	63,120	1,035,000	424,244	1,465,000	487,364
2025 - 2029	95,000	1,900	980,000	270,975	1,075,000	272,875
2030 - 2034	<u>—</u>	<u>—</u>	<u>1,090,000</u>	<u>103,059</u>	<u>1,090,000</u>	<u>103,059</u>
	<u>\$ 5,290,974</u>	<u>\$ 471,030</u>	<u>\$ 5,032,135</u>	<u>\$ 1,401,484</u>	<u>\$10,323,109</u>	<u>\$ 1,872,514</u>

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, 2014

NOTE 6. LONG-TERM LIABILITIES (Continued)

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

On December 3, 2010, the City ("holder") and Authority ("maker") entered into a Promissory Note in the principal amount of \$4,000,000 (see Note 3). As of June 30, 2014, the City has recorded a note receivable from the Authority and unearned revenues of \$3,661,333 in the General Fund.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 112,981	\$ 287,018	\$ 399,999
2016	122,298	277,701	399,999
2017	132,382	267,617	399,999
2018	143,299	256,700	399,999
2019	155,116	244,883	399,999
2020-2024	989,887	1,010,107	1,999,994
2025-2029	1,471,121	528,873	1,999,994
2030-2031	<u>534,249</u>	<u>32,415</u>	<u>566,664</u>
	<u>\$ 3,661,333</u>	<u>\$ 2,905,314</u>	<u>\$ 6,566,647</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2014 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General Fund	\$ 207,888	\$ 52,101
Special Revenue Funds:		
Economic Development Revolving Loan Fund	50,993	—
Community Development Fund	—	115,493
Cemetery Fund	—	71,936
	<u>258,881</u>	<u>239,530</u>
Total governmental funds		
Proprietary Funds:		
Water and Wastewater Fund	1,108	25,052
Sanitation Fund	4,593	—
	<u>5,701</u>	<u>25,052</u>
Total proprietary funds		
	<u>\$ 264,582</u>	<u>\$ 264,582</u>

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

NOTE 8. INTERFUND TRANSFERS

Interfund transfers for the year ending June 30, 2014 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 361,953	\$ 2,015,726
Special Revenue Fund		
Greenlawn-Shady Rest Cemetery Fund	165,550	—
Community Development Fund	—	361,953
Permanent Fund		
Greenlawn-Shady Rest Cemetery Perpetual Fund	—	6,000
	<u>527,503</u>	<u>2,383,679</u>
Total governmental funds		
Proprietary Funds:		
Fiber Optic Fund	1,856,176	—
	<u>\$ 2,383,679</u>	<u>\$ 2,383,679</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 8. INTERFUND TRANSFERS (Continued)

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

NOTE 9. RETIREMENT PLAN

Plan Descriptions and Funding Information

County Employees Retirement System

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 CERS provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the state legislature. The KRS issues a publicly available annual report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601.

Plan members participating in CERS on or before August 31, 2008, 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 in CERS on or after September 1, 2008, contribution rates are 6% and 9%, respectively. Participating employers were required to contribute at an actuarially determined rate. Per KRS Section 61.565(3), normal contributions and past service contribution rates shall be determined by the Board of Trustees on the basis of an annual valuation last proceeding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of the biennium, if it is determined on the basis of subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2014, participating employers contributed 18.89% (nonhazardous) and 35.7% (hazardous) of each employee's creditable compensation. The actuarially determined rates set by the Board for the year ended June 30, 2014, were 18.89% and 35.7% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 9. RETIREMENT PLAN (Continued)

The City's employer contributions to CERS for the years ended June 30, 2014, 2013 and 2012, were equal to the required contributions for each year and are as follows:

<u>Fiscal Year Ending</u>	<u>Non-hazardous Duty Positions Contribution</u>	<u>Percent of Compensation</u>	<u>Hazardous Duty Positions Contribution</u>	<u>Percent of Compensation</u>
2014	\$ 390,339	18.89%	\$ 365,408	35.70%
2013	\$ 372,074	19.55%	\$ 391,884	37.60%
2012	\$ 341,564	18.96%	\$ 357,416	35.76%

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description and Contribution Information

In addition to the pension benefits described above in Note 9, the City maintains an informal retirement plan authorized by the Mayor/Commission. The City does not issue a separate, publicly available OPEB financial report. City employees who retired prior to May 1, 1988, plus employees/spouses who retired after May 1, 1988 but who elected not to participate in the CERS plan (above), are paid a \$100 per month retirement benefit. Twenty retired City employees are currently covered under the plan. Retirement benefits are financed on a pay as you go basis. Payments under the plan totaled \$23,900 for the year ended June 30, 2014.

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, 2014, payments under the plan totaled \$91,111.

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:

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

Annual required contribution	\$ 151,095
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB cost (expense)	151,095
Contributions made	(113,635)
Increase in net OPEB obligation	37,460
Net OPEB obligation—beginning of year	64,379
Net OPEB obligation—end of year	<u>\$ 101,839</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014 and 2013 were as follows:

Fiscal Year Ended <u>June 30</u>	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$151,095	75.2%	\$ 101,839
2013	\$151,095	78.9%	\$ 64,379

Funded Status and Funding Progress

As of June 30, 2014, the actuarial accrued liability for benefits was \$1,455,926, 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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

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 Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 9.5 percent initially, reduced to an ultimate rate of 5.6 percent after six years, was used.

Health insurance premiums - 2012 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, 2012 was thirty years.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 11. DEFERRED COMPENSATION PLAN

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

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or \$17,500 for 2014, whichever is less. During the fiscal year ending June 30, 2014, contributions made on behalf of employees totaled \$55,642.

NOTE 12. SOLID WASTE COLLECTION FRANCHISE AGREEMENTS

Commercial and Residential

On September 30, 2013, the City entered into an exclusive commercial and residential franchise agreement with Scott Waste Services, LLC (franchisee), for the collection of residential and commercial solid waste and wastewater treatment plant waste in the City. Pursuant to franchise agreement for residential services, the City shall withhold 10% of the monthly gross receipts (franchise fee) received by the City from utility bill payments attributable to operations conducted by franchisee. In addition, City shall withhold 3% of the monthly gross receipts as a collection fee for its billing and collection services provided. For commercial services, the franchisee shall bill all commercial and industrial customers and pay to the City a fee of 10% of collected gross receipts for commercial and industrial services. The franchise agreement is for a five year period beginning October 1, 2013 and ending September 30, 2018. The City reserves the right to conduct a mid-term review in March, 2016 and this agreement may be renewed for up to three additional five year terms, upon mutual agreement of both parties.

Industrial

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION

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

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

Fire Station and Equipment

Fire fighting equipment owned by the City and County will be used both within the City and County for automatic response and mutual aid on a non-exclusive basis and will remain the property of the contributing entity. The County shall have full use of fire station owned by City and shall maintain the station and grounds. The City shall retain ownership of the fire station and shall provide for major capital repairs of station required during the term of the agreement including extensions.

Personnel

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

Financial Contributions

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

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. County will also provide insurance coverage for property damage, collision and liability insurance coverage for vehicles, personnel and equipment owned by the City and operated by County.

Term

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

NOTE 14. RISK MANAGEMENT

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 15. CONTINGENCIES

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

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2014 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.

NOTE 16. CONDUIT DEBT OBLIGATIONS

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

As of June 30, 2014, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$51,787,290.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 17. IMPLEMENTATION OF GASB 65

In March, 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The City adopted GASB 65 for the year ended June 30, 2014. The adoption of this standard impacted the City's financial position and resulted in a restatement of beginning net position in the amount of \$28,474 for governmental activities and \$162,085 for business-type activities due to this change in accounting principle.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 18. IMPLEMENTATION OF GASB 68

The GASB has issued the following Statement No. 68, "*Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27.*" The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement will become effective for the City in fiscal year 2015. Although expected to be significant, management has not yet determined the specific impact of this Statement on the financial statements.

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

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 823,979	\$ 855,018	\$ 877,121	\$ 22,103
Occupational taxes	2,035,469	2,047,305	1,941,492	(105,813)
Insurance premium taxes	1,424,500	1,424,500	1,404,095	(20,405)
Business license taxes	460,031	512,331	605,816	93,485
Franchise taxes	95,056	94,056	100,226	6,170
Intergovernmental	498,217	180,667	190,729	10,062
Interfund charges	839,614	839,614	839,614	—
Fines and forfeitures	51,500	70,896	73,566	2,670
Miscellaneous	<u>498,015</u>	<u>524,971</u>	<u>514,631</u>	<u>(10,340)</u>
Total revenues	<u>6,726,381</u>	<u>6,549,358</u>	<u>6,547,290</u>	<u>(2,068)</u>
Expenditures				
General government:				
Legislative:				
Personal services	117,761	117,319	116,463	856
Contractual services	21,157	58,090	22,837	35,253
Materials and supplies	50	374	388	(14)
Other	<u>16,062</u>	<u>16,817</u>	<u>15,574</u>	<u>1,243</u>
Total legislative	<u>155,030</u>	<u>192,600</u>	<u>155,262</u>	<u>37,338</u>
Administrative:				
Personal services	494,665	444,416	440,882	3,534
Contractual services	12,600	15,393	5,157	10,236
Materials and supplies	3,700	8,018	8,863	(845)
Other	<u>5,850</u>	<u>7,532</u>	<u>5,379</u>	<u>2,153</u>
Total administrative	<u>516,815</u>	<u>475,359</u>	<u>460,281</u>	<u>15,078</u>
Finance and accounting:				
Personal services	494,066	478,792	478,249	543
Contractual services	120,479	161,845	164,718	(2,873)
Materials and supplies	47,050	48,232	52,277	(4,045)
Other	<u>12,050</u>	<u>12,100</u>	<u>10,739</u>	<u>1,361</u>
Total finance and accounting	<u>673,645</u>	<u>700,969</u>	<u>705,983</u>	<u>(5,014)</u>
Risk management	<u>323,331</u>	<u>347,154</u>	<u>380,661</u>	<u>(33,507)</u>
Total general government	<u>1,668,821</u>	<u>1,716,082</u>	<u>1,702,187</u>	<u>13,895</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public safety:				
Police department:				
Administration:				
Personal services	\$ 400,674	\$ 327,630	\$ 337,502	(\$ 9,872)
Contractual services	30,574	28,784	27,979	805
Materials and supplies	20,335	22,136	20,625	1,511
Other	<u>5,650</u>	<u>6,296</u>	<u>6,845</u>	<u>(549)</u>
Total administration	<u>457,233</u>	<u>384,846</u>	<u>392,951</u>	<u>(8,105)</u>
Patrol:				
Personal services	1,456,566	1,472,223	1,500,403	(28,180)
Contractual services	41,500	53,598	37,370	16,228
Materials and supplies	102,950	106,026	98,580	7,446
Other	<u>7,000</u>	<u>7,407</u>	<u>8,915</u>	<u>(1,508)</u>
Total patrol	<u>1,608,016</u>	<u>1,639,254</u>	<u>1,645,268</u>	<u>(6,014)</u>
Non-sworn personnel:				
Personal services	69,065	67,384	65,687	1,697
Contractual services	2,100	500	—	500
Materials and supplies	250	250	—	250
Other	<u>175</u>	<u>175</u>	<u>—</u>	<u>175</u>
Total non-sworn personnel	<u>71,590</u>	<u>68,309</u>	<u>65,687</u>	<u>2,622</u>
Code enforcement:				
Personal services	—	72,740	71,724	1,016
Contractual services	4,700	4,720	3,782	938
Materials and supplies	5,800	4,360	4,532	(172)
Other	<u>200</u>	<u>200</u>	<u>—</u>	<u>200</u>
Total code enforcement	<u>10,700</u>	<u>82,020</u>	<u>80,038</u>	<u>1,982</u>
Total police department	<u>2,147,539</u>	<u>2,174,429</u>	<u>2,183,944</u>	<u>(9,515)</u>
Fire department:				
Inspection and administration:				
Contractual services	<u>1,277</u>	<u>1,352</u>	<u>1,166</u>	<u>186</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Fire department (continued)				
Firefighting:				
Contractual services	\$ 232,436	\$ 232,436	\$ 266,719	(\$ 34,283)
Total fire department	<u>233,713</u>	<u>233,788</u>	<u>267,885</u>	<u>(34,097)</u>
Total public safety	<u>2,381,252</u>	<u>2,408,217</u>	<u>2,451,829</u>	<u>(43,612)</u>
Public works:				
Personal services	625,044	635,610	615,415	20,195
Contractual services	154,883	127,736	174,258	(46,522)
Materials and supplies	123,153	121,348	119,775	1,573
Other	<u>5,720</u>	<u>3,460</u>	<u>3,724</u>	<u>(264)</u>
Total public works	<u>908,800</u>	<u>888,154</u>	<u>913,172</u>	<u>(25,018)</u>
Community services				
Economic development	280,038	313,270	269,989	43,281
Parks and recreation	<u>175,000</u>	<u>175,000</u>	<u>174,038</u>	<u>962</u>
Total community services	<u>455,038</u>	<u>488,270</u>	<u>444,027</u>	<u>44,243</u>
Capital outlay:				
Vehicles	89,888	123,773	158,753	(34,980)
Equipment	126,378	130,367	109,441	20,926
Plant in service	17,000	8,803	18,685	(9,882)
Land and land improvements	<u>310,000</u>	<u>318,350</u>	<u>384,416</u>	<u>(66,066)</u>
Total capital outlay	<u>543,266</u>	<u>581,293</u>	<u>671,295</u>	<u>(90,002)</u>
Debt service:				
Principal	387,191	382,947	379,279	3,668
Interest	<u>168,717</u>	<u>148,097</u>	<u>178,865</u>	<u>(30,768)</u>
Total debt service	<u>555,908</u>	<u>531,044</u>	<u>558,144</u>	<u>(27,100)</u>
Total expenditures	<u>6,513,085</u>	<u>6,613,060</u>	<u>6,740,654</u>	<u>(127,594)</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures	\$ 213,296	(\$ 63,702)	(\$ 193,364)	(\$ 129,662)
Other financing sources (uses):				
Transfers in	—	310,000	361,953	51,953
Transfers out	(159,550)	(639,500)	(2,015,726)	(1,376,226)
Proceeds from refunding note	—	—	3,572,008	3,572,008
Debt service - refunding note principal	—	—	(3,544,908)	(3,544,908)
Sale of capital assets	<u>6,000</u>	<u>513,600</u>	<u>487,950</u>	<u>(25,650)</u>
Total other financing sources (uses)	(153,550)	184,100	(1,138,723)	(1,322,823)
Net change in fund balance	59,746	120,398	(1,332,087)	(1,452,485)
Fund balances, beginning of year	<u>3,524,459</u>	<u>3,524,459</u>	<u>3,524,459</u>	<u>—</u>
Fund balances, end of year	<u>\$ 3,584,205</u>	<u>\$ 3,644,857</u>	<u>\$ 2,192,372</u>	<u>(\$ 1,452,485)</u>

CITY OF FRANKLIN, KENTUCKY

Infrastructure Condition and Maintenance Data June 30, 2014

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					
		2014		2013		2012	
	OCI Condition Rating	Square Feet	%	Square Feet	%	Square Feet	%
Acceptable	75 - 100	3,596,060	71.05	3,456,830	68.74	3,686,758	74.05
Marginally deficient	50 - 74	1,234,920	24.40	1,270,488	25.27	1,067,209	21.44
Moderately deficient	25 - 49	230,046	4.55	268,508	5.34	224,712	4.51
Severely deficient	0 - 24	—	—	32,445	.65	—	—
Total		<u>5,061,026</u>	<u>100.00</u>	<u>5,028,271</u>	<u>100.00</u>	<u>4,978,679</u>	<u>100.00</u>

		Comparison of Estimated-to-Actual Maintenance/Preservation				
		2014	2013	2012	2011	2010
Original estimate		\$ 188,190	\$ 126,344	\$ 164,260	\$ 113,590	\$ 211,961
Actual		\$ 162,560	\$ 120,453	\$ 225,025	\$ 113,168	\$ 202,470

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 annually 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, 2014**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)— Unit Credit Cost (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
6/30/2011	\$ -0-	\$ 1,595,663	\$ 1,595,663	0.0%	N/A	N/A
6/30/2012	\$ -0-	\$ 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

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, 2014

<u>Fiscal Year Ended June 30</u>	<u>Employer Contributions</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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%

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

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.

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, 2014

	<u>Special Revenue</u>				
	<u>Cemetery</u>	<u>Community Development</u>	<u>Municipal Aid</u>	<u>Economic Development</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 59,247	\$ —	\$ 167,702	\$ —	\$ 226,949
Certificates of deposit	—	—	—	—	—
Receivables (net of allowance for uncollectibles):					
Accounts	8,750	—	—	—	8,750
Intergovernmental	—	83,287	49,565	—	132,852
Due from other funds	—	—	—	50,993	50,993
Prepaid items	484	—	—	—	484
Restricted assets:					
Cash and cash equivalents	—	71,000	—	—	71,000
Total assets	<u>\$ 68,481</u>	<u>\$ 154,287</u>	<u>\$ 217,267</u>	<u>\$ 50,993</u>	<u>\$ 491,028</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 274	\$ —	\$ 1,261	\$ —	\$ 1,535
Due to other funds	<u>71,937</u>	<u>115,493</u>	<u>—</u>	<u>—</u>	<u>187,430</u>
Total liabilities	<u>72,211</u>	<u>115,493</u>	<u>1,261</u>	<u>—</u>	<u>188,965</u>
Fund balances:					
Nonspendable:					
Prepaid items	484	—	—	—	484
Perpetual care	—	—	—	—	—
Assigned to:					
Other purposes	(4,214)	<u>38,794</u>	<u>216,006</u>	<u>50,993</u>	<u>301,579</u>
Total fund balances (deficit)	(3,730)	<u>38,794</u>	<u>216,006</u>	<u>50,993</u>	<u>302,063</u>
Total liabilities and fund balances	<u>\$ 68,481</u>	<u>\$ 154,287</u>	<u>\$ 217,267</u>	<u>\$ 50,993</u>	<u>\$ 491,028</u>

<u>Permanent Funds</u>	
<u>Cemetery Perpetual</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 56,292	\$ 283,241
437,946	437,946
—	8,750
—	132,852
—	50,993
—	484
—	71,000
<u>\$ 494,238</u>	<u>\$ 985,266</u>

\$ —	\$ 1,535
—	187,430
—	188,965

—	484
494,238	494,238
—	301,579
<u>494,238</u>	<u>796,301</u>
<u>\$ 494,238</u>	<u>\$ 985,266</u>

CITY OF FRANKLIN, KENTUCKY

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS**

June 30, 2014

	<u>Francis Harris Cemetery Perpetual</u>	<u>Greenlawn- Shady Rest Cemetery Perpetual</u>	<u>Total Nonmajor Permanent Funds</u>
ASSETS			
Cash and cash equivalents	\$ 336	\$ 55,956	\$ 56,292
Certificates of deposit	<u>50,000</u>	<u>387,946</u>	<u>437,946</u>
Total assets	<u>\$ 50,336</u>	<u>\$ 443,902</u>	<u>\$ 494,238</u>
FUND BALANCES			
Nonspendable:			
Cemetery maintenance	\$ 50,336	\$ —	\$ 50,336
Perpetual care	<u>—</u>	<u>443,902</u>	<u>443,902</u>
Total fund balances	<u>\$ 50,336</u>	<u>\$ 443,902</u>	<u>\$ 494,238</u>

CITY OF FRANKLIN, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2014**

	<u>Special Revenue</u>				
	<u>Cemetery</u>	<u>Community Development</u>	<u>Municipal Aid</u>	<u>Economic Development</u>	<u>Total</u>
Revenues					
Intergovernmental	\$ —	\$ 322,000	\$ 232,139	\$ —	\$ 554,139
Charges for sales and services	86,800	—	—	—	86,800
Contributions	—	—	—	—	—
Investment income	62	—	262	—	324
Miscellaneous	90	—	—	—	90
Total revenues	<u>86,952</u>	<u>322,000</u>	<u>232,401</u>	<u>—</u>	<u>641,353</u>
Expenditures					
Current:					
Public works	—	—	164,113	—	164,113
Community services	246,125	27,000	—	—	273,125
Capital outlay	3,027	—	—	—	3,027
Total expenditures	<u>249,152</u>	<u>27,000</u>	<u>164,113</u>	<u>—</u>	<u>440,265</u>
Excess (deficiency) of revenues over (under) expenditures	(162,200)	295,000	68,288	—	201,088
Other financing sources (uses):					
Transfers in	165,550	—	—	—	165,550
Transfers out	—	(361,953)	—	—	(361,953)
Total other financing sources (uses)	<u>165,550</u>	<u>(361,953)</u>	<u>—</u>	<u>—</u>	<u>(196,403)</u>
Net change in fund balances	3,350	(66,953)	68,288	—	4,685
Fund balances, beginning of year	(7,080)	105,747	147,718	50,993	297,378
Fund balances (deficit), end of year	<u>(\$ 3,730)</u>	<u>\$ 38,794</u>	<u>\$ 216,006</u>	<u>\$ 50,993</u>	<u>\$ 302,063</u>

<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Perpetual</u>	
\$ —	\$ 554,139
—	86,800
9,200	9,200
2,790	3,114
<u>—</u>	<u>90</u>
<u>11,990</u>	<u>653,343</u>
—	164,113
2,552	275,677
<u>—</u>	<u>3,027</u>
<u>2,552</u>	<u>442,817</u>
<u>9,438</u>	<u>210,526</u>
—	165,550
(6,000)	(367,953)
(6,000)	(202,403)
3,438	8,123
<u>490,800</u>	<u>788,178</u>
<u>\$ 494,238</u>	<u>\$ 796,301</u>

CITY OF FRANKLIN, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
Year Ended June 30, 2014**

	<u>Francis Harris Cemetery Perpetual</u>	<u>Greenlawn- Shady Rest Cemetery Perpetual</u>	<u>Total Nonmajor Permanent Funds</u>
Revenues			
Investment income	\$ 650	\$ 2,140	\$ 2,790
Contributions	<u>—</u>	<u>9,200</u>	<u>9,200</u>
Total revenues	650	11,340	11,990
Expenditures			
Current:			
Community services	<u>2,552</u>	<u>—</u>	<u>2,552</u>
Excess (deficiency) of revenues over (under) expenditures	(1,902)	11,340	9,438
Other financing uses			
Transfers out	<u>—</u>	<u>(6,000)</u>	<u>(6,000)</u>
Net change in fund balance	(1,902)	5,340	3,438
Fund balance, beginning of year	<u>52,238</u>	<u>438,562</u>	<u>490,800</u>
Fund balance, end of year	<u>\$ 50,336</u>	<u>\$ 443,902</u>	<u>\$ 494,238</u>

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Greenlawn - Shady Rest Cemetery Special Revenue Fund
Year Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Charges for sales and services	\$ 80,550	\$ 72,500	\$ 86,800	\$ 14,300
Investment income	38	38	62	24
Miscellaneous	<u>285</u>	<u>285</u>	<u>90</u>	<u>(195)</u>
Total revenues	<u>80,873</u>	<u>72,823</u>	<u>86,952</u>	<u>14,129</u>
Expenditures				
Current:				
Community services:				
Personal services	7,147	7,008	7,008	—
Contractual services	180,750	185,570	184,657	913
Materials and supplies	2,500	2,500	5,574	(3,074)
Administrative overhead	40,000	40,000	40,000	—
Other	<u>8,128</u>	<u>7,528</u>	<u>8,886</u>	<u>(1,358)</u>
Total community services	<u>238,525</u>	<u>242,606</u>	<u>246,125</u>	<u>(3,519)</u>
Capital outlay	<u>6,000</u>	<u>6,000</u>	<u>3,027</u>	<u>2,973</u>
Total expenditures	<u>244,525</u>	<u>248,606</u>	<u>249,152</u>	<u>(546)</u>
Deficiency of revenues under expenditures	(163,652)	(175,783)	(162,200)	13,583
Other financing sources:				
Transfers in	<u>162,450</u>	<u>162,450</u>	<u>165,550</u>	<u>3,100</u>
Net change in fund balance	(1,202)	(13,333)	3,350	16,683
Fund balance (deficit), beginning of year	(7,080)	(7,080)	(7,080)	—
Fund balance (deficit), end of year	<u>(\$ 8,282)</u>	<u>(\$ 20,413)</u>	<u>(\$ 3,730)</u>	<u>\$ 16,683</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Community Development Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental	\$ —	\$ 322,000	\$ 322,000	\$ —
Expenditures				
Current:				
Economic development	<u>—</u>	<u>101,579</u>	<u>27,000</u>	<u>74,579</u>
Excess of revenues over expenditures	—	220,421	295,000	74,579
Other financing sources (uses):				
Transfers out	<u>—</u>	<u>(357,374)</u>	<u>(361,953)</u>	<u>(4,579)</u>
Net change in fund balance	—	(136,953)	(66,953)	70,000
Fund balance, beginning of year	<u>105,747</u>	<u>105,747</u>	<u>105,747</u>	<u>—</u>
Fund balance, end of year	<u>\$ 105,747</u>	<u>(\$ 31,206)</u>	<u>\$ 38,794</u>	<u>\$ 70,000</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Municipal Aid Special Revenue Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental:				
Liquid fuel tax	\$ 196,771	\$ 196,771	\$ 226,659	\$ 29,888
Mineral and coal severance tax	6,742	6,742	5,480	(1,262)
Investment income	<u>285</u>	<u>285</u>	<u>262</u>	<u>(23)</u>
Total revenues	<u>203,798</u>	<u>203,798</u>	<u>232,401</u>	<u>28,603</u>
Expenditures				
Current:				
Public works	<u>196,500</u>	<u>196,500</u>	<u>164,113</u>	<u>32,387</u>
Excess of revenues over expenditures	7,298	7,298	68,288	60,990
Fund balance, beginning of year	<u>147,718</u>	<u>147,718</u>	<u>147,718</u>	<u>—</u>
Fund balance, end of year	<u>\$ 155,016</u>	<u>\$ 155,016</u>	<u>\$ 216,006</u>	<u>\$ 60,990</u>

PROPRIETARY FUNDS

Enterprise Funds

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

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

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

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

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Water and Wastewater Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for sales and services:				
Water division	\$ 2,516,600	\$ 2,354,082	\$ 2,344,052	(\$ 10,030)
Wastewater division	<u>2,081,600</u>	<u>2,020,953</u>	<u>2,002,758</u>	<u>(18,195)</u>
Total operating revenues	<u>4,598,200</u>	<u>4,375,035</u>	<u>4,346,810</u>	<u>(28,225)</u>
Nonoperating revenues:				
Investment income	11,600	6,349	5,575	(774)
Sales of assets	—	—	7,500	7,500
Miscellaneous	<u>15,000</u>	<u>9,513</u>	<u>106,950</u>	<u>97,437</u>
Total nonoperating revenues	<u>26,600</u>	<u>15,862</u>	<u>120,025</u>	<u>104,163</u>
Total revenues	<u>4,624,800</u>	<u>4,390,897</u>	<u>4,466,835</u>	<u>75,938</u>
Expenditures				
Water division:				
Production:				
Personal services	330,991	344,461	344,207	254
Contractual services	199,315	187,227	173,334	13,893
Materials and supplies	175,750	190,317	185,173	5,144
Other	<u>6,500</u>	<u>6,665</u>	<u>5,482</u>	<u>1,183</u>
Total water production	<u>712,556</u>	<u>728,670</u>	<u>708,196</u>	<u>20,474</u>
Distribution:				
Personal services	397,869	388,078	389,464	(1,386)
Contractual services	55,929	75,159	62,418	12,741
Materials and supplies	224,500	186,948	143,527	43,421
Other	<u>15,500</u>	<u>9,976</u>	<u>9,490</u>	<u>486</u>
Total water distribution	<u>693,798</u>	<u>660,161</u>	<u>604,899</u>	<u>55,262</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Water and Wastewater Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Meter reading and maintenance:				
Personal services	\$ 68,261	\$ 71,247	\$ 72,296	(\$ 1,049)
Contractual services	9,150	9,413	6,661	2,752
Materials and supplies	118,300	111,300	93,608	17,692
Other	<u>1,300</u>	<u>1,380</u>	<u>804</u>	<u>576</u>
Total water meter reading and maintenance	<u>197,011</u>	<u>193,340</u>	<u>173,369</u>	<u>19,971</u>
Total water division	<u>1,603,365</u>	<u>1,582,171</u>	<u>1,486,464</u>	<u>95,707</u>
Wastewater division:				
Treatment:				
Personal services	272,395	266,813	274,150	(7,337)
Contractual services	202,700	242,576	254,017	(11,441)
Materials and supplies	84,615	81,374	66,190	15,184
Other	<u>4,325</u>	<u>4,415</u>	<u>2,361</u>	<u>2,054</u>
Total wastewater treatment	<u>564,035</u>	<u>595,178</u>	<u>596,718</u>	<u>(1,540)</u>
Collection and rehabilitation:				
Personal services	259,714	270,030	269,879	151
Contractual services	61,001	60,100	56,312	3,788
Materials and supplies	85,200	70,199	32,607	37,592
Other	<u>3,963</u>	<u>4,589</u>	<u>3,600</u>	<u>989</u>
Total wastewater collection and rehabilitation	<u>409,878</u>	<u>404,918</u>	<u>362,398</u>	<u>42,520</u>
Total wastewater division	<u>973,913</u>	<u>1,000,096</u>	<u>959,116</u>	<u>40,980</u>
Administrative overhead	<u>500,114</u>	<u>500,114</u>	<u>500,114</u>	<u>—</u>
Debt service:				
Principal	442,889	442,889	442,889	—
Interest	147,997	148,222	88,372	59,850
Administrative fees	<u>1,136</u>	<u>1,136</u>	<u>1,136</u>	<u>—</u>
Total debt service	<u>592,022</u>	<u>592,247</u>	<u>532,397</u>	<u>59,850</u>
Capital outlays	<u>592,010</u>	<u>648,090</u>	<u>297,919</u>	<u>350,171</u>
Total expenditures	<u>4,261,424</u>	<u>4,322,718</u>	<u>3,776,010</u>	<u>546,708</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Water and Wastewater Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Excess of revenues over expenditures	\$ <u>363,376</u>	\$ <u>68,179</u>	\$ 690,825	\$ <u>622,646</u>
Add:				
Principal payments			442,889	
Capital outlays, including capitalized labor and materials			641,084	
Less:				
Depreciation expense			(1,008,242)	
Amortization expense			(3,031)	
Change in net position			<u>763,525</u>	
Net position, beginning of year			17,897,265	
Change in accounting principle - GASB #65			(162,085)	
Net position, beginning of year, restated			<u>17,735,180</u>	
Net position, end of year			<u>\$ 18,498,705</u>	

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Sanitation Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for services:				
Hand pick-up	\$ 630,000	\$ 627,424	\$ 629,521	\$ 2,097
Commercial dumpster	339,200	83,237	74,537	(8,700)
Collection fees	28,400	20,701	21,303	602
Fines and forfeitures	35,000	25,118	24,491	(627)
Franchise fee	<u>145,000</u>	<u>145,093</u>	<u>165,964</u>	<u>20,871</u>
Total operating revenues	1,177,600	901,573	915,816	14,243
Nonoperating revenues:				
Investment income	<u>650</u>	<u>230</u>	<u>386</u>	<u>156</u>
Total revenues	<u>1,178,250</u>	<u>901,803</u>	<u>916,202</u>	<u>14,399</u>
Expenditures				
Sanitation operations:				
Personal services	12,000	12,000	21,925	(9,925)
Contractual services	947,000	692,476	710,494	(18,018)
Administrative overhead	<u>209,500</u>	<u>209,500</u>	<u>209,500</u>	<u>—</u>
Total expenditures	<u>1,168,500</u>	<u>913,976</u>	<u>941,919</u>	<u>(27,943)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 9,750</u>	<u>(\$ 12,173)</u>	<u>(25,717)</u>	<u>(\$ 13,544)</u>
Net position, beginning of year			<u>3,330</u>	
Net position, end of year			<u>(\$ 22,387)</u>	

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Fiber Optic Fund

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 135,157	\$ 125,290	\$ 124,326	(\$ 964)
Fines and forfeitures	<u>—</u>	<u>10</u>	<u>16</u>	<u>6</u>
Total operating revenues	135,157	125,300	124,342	(958)
Nonoperating revenues:				
Intergovernmental	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>—</u>
Total revenues	<u>185,157</u>	<u>175,300</u>	<u>174,342</u>	<u>(958)</u>
Expenditures				
Personal services	139,960	132,872	137,731	(4,859)
Contractual services	338,577	339,077	227,009	112,068
Materials and supplies	64,550	41,732	44,897	(3,165)
Other	5,000	3,043	3,130	(87)
Capital outlay	<u>—</u>	<u>—</u>	<u>45,158</u>	<u>(45,158)</u>
Total expenditures	<u>548,087</u>	<u>516,724</u>	<u>457,925</u>	<u>58,799</u>
Excess (deficiency) of revenues over (under) expenditures	(362,930)	(341,424)	(283,583)	57,841
Other financial sources:				
Transfers in	<u>—</u>	<u>479,950</u>	<u>1,856,176</u>	<u>1,376,226</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>(\$ 362,930)</u>	<u>\$ 138,526</u>	<u>1,572,593</u>	<u>\$ 1,434,067</u>
Add:				
Capital outlays			45,158	
Less:				
Depreciation expense			(116,593)	
Change in net position			1,501,158	
Net position, beginning of year			<u>794,679</u>	
Net position, end of year			<u>\$ 2,295,837</u>	

**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, 2014, 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 3, 2015.

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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2014-1).

Compliance and Other Matters

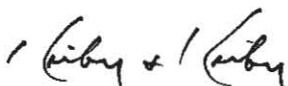
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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.

Handwritten signature of Kirby, appearing to be "Kirby" followed by a flourish.

Bowling Green, Kentucky
April 3, 2015

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2013

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2014-1 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.