

**CITY OF FRANKLIN, KENTUCKY**  
**ANNUAL FINANCIAL REPORT**  
**Year Ended June 30, 2019**

**CITY OF FRANKLIN, KENTUCKY**

**ANNUAL FINANCIAL REPORT  
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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, 2019, 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, 2019, 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 - 26, General Fund budgetary comparison schedule on pages 80 - 83, infrastructure condition and maintenance data on page 84, and pension and OPEB schedules on pages 85 - 90 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 91 - 101 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and proprietary funds budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2020, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Bowling Green, Kentucky  
March 5, 2020

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**City of Franklin, Kentucky**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2019 and 2018**

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, 2019. The information contained in this MD&A should be considered in conjunction with the information contained in the Accountants' Reports and Financial Statements and Supplementary information.

***Financial Highlights***

- Total assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$36,810,250 and \$36,135,979 for the prior fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported ending net position of \$16,249,344 which includes unrestricted net position of \$975,090. Respectively for the prior fiscal year \$16,357,630 of net position and \$607,985 of unrestricted net position. The City's net position steeply declined in FY2017 (by approximately \$1,900,000). This decline in the City's government-wide unrestricted net position was primarily due to the implementation of GASB 75 – Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,161,747 with \$7,027,077 for the prior fiscal year.
- For the year ended June 30, 2019, total debt decreased by a net amount of \$632,514 during the year. For the prior fiscal year, total debt decreased by \$607,514 during the year due to principal reductions.
- The City had total revenues of \$15,756,334 for the year ended June 30, 2019 which includes: program revenues (charges for service) of \$8,174,057, operating grants and contributions of \$354,586, capital grants and contributions of \$652,186, and general revenues of \$6,575,505. The City had total expenses of \$15,083,458 for the year ended June 30, 2019. Comparatively, the City had total revenues of \$14,845,177 for the year ended June 30, 2018 which included: program revenues (charges for service) of \$7,926,796, operating grants and contributions of \$350,086, capital grants and contributions of \$82,937, and general revenues of \$6,485,389. The City had total expenses of \$13,514,929 for the year ended June 30, 2018.
- The City's total capital outlays were \$2,021,212 for the current fiscal year and \$1,633,717 for the prior fiscal year. For the Governmental Funds, capital outlays were \$983,024 for the current fiscal year and \$406,958 for the prior fiscal year. For the Proprietary Funds, capital outlays for the current fiscal year were \$1,038,188 and the prior fiscal year of \$1,226,759.

## ***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 27 and 28 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 37 through 79 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 \$36,810,250 for the current fiscal year and \$36,135,979 at the close of the prior fiscal year. As noted above, the cause of the City's significant decline in net position (occurring in FY2017) was primarily due to the implementation of GASB 75 – Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions.

By far the largest portion of the City's net position (90%) 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.

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

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

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



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

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

## Financial Analysis of the Government's Funds

### ***Governmental Funds***

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

As of the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$9,365,547 compared to \$8,496,725 for the prior fiscal year. The City's major sources of revenues are insurance premium fees, payroll occupational fees and property taxes. The fund balances primarily represents the accumulation of revenues in excess of expenditures not reimbursed by funding sources.

### ***General Fund & Proprietary Fund Budgetary Highlights***

Total general fund revenues for the year were within 4% of budget. As a point of reference, a 5% budget to actual variance is the overall goal. Therefore, a 4% variance is ideal and indicative that management's revenue projection strategies have been effective in ensuring a tighter and more accurate budget to actual projection for our operations. Budgeted expenses were slightly less than final budgetary estimates (by 6.4%). Although a little above our 5% or less budget variance goal, the variance was within an acceptable range.

Total proprietary fund revenues for the year were within acceptable parameters (<1% of budget), in total, with final budgetary estimates while expenses were less than final budgetary estimates (by 8.9%). Again, although a little above our 5% or less budget variance goal, the variance was within an acceptable range.

Most of the budget expenditure variances, for both the General Fund and Proprietary Fund, relates to the timing of capital project completions (FY2019 budgeted capital projects weren't completed until FY2020). Another smaller variable relates to a payroll accrual timing difference that wasn't anticipated when the City's final budget was adopted.

### ***Proprietary Funds***

Operating revenues of the City's proprietary funds increased 4.1% from the prior year to \$6,702,954. The City approved a 5% Water & Sewer rate increase, effective January 1, 2018, due to the completion of a capital needs Utility Rates Study, discussed below under Economic Factors. The City also implemented a 3.8% cost of living increase in the Sanitation Fund, pursuant to the City's garbage hauler contract. Operating revenues from Water and Wastewater increased by 3.8% to \$5,694,388 while operating revenues from Sanitation services increased 5.7% to \$1,008,566. Operating expenses for Water & Wastewater increased by 6.3% to \$5,132,573 while operating expenses for Sanitation services increased by 3.4% to \$941,970. This increase relates directly to the structure of the garbage hauler contract, the current garbage hauler bills commercial customers directly, as the prior contract required the City to bill all residential and commercial customers.

## **Capital Asset and Debt Administration**

### **Capital Assets**

As of June 30, 2019, the City's investment in capital assets net of related debt for its governmental and business-type activities was \$30,500,998 and \$30,878,914 as of June 30, 2018. This investment in capital assets includes land, buildings, improvements, machinery and equipment and streets.

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

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

- Franklin Municipal Utilities
  - Capital expenditures of \$275,000 for improvements and additions to the City's waste water system, specifically related to the following:
    - Completion of a significant upgrade to a sewer lift station, located North of 31W, near the Methodist Home, \$267,000
    - Installation of various small Lift Stations and related equipment, \$8,000
  - The City adopted the following infrastructure within Westwoods Subdivision: 6" water lines and 8" sewer lines. This infrastructure was formally adopted after a thorough development and construction inspection process and a year long mitigation period. The infrastructure was capitalized at a cost of \$265,000.
  - Capital Expenditures of \$38,000 for the Water Treatment Plant (WTP). This included the replacement of energy efficient light fixtures within the entire plant, the purchase of various equipment, such as a chlorine analyzer, water purification system, speed pumps, and a hydro gate actuator for the Dam. This also includes improvements to the plants raw water pumps and filter basin equipment.
  - Capital Expenditures of \$80,000 at the Wastewater Treatment Plant (WWTP). This included rehabilitation to one of the plants aeration basins and the replacement of an HVAC unit.
  - Capital Expenditures of \$89,000 within the Water Distribution Department. In FY2018 the City launched a partnership with the Electric Plant Board and their Automated Metering Infrastructure. In 2018, \$65,000 in capital expenditures were spent to install the infrastructure required for this program. An additional \$185,000 was spent in replacing over 900 meters and ERTS. In 2019 the final \$89,000 was expended on over 500 meters and ERTS to complete the replacement program. This was to update our metering infrastructure and ensure compliance with the AMI requirements. An ERT is an encoder receiver transmitter. This technology is used to transmit data from utility meters over a short range so a utility vehicle can collect meter data without a worker physically inspecting each meter.
  - Capital Expenditures of \$14,000 to replace the garage doors at the Public Works/Water Distribution building on newer, more energy efficient doors.
  - Capital Expenditures of \$4,500 for GPS receivers to capture detailed, real time data to integrate into our GIS program.

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

- General Fund
  - Capital Expenditures of \$21,885 to acquire property on North 31W. The City purchased this property because it includes the primary source of the City's Stormwater runoff. Additionally, plans to develop the "Hoy Cave" walking trail on this property is underway and federal grant funding has been awarded. Development of this project should be underway in FY2020.
  - The City expended approximately \$22,300 in replacing HVAC units (each of which were older than 20 years) at City Hall and the Police Department. Additionally, \$18,000 is encumbered in FY2019 to replace the last HVAC unit at City Hall.
  - Electrical repairs were completed at the Franklin-Simpson Fire Department for \$7,500.
  - The City expended approximately \$7,500 in software and equipment in order to stream WBKO's local news programming.
  - The City, in partnership with Franklin Municipal Utilities, expended \$95,000 to implement a fully integrated financial software program. This investment has significantly improved operating efficiency within the Finance and Billing Departments and these costs are expected to be recouped within 3 years in labor savings.
  - The City expended approximately \$130,800 in capital needs for the Police Department. This included the purchase of 3 new radar units, 6 KYOPS approved/certified mobile dispatching tablets, the purchase and installation of a new, digitally compatible radio tower, two new, fully equipped, patrol units, and the purchase of 10 digitally enhanced mobile radio units.
  - The City purchased a new zero turn mower and a curb paint sprayer for the street department, for a total of \$14,500.
  - The City spent over \$78,000 in street paving and repairs.
- Franklin Municipal Utilities
  - Capital expenditures of \$552,000 for improvements and additions to the City's waste water system, specifically related to the following:
    - Sunset Circle Sewer Rehabilitation Project, Phase II, \$462,000
    - Sewer Line relocation due to the construction of a TVA substation, \$90,000
  - Capital Expenditures of \$39,500 for rehabilitation work on two sewer lift stations – Broadway and Macedonia Road.

- Capital Expenditures of \$107,300 for the Water Treatment Plant (WTP). This included the replacement of a service truck, replacement of a 20 year old HVAC unit, replacement of valves & actuators on one of the water filters, and the refurbishment of drag chains on both the WTP basins and the sludge collector basin.
- Capital Expenditures of \$145,300 at the Wastewater Treatment Plant (WWTP). This included replacement of lights outside, around the sewer basins, the construction of a small pretreatment building, the purchase of two generators necessary to operate the plant continuously, significant repairs to the progressive cavity pump, and the replacement of an aged and dangerous electrical transformer responsible for all electrical inflow to the WWTP.
- Capital Expenditures of \$250,000 within the Water Distribution Department. In FY2018 the City launched a partnership with the Electric Plant Board and their Automated Metering Infrastructure. \$65,000 in capital expenditures were spent to install the infrastructure required for this program. An additional \$185,000 was spent in replacing over 900 meters and ERTS. This was to update our metering infrastructure and ensure compliance with the AMI requirements. An ERT is an encoder receiver transmitter. This technology is used to transmit data from utility meters over a short range so a utility vehicle can collect meter data without a worker physically inspecting each meter. The meter replacement program is expected to be completed in FY2019.
- Capital Expenditures of \$132,000 with the Wastewater Collections Department. This was to purchase a Transit Video Inspection Truck. Otherwise known as a sewer camera van, this van is equipped with a state-of-the-art camera system, which allows employees to freely zoom, pan and tilt within the City's sewer pipes, and focus on specific elements such as puncturing or sewer cracking. This will allow our sewer department to identify significant defects in our sewer infrastructure and effectively design plans to rehabilitate areas with significant deficiencies in the sewer system.

### ***Long-term Debt***

The City had \$4,795,000 in revenue bonds and capital lease obligations outstanding as of June 30, 2019, which is a decrease of \$632,760 from the previous year. The City made principal payments of \$630,000 during fiscal year 2019. In the previous year, the City had \$5,427,760 in revenue bonds and capital lease obligations outstanding as of June 30, 2018, which is a decrease of \$607,514 from the previous year. Subsequent to year end, in December 2019, the City called two of its outstanding bonds for a defeasance of \$710,000 worth of debt. The City called its 2009 General Obligation Bond with a principal pay off of \$445,000 and its 2009 Water & Sewer Revenue Bond with a principal pay off of \$265,000. At the date of this defeasance, the City had no further outstanding debt in its General Fund.



## **Financial Analysis of the City's Funds**

As the City completed the year, its governmental funds reported a combined fund balance of \$10,657,347 at June 30, 2019, excluding capital assets and long-term debt. Included in this year's total change in fund balance is an increase of \$868,823 in the City's General Fund. For the previous year, the City's governmental funds reported a combined fund balance of \$9,737,014 at June 30, 2018, excluding capital assets and long-term debt. Included in last year's total change in fund balance was an increase of \$1,310,624 in the City's General Fund.

## **Modified Approach to Infrastructure**

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

It is the City's policy to assess the condition of the roads every three years for cracks, potholes, misalignment, drainage condition and number of specific safety hazards. There were no roads severely deficient in condition at June 30, 2019.

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

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

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

## **Economic Factors and Next Year's Budgets and Rates**

- In FY2017 Moody's Investors Service upgraded the City's General Obligation Rating to Aa3 from A3. The City maintains this rating as of the date of this report. Per Moody's Investors Service Credit Opinion:

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

- In FY2018 Moody's Investors Service issued an Annual Issue Comment Report for the City's General Fund. Some of the comments were as follows:

- **General Fund**

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

**Credit Overview**

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

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

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

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

**Management and Governance:** *Kentucky cities have an Institutional Framework score 3 of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property and occupational license taxes, the primary revenue sources, are highly predictable. Cities have moderate revenue-raising ability and can increase property taxes by 4% annually. Cities with populations of 15,000 and above also have a property tax cap of 15 mills. Cities with population of 1,000 or higher have the power to levy an occupational license tax. The tax rate is unlimited for cities with populations up to 300,000 and capped at 1.25% for larger cities. Unpredictable revenue fluctuations tend to*

*be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Kentucky is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.*

#### *Sector Trends - Kentucky Cities*

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

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

*Franklin Water & Sewer provides water and wastewater service to Simpson County, Kentucky, which has a population of 17,881 and a low population density of 76 people per square mile. The county's median family income is \$55,820 (3rd quarter) and the June 2019 unemployment rate was 4.8% (3rd quarter). The water system sources its water from the West Fork Drakes Creek and gets its supply of treated water from White House Utility District and City of Franklin. The treatment is done at its own facility. The wastewater system has its secondary treatment done in its own facility.*

#### **Credit Overview**

*The Franklin Water & Sewer has a favorable credit position though its A1 rating is slightly under the US water and wastewater systems median of Aa3. Notable credit factors include a modest debt profile, healthy debt service coverage, ample liquidity, but a weak income service area and a small system size.*

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

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

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

### ***Sector Trends - Kentucky Water and Sewer***

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

- The City continues to operate within a time of change and anticipated growth. The City's Leaders continue to spend a lot of time and effort focusing on the sustainability of the City's infrastructure, such as what capital investments are required to maintain and rehabilitate our current infrastructure as well as what areas of growth there are that the City needs to expand our existing water and sewer systems. In Fiscal Year 2014 the City kicked off an in-depth Utility Rate Study where we analyzed the pressing needs of each department within our Utility Division: Water Production, Water Distribution, & Waste Water Treatment. Within this study we identified all capital investments necessary to rehabilitate the City's current water and sewer lines, its treatment plants, and related equipment. Each Department Head identified areas of need and these capital improvements were incorporated into this study so the City could adequately identify the most pressing areas of intense need. The Utility Rate Study was incredibly valuable from many different perspectives, from infrastructure needs, to equipment needs, to a more detailed analysis of our revenue base and related operating expenditures. During FYE 2015, the City concluded this study and ultimately adopted a five year capital improvement plan, concluding in FY2019, as well as identified annual financial resources to be allocated to each department for infrastructure rehabilitation and line replacements. This study effectively correlated our needs and the related financial impact and identified the need for a utility rate increase and continues to be reviewed and modified as needs evolve and change. The City's elected body decided to implement these rate increases in gradual, incremental amounts, over a five year period, in efforts not to overly burden the City's customer base. These rate changes were adopted by Ordinance in February 2015. These rates are scheduled to increase by 5% per year, effective January 1 of each calendar year. The final rate change, per this Ordinance, was implemented January 1, 2019.

Accordingly, City leadership continues to revisit these plans, projections and needs. These are continually changing and evolving as time goes on. Below is a brief summary of some of the areas of expansion and rehabilitation that the City has identified thus far:

- In FY2017 the City completed a project related to the expansion of its existing sewer lines. This project is now providing service to an area that was annexed into the City south of Franklin in fiscal year 2013, extending all the way to the KY/TN line, well past Exit 2 on Interstate 65. This project, including all engineering work, was completed for a total cost of \$775,000.

- In FY2015 the City's Waste Water Treatment Department identified a lift station and sub-basin that needed significant rehabilitation work. The expectation was that this investment and improvement will decrease some of the water's run off infiltration into the sewer systems as well as improve the overall systems operating capacity for the citizens using the sewer system within that sub-basin. This project was completed in two phases. Phase I was completed in FY2017, for a total cost of \$400,040. Phase II was completed in FY2018, for a total 462,000. Additionally, the City was awarded a Federal Grant, in the amount of \$97,000, to apply toward the cost of the Phase II project.

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

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

With that said, however, the City is experiencing significant growth throughout the entire city. Although the original rate study was focused on anticipated infrastructure needs toward the south of town, as discussed above, the city now feels it would be prudent to complete a Municipal Growth Study to better anticipate growth patterns in our area, in conjunction with economic development patterns. This study could shift the entire direction of the City's utility infrastructure needs and investments. This study is expected to be completed within the next 1-3 years.

- In FY2018 the City partnered with the Franklin Electric Plant Board to utilize a new Automated Metering Infrastructure system. This system allowed City staff to reduce its Distribution personnel by one (through natural turnover.) This system also allows City staff to read meters and complete customer consumption analysis directly from the billing office. It also has leak and tamper indicators that can be investigated as needed. The launch of this system occurred in April 2018 and has an ongoing cost of \$60,000 per year.



- In the current year the City worked within its third year of a mass Water Meter Replacement Program. Over 1800 meters were replaced by the end of the current year. Over 500 were replaced this year. Now that this program is completed, a scheduled meter replacement program is being established and will be set to be methodically completed on an annual basis.
- Along the same lines as the City's Water Distribution Water Line Replacement Initiative, the City is currently reviewing its Waste Water Collection System's maintenance and replacement needs. As mentioned above, in FY2019 the City began to reserve funds, at \$300,000 per year, for an annual maintenance and replacement initiative within the Wastewater Treatment Department.

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

- In an effort to ensure the preservation of our beautiful historic downtown, the City Commission adopted an ordinance in April 2018 that allows for the development of preservation standards and a preservation committee. The committee was formed and has worked tirelessly to develop Historic Overlay Standards which were designed to protect the historical integrity of Downtown Franklin. To-date, the committee has also reviewed 22 requests for improvements to structures in the Downtown Historic District.
- In FY2017, in an effort to reduce the City's responsibility in maintaining vacant properties, a program was developed to put these properties back into productive use and once again provide a tax base for City revenue. The program was titled a "Surplus Property Re-Use Program".

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

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

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

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

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

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

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

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

This initiative is unique to the City and its cutting edge, the first of its type. The City is excited to the implementing this program and is excited to see how this changes our community development and cleanup efforts. To-date, 5 properties have been transferred under this program.

- For the past several years, City management has identified the need for the City to rehabilitate its stormwater system. City's stormwater system is provided to protect the waterways and land in the City of Franklin by managing flooding and to benefit the natural environment. The City felt as if the cost of designing, developing, improving, operating, maintaining, and monitoring the stormwater system required in the City of Franklin should therefore be allocated to the extent practicable to all property owners and/or occupants of land based on their impact on the stormwater system. In order to provide revenue to fund those costs and to fairly allocate those costs, a Stormwater Management Fund was established and adopted into Ordinance, and was implemented effective July 1, 2015. All revenues collected for the purpose of stormwater management from user fees, grants, permit fees, and other charges collected under this program, will be deposited into this fund and all disbursements from the Fund will be for the purposes of the following:
  - i. The acquisition by gift, purchase, or condemnation of real property, and interests therein, necessary to construct, operate, and maintain stormwater management facilities.
  - ii. All costs of administration and implementation of the stormwater management program, including the establishment of reasonable operation and capital reserves to meet budgeted, unanticipated or emergency stormwater management requirements.
  - iii. Engineering and design, debt service and related financing expenses, construction costs for new facilities, and enlargement or improvement of existing facilities.
  - iv. Operation and maintenance of the stormwater system.
  - v. Monitoring, surveillance, and inspection of stormwater control devices.
  - vi. Water quality monitoring and water quality programs.
  - vii. Retrofitting developed areas for pollution control.



- viii. Inspection and enforcement activities.
- ix. Costs of public education related to stormwater and related issues.
- x. Billing and administrative costs.
- xi. Other activities which are reasonably required.

As of June 30, 2019, the City has accumulated a fund balance of \$348,000 within this program.

### ***Industrial Expansion & Economic Development***

- For the past several years, Franklin has enjoyed positive industrial growth and low unemployment. And - 2019 is no exception. Despite the tight labor market in south central Kentucky, our community has continued to see new industries and businesses locate in Franklin. Additionally, our community continues to see existing companies expand. During FY2019, the City contributed approximately \$600,000 to the Industrial Authority. Here is a summary of activity, related to the Franklin-Simpson Industrial Authority, and 2019's new and Expanding Industry:
  - In February of this year it was announced that RKW-North America, Inc. would be expanding its facility in the Wilkey North Industrial Park. Currently, RKW is adding 30,000 square feet of manufacturing and warehouse space as well as state-of-the-art equipment to its existing facility. The expansion will also create some thirty new jobs for the Franklin area. Once known as Danafilms, the company became the first industry to locate in the Wilkey North Industrial Park. In 2010, RKW, headquartered in Germany purchased Danafilms. This marks the third major expansion by the company making it one of the largest industrial facilities in Franklin and Simpson County.
  - This spring, John Gehret, (Garrett) a former partner in the Vermont Thread Gage Company, and his son, Johnny, began a new business called Gehret (Garrett) Gage. The new industry is located in the former Arney Industries Building located at 1825 Industrial Bypass North in Franklin. The company makes mechanical gages used as measuring tools by manufacturers throughout the United States. Gehret (Garrett) Gage has been approved for state tax incentives through the Kentucky Business Incentive program available to new and existing manufacturing companies located in Kentucky. The company is in the process of hiring twenty people initially and eventually hopes to have forty or more employees in the future. Production has begun at their new facility and most of their initial operating equipment is in place. The company will be providing some highly skilled and well-paying jobs for workers in the Franklin area.
  - A new company, Precision Power, located this summer in a 6,000 square foot building on Brown Road in Franklin, Kentucky. Precision Power, owned by Drew Hardin, is an international distributor of telecommunications power and UPS solutions. The company is a member of the Precision Group of Companies headquartered in Nashville, Tennessee. The company is privately owned and is focused on innovative technologies to compliment rural broadband fiber and

wireless deployments. Precision Power supports a multitude of local Kentucky broadband companies including the Franklin Electric Plant Board, Bowling Green Municipal Utilities, and Logan Telephone. The company is focused on the development and implementation of customized solutions that meet current needs and are engineered to anticipate future telecom requirements. Precision Power is committed to product quality, superior service, and flexible customization and is expected to employ initially ten people.

- Conveyor belt producer Smiley Monroe plans to create about 30 full-time jobs in Simpson County with a new \$2 million manufacturing facility. The Northern Ireland-based company chose Franklin, Kentucky for its first North American operation. The company is leasing a 63,000-square-foot building on North Street in Franklin to house its new operations. Following a significant increase in US sales the past several years, the company's Kentucky operation will give it a location and distribution advantage for its growing customer base. Franklin's central location, along with its skilled manufacturing workforce, made it a suitable destination for the company's first American factory. Over the next several years, Smiley Monroe plans to recruit a core team of production operators and support staff to fill its 30-job target. Since its founding in 1979, the company has grown into a premier producer of customized endless conveyor belts and custom rubber and plastic parts to the mobile equipment sector. The company now exports to more than 60 countries and supports customers all over the world. The company currently employs 170 people between its facilities in Northern Ireland and India.
- This fall Shyne (Shine) Labs, owned by Allan Huang (Whong) of Los Angeles, California, began leasing a 12,000 square foot building in the Wilkey North Industrial Park. The company will be purchasing industrial hemp from area farmers and will be using ethanol extraction to process it into CBD oil. The building is being fitted for machinery now and production is expected to begin in the first quarter of next year. The company expects to employ some thirty people initially. Besides production jobs, several technicians will be hired by Shyne (Shine) Labs to help with the manufacturing processes.
- Power Tec Solutions located in the Wilkey North Industrial Park in 2016. The company, owned by Stan Battat (Ba- tat), develops and markets batteries for back-up solutions for telecommunications, infrastructure development, and renewable energy companies. Because of their continued growth, Power Tec Solutions built a new 30,000 square foot, state-of-the-art warehouse and home office facility in the Wilkey North Industrial Park. This new center will allow Power Tec Solutions to increase their customer base and sales.
- In March of this year, Designed Conveyer Systems, headquartered in Tennessee, began occupying a 20,000 square foot building on South Street in Franklin, Kentucky. The facility is being utilized as a service center as well as for a distribution point for the company. There will also be light manufacturing at the building as well. Founded in the 1980's, Designed Conveyor Systems manufactures conveyors for such customers as Amazon, Federal Express UPS, and major retail

distribution centers. Brian Carey, a Franklin native is Director of Customer Services for the company and will be heading up the new facility in his hometown. The new center in Franklin will follow-up with customers to help service the systems that are installed by the company. Franklin's central location puts the company in close proximity to many of their major customers. Designed Conveyor Systems currently has six employees at their South Street location. The company hopes to add to that number as its business expands in the area.

- Recently Houchens Industries, which owns the Price Less IGA store in Franklin, decided to build an ACE Hardware store on the property. The 10,000 square foot building will be located on the northeast side of the property next to the Price Less IGA Store. Scott, Murphy, and Daniels has been awarded the bid for the new facility and work began in January of 2020 on the project. What was once a vacant shopping center now has new life. Some thirty or more people will be employed at both the IGA store and ACE Hardware thanks to the investment being made in Franklin by Houchens Industries.
- R J Corman Railroad, which has operated a railyard and distribution center in the far western portion of Simpson County for over thirty years, is expanding their facility at that location. On part of their property they have just completed a 15,000 square foot transloading facility to help with their wood supplying customers. In addition, R J Corman is also expanding their distribution center. They currently have 100,000 square feet but when the expansion is completed the facility will be 155,000 square feet making it one of the largest distribution facilities in the area. Brown Contracting of Franklin is building the new addition. After the expansion is completed, R J Corman is expected to employ between 15 to 20 people at their railyard and distribution center.
- The nine projects just discussed above, that has taken place in Simpson County during 2019, represent an investment of approximately thirty seven million dollars into the local economy and an eventual creation of 135 new jobs for our area.
- For many years the City has participated along with the Commonwealth of Kentucky in the state's Kentucky Business Incentive (KBI) Program. This program provides state income tax credits of 3% of each qualified employee's wages (i.e.  $\frac{1}{2}$  of the state's income tax) to new and existing agribusinesses, regional and national headquarters for certain business operations, manufacturing companies, and non-retail service or technology related companies that locate or expand operations in Kentucky by rebating this money back to the company to assist with starting or expanding the business. This credit is available to the company for ten (10) years. As part of this participation, the local government which is the situs for the business is required to forego collection of a total of 1% occupational taxes on, essentially, the base number of jobs created under the KBI program for each qualified employee, for a period of 10 years. In other words, the state contributes 3%, and one or more local government(s) separately or together must contribute a total of 1%. Alternatively, the local government can make a one time "in lieu of" contribution in an amount that approximates the 1% contribution

and aids the company, such as providing water and sewer improvements, etc. The City of Franklin and County of Simpson have agreed to participate in the KBI program. Although this has been a wonderful program for industrial and commercial expansion within the Commonwealth, the City has, to date, exclusively provided the local 1% “match,” which is beginning to create some financial hardship on the City given that basically all industrial growth and expansion will not generate any new occupational fee revenue for the City for a period of up to ten (10) years while causing the City to provide services as regular costs. In FY2018, the City reached an agreement with the Simpson County Fiscal Court, via an interlocal agreement, wherein the Fiscal Court will begin to provide .75% of its occupational fee per employee (with the City providing .25%) in an effort to lessen the financial impact on the City and share this burden. When the City and the County have reached an equal total contribution amount in the KBI program as a whole (including the amounts the City has contributed in the past), the City and County will thereafter each contribute an equal .50% per qualified employee per local governmental entity. At that point, the City will realize a net .50% occupational fee for the ten (10) year participation period, instead of receiving nothing. Obviously, this will have a positive economic impact on the City going forward. In FY2019 the City contributed \$77,000, with an additional payable of over \$70,000 at year end, under this KBI Economic Development incentive.

- As mentioned above, the city is experiencing tremendous growth throughout our corporate city limits. The housing/construction market is experiencing activity that this City hasn’t seen in over ten years. The following housing related construction projects are either completed or underway:
  - Five subdivisions are under development, all of which will allow for approximately 450 homes to be constructed (the Retreat at Fox Chase Subdivision, Fox Chase Phase II Subdivision, Lexington Place Subdivision, the Willows Subdivision, Williamsburg Subdivision, and Windsor Park Subdivision.)
  - At the beginning of the year, an upscale apartment complex offering 125 units and many amenities, located just past Exit 6 off of I65 completed an expansion of an additional 40 units.
  - During FY2019, one moderate apartment complex, offering 24 units, off of Witt Road, completed an expansion of additional units.
  - In February of 2019 plans were announced for a major new subdivision on US Highway 31-W North adjacent to the Lewis Memorial Home property. The Windsor Park Subdivision is currently being developed. This new subdivision will be developed in phases and calls for a total of approximately 110 lots for new homes in Franklin. Currently this project is operating within Phase II and, as of the time of this report, has approximately 31 available lots to be built on. At this completion of this development, this will be one of the largest subdivisions in Franklin and will provide much needed housing and potential new workers for the growing industrial community in Franklin.
  - 2019 was a record breaking year for our community where it relates to the number of new, single family residential construction projects. Approximately 120 permits were issued. The nearest on record was in 2004 when approximately 100 permits were issued.

- Overall, all leaders within our community are excited for growth and expansion. The end result, primarily, is the desire for our community to have the capacity and availability to provide jobs to our citizens. City leaders are noting that several industrial management teams are shifting their workforce from temporary labor to full time labor which is interpreted as an overall sign of stabilization within our local economy. We are excited to see our community's unemployment rates maintain at a relatively stable level, rates increasing slightly – from 3.5% in December 2018 to 4.1% in December 2019; however, this rate is still comparable to the state rate of 3.9% and the national rate of 3.4%.

Part of the current increase in local unemployment rates is unfortunately due to the fact that Simpson County lost two of our industries in 2019: Quad Graphics and Harman. Strong efforts are underway to fill these empty buildings and although many of the employees displaced from these two companies have already found new opportunities and positions with our local industries, the impact has still be felt within our community. Thankfully – residential, industrial and economic growth continue in Simpson County and these rates are expected to reflect this in the coming months.

### **Communications Initiative:**

Additionally, in 2018, the City launched a communications initiative. City Leaders have worked hard to identify ways to communicate City activities, and spending, with its constituents. As a result, over the past three years, over 6,000 copies of the first, second and third edition of the frankLINKentucky was mailed. This is a publication, put together by city staff, and is mailed out annually. The goal of the publication is to provide information and highlights of projects, work and information about where City tax dollars are spent. Copies of both publications are included with this report and available on our website at [www.franklinky.org](http://www.franklinky.org).

Additionally, in February 2019, the City began posting short informational videos on its Facebook page, website and the city cable channel. The videos range in topics thought to be relevant to our citizens. The goal is to share information that citizens may not know and explain why certain things are done or needed with city government. The city also posts all City Commission meetings on Facebook, as well as the local channel.

### ***Contacting the City's Financial Management***

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





# frankLINKentucky

linking you to city government

Volume 3 2020



## From the Mayor

Looking back over the last year, my first year as your Mayor, it has been an honor to serve you. 2019 was a year of economic growth. It was also a year that brought challenges as we realized the uncertainty of the pension program. I am excited to be in office during the bicentennial celebrations. Lots of great activities have been planned to mark this moment in history and I hope you will join us as we celebrate Franklin's 200 years!

*Larry Dixon*



## Certified City of Ethics

In February, the City of Franklin received the designation as a Certified City of Ethics by the Kentucky League of Cities for completion of the Kentucky League of Cities' Certified City of Ethics Program. The training focused on elected officials and employees following ethics principles and pledges to conduct its affairs accordingly. The six areas of focus are:

1. Serve the public interest, not your own
2. Be ethical and professional
3. Communicate effectively and respectfully
4. Fulfill the duties and responsibilities of holding public office
5. Be fiscally responsible with the city resources
6. Create an environment of honesty, openness and integrity



## Passing the Torch

The torch was passed from Simpson County Judge Executive Mason Barnes to Mayor Larry Dixon at the Bicentennial Bash on New Year's Eve! The torch symbolized the passing of the celebration from the county to the city. 2019 was a time of activities and celebrations as the county celebrated 200 years! 2020 is set to be an eventful year! For information about Bicentennial activities, visit [www.fs200.net](http://www.fs200.net).



November 20, 2020  
is a day to celebrate our history  
as we relay a proclamation from  
Frankfort to Franklin. The passing  
of the proclamation symbolizes the  
generations and accomplishments  
of the last 200 years!



## United States® Census 2020

The decennial census was first taken in 1790, as mandated by the Constitution. It counts our population and households, providing the basis for reapportioning congressional seats, redistricting, and distributing the more than \$675 billion in federal funds annually to support states, counties and communities' vital programs — impacting housing, education, transportation, employment, health care and public policy.

The Census helps our community in many ways. Federal funds, grants and support to states, counties and communities are based on population totals and breakdowns by sex, age, race and other factors. Our community benefits the most when the census counts everyone.

In mid to late March, you should receive an invitation to complete the 2020 Census. Once the invitation arrives, you can respond for your home in one of three ways: online, by phone, or by mail. It doesn't matter which way you respond...just please be counted!



## Leading Our City

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





# Franklin Municipal Utilities

The Franklin Municipal Wastewater Plant was built in the 1980's. The plant is undergoing some upgrades to keep it functioning properly and to ensure continued longevity.

In 2019, an \$85,000 rehab project was done on aeration basin #2. The down arms, headers, and diffuser were replaced. This rehab is helping the WWTP treat the wastewater more efficiently, and also lower the electrical cost at the plant. The rehab will help with treatment due to better dissolved oxygen levels and mixing.



An ongoing project at the plant is an upgrade to the electrical system. City Manager Kenton Powell is working to improve the electrical power consumption and bring the electrical controls into the 21<sup>st</sup> century.



## A Place to Walk

There are 14 miles of sidewalks within the City of Franklin. Sidewalks are rated each year using a Pavement Management System to generate an Overall Condition Index (OCI), just like the streets are rated.

This OCI rating is used to determine which sidewalks need to be repaired. Typically, City Street Department staff will make repairs and additions to sidewalks.

However, the price to install a new sidewalk is very costly. Recently, it has cost \$12 per square foot, just in materials. It is also a much slower process to repair a sidewalk than to repave a street.

There are numerous areas throughout the city that need sidewalks but the high cost of installation and the need to continue to repair existing sidewalks prohibits the construction of new areas.

## City Streets

Each year the City Street Department drives over the 50+ miles of city streets and grades them. They look for pot holes, alligator cracks, patches, edge cracks, bumps, over lays and any defects in the pavement. This information is entered in to a Pavement Management System to generate an Overall Condition Index (OCI) for every section of roadway in the city. The OCI is then used in conjunction with other variables such as traffic volume, type of road, maintenance history, other capital project needs and allocated funding levels to prioritize a list of streets to pave.

Over the past 3 years, the City has paved 7.4 miles of streets, which is about 15 % of our streets. In 2019, 3.2 miles of city streets were resurfaced. Funding for road work comes from several sources. The motor fuels tax provides 22.2% of revenue to the Rural Secondary Program, of which the City received \$167,000 in 2019. These funds are allocated to each county for construction, reconstruction and maintenance. In 2019, the City budgeted \$100,000 from the general fund for street improvement projects and another \$40,250 for sidewalk and minor street repair projects.

The City is only able to pave and repair City streets. Streets such as Main, Cedar, Madison, Bluegrass, and others are state roads, which the Kentucky Transportation Cabinet is responsible for maintaining, repairing and clearing in case of snow and ice or debris. Paving and repairs are only done during warmer months as the asphalt companies' close during the winter months.

# WASTE WATER

Clean & Reuse

In 2019....

22,500 feet of new sewer line was installed

210 new manholes installed

854,681,000 gallons of waste treated

# WATER

Clean & Tasty

Installed in 2019....

15,400 feet of new water main

32 new Fire Hydrants

314 new water meters

## Metering

Electronics....it seems our world operates electronically. The City of Franklin Municipal Water system relies on electronics to meter water usage. AMI stands for Automated Metering Infrastructure. AMI metering systems are more than just meters. Using the fiber network, the new meters gather and analyze data. They can also be set up to read usage which can provide the water department with interval data, automated reading, and detailed customer usage information.

The City is working each year to change out a designated area within the City Water Service system. To date, over 2,000 meters have been upgraded.





### Hovering Above

An eye in the sky can be an asset in certain critical situations. In June 2019, a UAS (Unmanned Aircraft System) aka drone, was purchased by Franklin Police. Drones are being used in law enforcement across the country. In Franklin, it can aid in the search and rescue of a lost adult or child, aid in capturing a fleeing fugitive who may be hiding from officers, photograph serious injury collision scenes, monitor disaster scenes, conduct surveillance (with a search warrant), monitor the scene while officers make entry in to a high risk area, and photograph outdoor crime scenes.

Lt. Dale Adams said, "If we can use it to find a lost child or elderly person who might be lost, then it would be worth it all in one use. We want to use it to help make us safer and more prepared."

The drone was purchased using funds from the Drug Fund (monies collected from drug cases that were forfeited by the courts to Franklin Police).



### Joining Forces

#### Planning for the Future

In December 2019, the City of Franklin and the Simpson County Fiscal Court joined forces to purchase a Pumper Truck for the Franklin Simpson Fire Rescue. Over the course of three years, the City was able to save \$187,500 to contribute to the purchase.

The City is now saving money to help fund an aerial truck for the department. In 2029, Fire Rescue plans to purchase a new truck with a price tag of approx. \$1.2 million. In 2020, the City began setting aside \$65,000 per year. The City has agreed to pay half of the purchase of the new truck. The Franklin Simpson Fire Rescue is a joint service with funding and support from both the City and County governments.

### CLASS ACT

Franklin Police Officers are training and learning! In 2019, six officers graduated from the Kentucky Department of Criminal Justice Training with one more set to graduate this February. The 20 week academy trains and prepares officers for a variety of different situations and calls for service. They learn new skill sets such as firearms proficiency, high speed driving, DUI and drug enforcement, domestic related incidents, legal procedures and much more. The officers are provided 8 weeks of pre-academy field training and up to 12 weeks of post-academy field training before being released on their own.



One Captain and one Lieutenant graduated from Criminal Justice Executive

Development which is 4 weeks including over 200 hours of training. This training provided those two ranking officers with more extensive knowledge in the following areas of command level leadership: Organizational culture, Leadership, Organizational change, Creative Thinking, Executive writing, Group and independent presentations, a Persuasive speech, Policy writing, Budgeting, Legal procedures and many other subjects.



### REVITALIZATION IN PROCESS

The tobacco warehouse on West Madison Street is being disassembled. After weeks were spent cleaning up the 3 acre property, the City was ready for the next phase in clean up. After releasing a request for bids for the removal of the structure, a company submitted a proposal to remove the structure at no cost to the city. The company is salvaging all of the wood and metal in the building which is a huge savings in dumping and labor.

In November of 2018 the city used grant funds to purchase the property at 501 West Madison Street which was sold at master commissioner sale. Then clean up began. Mayor Dixon said, "We have had numerous conversations about the property and the best use for it. However, our biggest need is a larger, modern facility for our police officers." The current building that houses the Franklin Police Department was built in 1991. At the time the 3,600 square foot facility was built, Franklin Police had 12 officers. Former Police Chief and City Commissioner Jamie Powell said, "We outgrew the building on Court Street 5 years after we moved in. Those guys are packed in like sardines." Police Chief Roger Solomon said, "Our force has grown to a staff of 24 and almost everyone shares a desk. Our 17 patrol officers share 5 desks and all 6 of our lieutenants and sergeants share one office that holds two desks. "I gave up my office in the back in order to have a meeting/conference room for the officers". We've painted and tried to keep the building looking good but we can only do so much. The lobby floor is caving in and that runs into the records room. Our parking lot is in bad shape and our windows need to be replaced."

The location of the property on Madison Street is within a close proximity to the majority of the schools and to downtown. The large parcel would give room for growth and expansion. Chief Solomon said, "We desperately need space for storage, a larger evidence room, training room, enclosed bay, updated IT infrastructure room, and offices. This will also help us tremendously when we go for our re-accreditation in a few years."



## Keep Our City Clean

Scott Waste will pick up one bulk item per week per address in the City. However, you must call Scott Waste and let them know that you have a large item. A truck will pick the item up but it will not be picked up with your regular trash. Call Scott Waste at (270) 783-4016 to ask them about a large item pick-up.



## Cleaning Up

**In 2019, City Crews Collected.....**

187.5 loads of brush

784 cubic yards of leaves

## Buildings Going Up

In 2019, the Franklin Simpson Planning & Zoning office issued 226 building permits and 288 electrical permits. Over the last 3 years, our community has had an increase of over 25% in the start of single family home construction year over year. Five new apartment buildings were also permitted in 2019.

The increase in permits and inspections has created a need to restructure the process. In early 2019, the building inspector resigned and the electrical inspector retired. There are now two staff members in the Planning & Zoning office that track and measure inspections. Then contract inspectors complete the needed inspections. The reduction in staff and the use of contract inspectors has not only proven to be a cost savings benefit but has also streamlined the paperwork and tracking process.



City of Franklin  
[www.franklinky.org](http://www.franklinky.org)

## Walking the Neighborhood

Two Neighborhood Walks were held in 2019. Before the City Commission meeting on June 10<sup>th</sup> and October 14<sup>th</sup> the Mayor, City Commissioners, and several City staff members met and walked an area of the city to see issues, concerns, projects, and chat with residents. The walks allow the elected officials and city staff to walk in a neighborhood while meeting with the residents in a casual atmosphere.

The walk in June made a stop at the warehouse on Madison Street that the city purchased and cleaned up earlier in the year. Then plans were unveiled for the construction of a new Police Department on the site.

The walk in October featured a drone demonstration by Franklin Police Lieutenant Dale Adams.



Following the walks, a City Commission meeting was held at a pavilion in the area. More Neighborhood Walks are being planned for 2020.

## An Honor on Veterans Memorial Highway



Boy Scout Troop 47

In September new flags were hung along Veterans Memorial Highway. Several years ago, the Veterans of Foreign Wars took on a project to pay honor to our Veterans by installing American flags on the light poles along Veterans Memorial Highway from Main Street to Highway 1008. Over the years, the flags become worn and require replacing. The City Commission was approached about taking over the repair and maintenance of the flags, which they agreed to do.

This quickly became a community project that involved several community members and organizations. John Maloney, the Scout Master for Boy Scout Troop 47, worked on a new flag mount and pole design that would help keep the flags hanging properly and not tangled around the wood light pole.

The flags and flag poles were donated by patriotic citizens and Boy Scout Troop 47 installed the new flag poles and mount. The flags are taken down during the winter months but will be put back up in the spring. Ongoing support is needed to replace flags and keep the poles in good condition. If you would like to help with this project, a donation can be made to: City of Franklin, ATTN: Flag Replacement Project, PO Box 2805, Franklin, KY 42135. Donations can also be made to: Boy Scout Troop 47, 301 West Madison Street, Franklin, KY 42134.



## Training Drivers

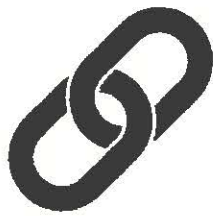
In November of 2017, SKYCTC announced that it was launching a Commercial Driver's License (CDL) program, which would be located at the Franklin-Simpson Center. The program began in June of 2018 with donated trucks, students funded by the South Central Workforce Development Board, and an instructor with nearly 30 years of experience. The college didn't yet have a driving range, so a community



partner, Nacarato, allowed the students to practice their skills on their property. With the partnership of the City of Franklin, the South Central Workforce Development Board, Franklin Bank & Trust, Simpson County Fiscal Court, and the F-S Industrial Authority, a practice skills range was constructed on land owned by the college, and a ribbon cutting was held in August of 2019.







# frankLINKentucky

*linking you to city government*

Volume 2 2019



From the Mayor

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



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



Franklin  
City Commission  
~ Left to Right ~

Commissioner  
Jamie Powell

Commissioner  
Herbert Williams

Mayor Larry Dixon

Commissioner  
Brownie Bennett

Commissioner &  
Mayor Pro Tem  
Wendell Stewart

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

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

## Keeping You Informed



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

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

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





# Franklin Municipal Utilities

## Growing!

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



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

## Clean & Tasty WATER

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

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

Operator Johnie Skipworth performs a manganese test on a sample of water.



## WASTE WATER Clean & Reuse

The Franklin Municipal Wastewater Treatment Plant

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

## Lighting the Way

After 31-W was widened it was apparent there was a need for lighting along the corridor from highway 1008 going south to the Wal-Mart/Lowe's area. The City partnered with Warren Rural Electric Cooperative to install 20 new lights. These lights will increase safety to motorists and pedestrians. City employees were able to install the concrete bases for the lights then WRECC employees came in to install the light and electrical components. This team effort saved thousands of dollars for the City.

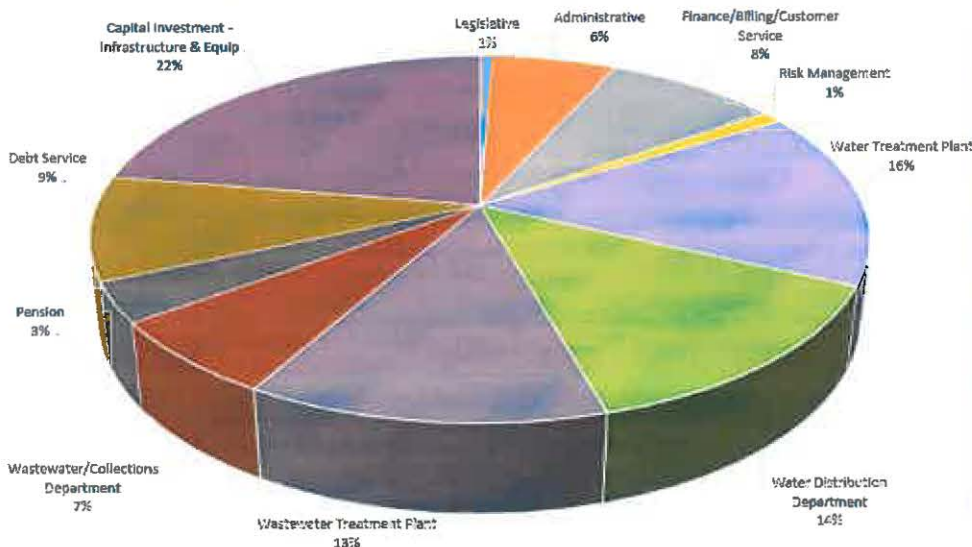


There are 1,295 street lights in the City of Franklin. The installation, maintenance and electricity costs for these lights is paid through the City General Fund at a cost of \$123,000 per year.

## City Budget

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

Franklin Municipal Utilities - Where Does Your Money Go?







## Paving the Way

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

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

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

## Healthy Changes...Financially

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

## Healthy Changes...Lifestyle

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



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

In an effort to save money on health insurance premiums, the City implemented a higher premium on health insurance coverage for tobacco users. This increase was effective July 1, 2018. Prior to that implementation, Jerry made the decision to quit

smoking. He said, "After a lifetime of smoking, I thought it was time and wanted to see if I could." He started smoking in 1966 and said he was, "Way too young to be smoking!" Jerry hasn't had a cigarette since July 23<sup>rd</sup> and says he feels much better.

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



## Preserving our History

2019 marks the 200<sup>th</sup> birthday of Simpson County. 2020 the City will celebrate 200 years! As we celebrate it is important that we preserve our past for future generations. The historic courthouse

was built in 1882. The buildings and shops that surround the courthouse add to the character and



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

## Police, a part of OUR Community!

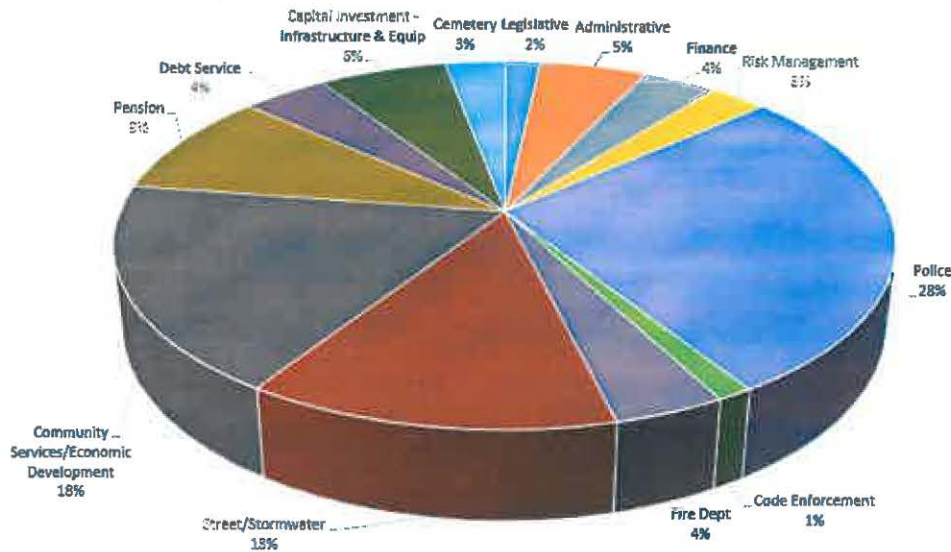
Officers with the Franklin Police are involved in OUR community! In 2018 officers partnered with the Marine Corps and collected Toys for Tots. They also did a Coats for Kids drive. Lt. Dale Adams presented an update to the Human Rights Commission and shared with them statistics and information regarding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



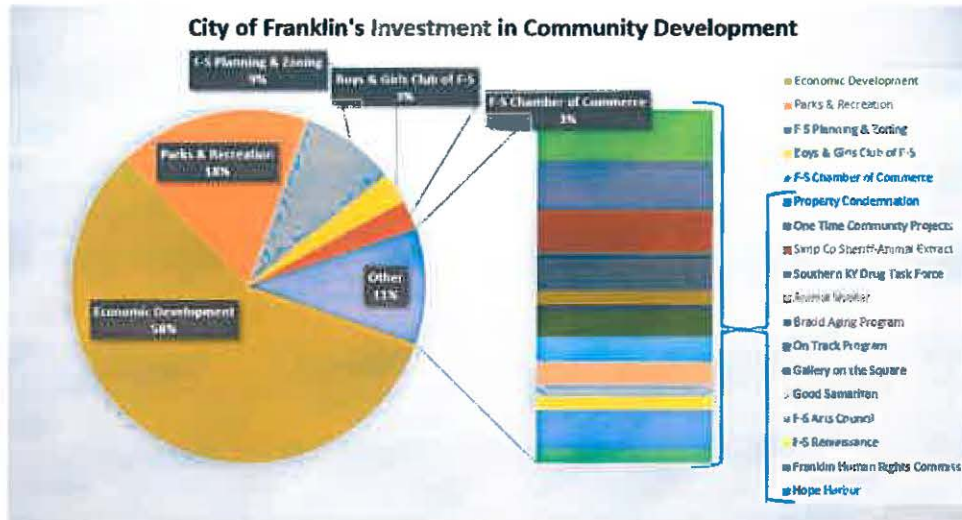
In December, two officers and K-9 Shadow, helped with the 2<sup>nd</sup> annual CSI Academy. The event was hosted by the Simpson County Extension Service and Simpson County Schools. Officers worked with 15 students and showed them the basics of processing a crime scene.



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



### City of Franklin's Investment in Community Development



### Pension Crisis.

#### What does this mean for our City?

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

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



City of Franklin  
[www.franklinky.org](http://www.franklinky.org)

### Leadership in Frankfort

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

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

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



## **BASIC FINANCIAL STATEMENTS**

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF NET POSITION**

**June 30, 2019**

	Governmental Activities	Primary Government Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,224,146	\$ 6,192,400	\$ 14,416,546
Certificates of deposit	442,718	—	442,718
Receivables (net of allowance for uncollectibles):			
Accounts	44,386	766,566	810,952
Taxes	958,125	—	958,125
Intergovernmental	43,070	—	43,070
Internal balances	70,528	( 70,528)	—
Inventory	—	200,314	200,314
Prepaid items	12,563	15,045	27,608
Restricted assets:			
Cash and cash equivalents	1,204,298	756,091	1,960,389
Certificates of deposit	217,556	780,813	998,369
Capital assets, net of accumulated depreciation:			
Nondepreciable	12,593,505	380,530	12,974,035
Depreciable capital assets	2,036,372	19,439,660	21,476,032
Construction in progress	15,530	154,046	169,576
Total assets	<u>25,862,797</u>	<u>28,614,937</u>	<u>54,477,734</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount on refunding bonds	—	95,621	95,621
Outflows for pensions	2,042,393	597,534	2,639,927
Outflows for OPEB	740,246	215,841	956,087
Total deferred outflows	<u>2,782,639</u>	<u>908,996</u>	<u>3,691,635</u>
<b>LIABILITIES</b>			
Accounts payable	400,142	275,042	675,184
Other accrued liabilities	159,903	327,940	487,843
Accrued interest payable	5,130	23,059	28,189
Accrued vacation	103,649	48,701	152,350
Noncurrent liabilities:			
Customer deposits	—	593,337	593,337
OPEB liability	2,395,127	865,579	3,260,706
Net pension liability	7,764,566	2,235,122	9,999,688
Due within one year	80,000	245,000	325,000
Due in more than one year	434,821	4,035,424	4,470,245
Total liabilities	<u>11,343,338</u>	<u>8,649,204</u>	<u>19,992,542</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Inflows for pensions	566,168	164,970	731,138
Inflows for OPEB	486,586	148,853	635,439
Total deferred inflows	<u>1,052,754</u>	<u>313,823</u>	<u>1,366,577</u>
<b>NET POSITION</b>			
Net investment in capital assets	14,645,407	15,855,591	30,500,998
Restricted for:			
Expendable:			
Highways and streets	69,100	—	69,100
Debt service and capital activity	—	1,187,063	1,187,063
Nonexpendable:			
Perpetual care	559,747	—	559,747
Unrestricted	975,090	3,518,252	4,493,342
Total net position	<u>\$ 16,249,344</u>	<u>\$ 20,560,906</u>	<u>\$ 36,810,250</u>

See Notes to Financial Statements

# CITY OF FRANKLIN, KENTUCKY

## STATEMENT OF ACTIVITIES Year Ended June 30, 2019

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 2,079,834	\$ 978,514	\$ —	\$ 386,590	(\$ 714,730)	\$ —	(\$ 714,730)
Public safety	3,223,501	12,899	163,764	—	( 3,046,838)	—	( 3,046,838)
Public services	1,654,596	349,793	183,072	—	( 1,121,731)	—	( 1,121,731)
Community and cultural	1,871,177	129,897	7,750	—	( 1,733,530)	—	( 1,733,530)
Interest on long-term debt	24,593	—	—	—	( 24,593)	—	( 24,593)
Total governmental activities	8,853,701	1,471,103	354,586	386,590	( 6,641,422)	—	( 6,641,422)
Business-type activities:							
Water and wastewater	5,287,786	5,694,388	—	265,596	—	672,198	672,198
Sanitation	941,971	1,008,566	—	—	—	66,595	66,595
Total business-type activities	6,229,757	6,702,954	—	265,596	—	738,793	738,793
Total primary government	\$ 15,083,458	\$ 8,174,057	\$ 354,586	\$ 652,186	( 6,641,422)	738,793	( 5,902,629)
General revenues:							
Property taxes					1,096,214	—	1,096,214
Occupational taxes					2,456,405	—	2,456,405
Insurance premium taxes					1,843,588	—	1,843,588
Franchise taxes					95,732	—	95,732
Business license taxes					833,930	—	833,930
Interest income					111,785	33,997	145,782
Miscellaneous					77,774	46,275	124,049
Gain (loss) on sale of capital assets					17,708	( 36,508)	( 18,800)
Total general revenues and transfers					6,533,136	43,764	6,576,900
Change in net position					( 108,286)	782,557	674,271
Net position, beginning of year					16,357,630	19,778,349	36,135,979
Net position, end of year					\$ 16,249,344	\$ 20,560,906	\$ 36,810,250

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2019**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 7,439,455	\$ 784,689	\$ 8,224,144
Certificates of deposit	—	442,718	442,718
Receivables (net of allowance for uncollectibles):			
Accounts	14,014	30,375	44,389
Taxes	958,125	—	958,125
Intergovernmental	23,365	19,705	43,070
Due from other funds	174,072	94,689	268,761
Prepaid items	11,958	605	12,563
Restricted assets			
Cash and cash equivalents	<u>1,421,854</u>	<u>—</u>	<u>1,421,854</u>
Total assets	<u>\$ 10,042,843</u>	<u>\$ 1,372,781</u>	<u>\$ 11,415,624</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 398,364	\$ 1,778	\$ 400,142
Due to other funds	119,029	79,205	198,234
Accrued expenses	<u>159,903</u>	<u>—</u>	<u>159,903</u>
Total liabilities	<u>677,296</u>	<u>80,983</u>	<u>758,279</u>
Fund balances:			
Nonspendable:			
Prepaid items	11,958	605	12,563
Perpetual care	—	559,745	559,745
Restricted:			
Highways and streets	—	69,100	69,100
Committed:			
Stormwater	—	554,750	554,750
Assigned to:			
Debt service	1,124,393	—	1,124,393
Retirement benefits	35,044	—	35,044
Drug enforcement	32,405	—	32,405
Other purposes	—	139,804	139,804
Unassigned	<u>8,161,747</u>	<u>( 32,206)</u>	<u>8,129,541</u>
Total fund balances	<u>9,365,547</u>	<u>1,291,798</u>	<u>10,657,345</u>
Total liabilities and fund balances	<u>\$ 10,042,843</u>	<u>\$ 1,372,781</u>	<u>\$ 11,415,624</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, 2019**

Total fund balances - governmental funds		\$ 10,657,345
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.		14,645,407
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable	(\$ 514,821)	
Compensated absences	( 103,648)	
Accrued interest on long-term obligations	( 5,130)	
Net pension and OPEB liabilities	( <u>10,159,694</u> )	( 10,783,293)
Net deferred inflows and outflows related to pensions and OPEB		<u>1,729,885</u>
Net position of governmental activities		<u>\$ 16,249,344</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2019**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
<b>Taxes:</b>			
Property	\$ 1,096,214	\$ —	\$ 1,096,214
Occupational	2,456,405	—	2,456,405
Insurance premium	1,843,588	—	1,843,588
Franchise	95,732	—	95,732
Business license	833,930	—	833,930
Intergovernmental	186,054	186,240	372,294
Charges for sales and services	—	338,343	338,343
Interfund charges	1,049,347	—	1,049,347
Fines and forfeitures	49,364	—	49,364
Contributions and donations	—	7,750	7,750
Investment income	102,553	9,232	111,785
Miscellaneous	<u>85,870</u>	<u>495</u>	<u>86,365</u>
<b>Total revenues</b>	<u>7,799,057</u>	<u>542,060</u>	<u>8,341,117</u>
<b>Expenditures</b>			
<b>Current:</b>			
General government	1,782,648	—	1,782,648
Public safety	2,533,879	—	2,533,879
Public services	874,588	539,733	1,414,321
Community services	558,678	257,287	815,965
Capital outlay	590,904	5,530	596,434
<b>Debt service:</b>			
Principal	270,000	—	270,000
Interest	<u>25,245</u>	<u>—</u>	<u>25,245</u>
<b>Total expenditures</b>	<u>6,635,942</u>	<u>802,550</u>	<u>7,438,492</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,163,115</u>	<u>( 260,490)</u>	<u>902,625</u>
<b>Other financing sources (uses):</b>			
Transfers in	71,000	386,000	457,000
Transfers out	( 383,000)	( 74,000)	( 457,000)
Sale of capital assets	<u>17,708</u>	<u>—</u>	<u>17,708</u>
<b>Total other financing sources (uses)</b>	<u>( 294,292)</u>	<u>312,000</u>	<u>17,708</u>
Net change in fund balances	868,823	51,510	920,333
Fund balances, beginning of year	<u>8,496,725</u>	<u>1,240,289</u>	<u>9,737,014</u>
Fund balances, end of year	<u>\$ 9,365,548</u>	<u>\$ 1,291,799</u>	<u>\$ 10,657,347</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, 2019**

	<u>Total Governmental Funds</u>
Net change in fund balances - total governmental funds	\$ 920,333
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.	277,165
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	386,590
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	( 1,082,530)
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.	268,289
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated absences	\$ 765
OPEB expense	( 74,234)
Accrued interest on long-term debt	2,362
Pension expense	( 807,026)
	( 878,133)
Change in net position of governmental activities	(\$ 108,286)

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS**  
**June 30, 2019**

	<u>Enterprise Funds</u>		
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 5,799,354	\$ 393,046	\$ 6,192,400
Accounts receivable, net	648,329	118,237	766,566
Due from other funds	44,448	54,514	98,962
Inventory	200,314	—	200,314
Prepaid items	15,045	—	15,045
Restricted assets:			
Cash and cash equivalents	747,090	—	747,090
Certificates of deposit	789,814	—	789,814
Total current assets	<u>8,244,394</u>	<u>565,797</u>	<u>8,810,191</u>
Noncurrent assets:			
Capital assets:			
Land	340,416	40,114	380,530
Depreciable capital assets, net	19,439,659	—	19,439,659
Construction in progress	154,046	—	154,046
Total noncurrent assets	<u>19,934,121</u>	<u>40,114</u>	<u>19,974,235</u>
Total assets	<u>28,178,515</u>	<u>605,911</u>	<u>28,784,426</u>
<b>DEFERRED OUTFLOWS</b>			
Deferred amount on refunding bonds	95,621	—	95,621
Outflows for pensions	597,534	—	597,534
Outflows for OPEB	215,841	—	215,841
Total deferred outflows	<u>908,996</u>	<u>—</u>	<u>908,996</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS**  
**June 30, 2019**

	<u>Enterprise Funds</u>		
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Total</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 133,622	\$ 141,419	\$ 275,041
Accrued liabilities	32,328	295,613	327,941
Accrued interest	23,059	—	23,059
Accrued vacation	48,701	—	48,701
Due to other funds	152,031	17,458	169,489
Payable from restricted assets:			
Current maturities of revenue bonds payable	245,000	—	245,000
Customer deposits	<u>593,337</u>	<u>—</u>	<u>593,337</u>
Total current liabilities	<u>1,228,078</u>	<u>454,490</u>	<u>1,682,568</u>
Noncurrent liabilities:			
OPEB liability	799,059	66,520	865,579
Net pension liability	2,235,122	—	2,235,122
Revenue bonds payable	<u>4,035,424</u>	<u>—</u>	<u>4,035,424</u>
Total noncurrent liabilities	<u>7,069,605</u>	<u>66,520</u>	<u>7,136,125</u>
Total liabilities	<u>8,297,683</u>	<u>521,010</u>	<u>8,818,693</u>
<b>DEFERRED INFLOWS</b>			
Inflows for pensions	164,970	—	164,970
Inflows for OPEB	<u>148,853</u>	<u>—</u>	<u>148,853</u>
Total deferred inflows	<u>313,823</u>	<u>—</u>	<u>313,823</u>
<b>NET POSITION</b>			
Net investment in capital assets	15,815,477	40,114	15,855,591
Restricted for debt service and capital activity	1,187,063	—	1,187,063
Unrestricted	<u>3,473,465</u>	<u>44,787</u>	<u>3,518,252</u>
Total net position	<u>\$ 20,476,005</u>	<u>\$ 84,901</u>	<u>\$ 20,560,906</u>

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION - PROPRIETARY FUNDS  
Year Ended June 30, 2019**

	<u>Enterprise Funds</u>		
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 5,516,359	\$ 984,628	\$ 6,500,987
Fines and forfeitures	<u>178,029</u>	<u>23,938</u>	<u>201,967</u>
Total operating revenues	<u>5,694,388</u>	<u>1,008,566</u>	<u>6,702,954</u>
Operating expenses			
Salaries, wages and benefits	1,751,808	( 784)	1,751,024
Maintenance	265,489	733,254	998,743
Utilities	337,897	—	337,897
Administrative	700,000	209,500	909,500
Supplies	649,815	—	649,815
Other	196,621	—	196,621
Depreciation	<u>1,230,943</u>	<u>—</u>	<u>1,230,943</u>
Total operating expenses	<u>5,132,573</u>	<u>941,970</u>	<u>6,074,543</u>
Operating income	<u>561,815</u>	<u>66,596</u>	<u>628,411</u>
Nonoperating revenues (expenses):			
Investment income	32,602	1,394	33,996
Miscellaneous revenue	46,275	—	46,275
Interest and fiscal charges expense	( 152,903)	—	( 152,903)
Amortization expense	( 2,310)	—	( 2,310)
Gain (loss) on disposal of assets	<u>( 36,508)</u>	<u>—</u>	<u>( 36,508)</u>
Total nonoperating revenues (expenses)	<u>( 112,844)</u>	<u>1,394</u>	<u>( 111,450)</u>
Income before contributions	448,971	67,990	516,961
Capital contributions	<u>265,596</u>	<u>—</u>	<u>265,596</u>
Change in net position	714,567	67,990	782,557
Net position, beginning of year	<u>19,761,438</u>	<u>16,911</u>	<u>19,778,349</u>
Net position, end of year	<u>\$ 20,476,005</u>	<u>\$ 84,901</u>	<u>\$ 20,560,906</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**Year Ended June 30, 2019**

	<u>Enterprise Funds</u>		
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 5,770,470	\$ 995,642	\$ 6,766,112
Cash payments to employees and retirees	( 1,478,712)	( 4,404)	( 1,483,116)
Cash payments to suppliers	( 1,392,856)	( 776,986)	( 2,169,842)
Payments for administrative overhead	( 700,000)	( 209,500)	( 909,500)
Net cash provided by operating activities	<u>2,198,902</u>	<u>4,752</u>	<u>2,203,654</u>
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	( 747,191)	—	( 747,191)
Principal paid on bonds, notes and lease obligations	( 360,000)	—	( 360,000)
Interest paid on bonds, notes and lease obligations	( 154,203)	—	( 154,203)
Proceeds from sale of capital assets	<u>1,126</u>	<u>—</u>	<u>1,126</u>
Net cash used in capital and related financing activities	<u>( 1,260,268)</u>	<u>—</u>	<u>( 1,260,268)</u>
<b>Cash flows from investing activities</b>			
Redemption of certificates of deposit	301,701	—	301,701
Interest received	<u>32,602</u>	<u>1,394</u>	<u>33,996</u>
Net cash provided by investing activities	<u>334,303</u>	<u>1,394</u>	<u>335,697</u>
Net increase in cash and cash equivalents	1,272,937	6,146	1,279,083
Cash and cash equivalents, beginning of year	<u>5,273,507</u>	<u>386,900</u>	<u>5,660,407</u>
Cash and cash equivalents, end of year	<u>\$ 6,546,444</u>	<u>\$ 393,046</u>	<u>\$ 6,939,490</u>
<b>Reflected in the Statement of Fund Net Position -</b>			
<b>Proprietary Funds as:</b>			
Cash and cash equivalents	\$ 5,799,354	\$ 393,046	\$ 6,192,400
Restricted cash and cash equivalents	<u>747,090</u>	<u>—</u>	<u>747,090</u>
Total	<u>\$ 6,546,444</u>	<u>\$ 393,046</u>	<u>\$ 6,939,490</u>

See Notes to Financial Statements

(Continued)

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)**  
**Year Ended June 30, 2019**

		<u>Enterprise Funds</u>	
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Total</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 561,815	\$ 66,596	\$ 628,411
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,230,943	—	1,230,943
Nonoperating revenues	46,275	—	46,275
Increase in deferred outflows of resources	213,414	—	213,414
Decrease in deferred inflow of resources	97,169	—	97,169
Change in assets and liabilities:			
Increase in accounts receivable	( 32,113)	( 12,924)	( 45,037)
(Increase) decrease in due from other funds	18,147	( 52,548)	( 34,401)
Decrease in inventory and prepaid items	96,513	520	97,033
Increase (decrease) in accounts payable	( 122,033)	17,420	( 104,613)
Decrease in accrued liabilities	( 2,508)	( 1,256)	( 3,764)
Increase in accrued vacation	5,895	—	5,895
Increase in customer deposits	61,920	—	61,920
Increase (decrease) in due to other funds	64,339	( 7,868)	56,471
Decrease in OPEB liability	( 132,583)	( 5,188)	( 137,771)
Increase in pension liability	<u>91,709</u>	<u>—</u>	<u>91,709</u>
Net cash provided by operating activities	<u>\$ 2,198,902</u>	<u>\$ 4,752</u>	<u>\$ 2,203,654</u>

See Notes to Financial Statements



**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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, 2019**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Joint Ventures**

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

**B. Government-wide and Fund Financial Statements**

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

**Government-wide Financial Statements**

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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, 2019**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Special Revenue Funds**

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

**Permanent Funds**

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

**Proprietary Funds**

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

**Enterprise Funds**

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

**Water and Wastewater Fund**

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Sanitation Fund**

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

**C. Measurement Focus and Basis of Accounting**

**Government-wide and Proprietary Funds**

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

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

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

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



**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Governmental Fund Financial Statements**

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

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

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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, 2019, 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, 2019**

**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, 2019**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

**Compensated Absences**

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

**Long-term Obligations**

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Unearned Revenue**

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

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

**Deferred Inflows of Resources and Deferred Outflows of Resources**

With the implementation of GASB Statements 65 and 68, and GASB Statements 74 and 75, the City’s Statement of Net Position includes deferred inflows (or deferred outflows) of resources when appropriate. Deferred outflows of resources represent a consumption of net position that applies to a future period(s). Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). These amounts will not be recognized as expense or revenue until the applicable period.

Deferred Outflows - include the differences between reacquisition price and the net carrying amount of refunded debt obligations that is recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. In addition, it includes differences between expected and actual experience, changes of assumptions, changes in proportionate share, and differences between projected and actual earnings on investments in both pension plans and other paid employee benefit plans, and contributions to pension plans and other paid employee benefit plans made subsequent to the City’s measurement date of June 30, 2018.

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

**CITY OF FRANKLIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Balance Classification**

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

- Nonspendable fund balance—amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City ordinance). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Commission or by an official or body to which the City Commission delegates the authority.
- Unassigned fund balance—in the General fund, resources not otherwise reported as nonspendable, restricted, committed, or assigned. This classification is also used to report negative fund balance amounts in other governmental funds.

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

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



**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Position**

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

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

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

**E. Revenues, Expenditures and Expenses**

**Operating Revenues and Expenses**

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

**Interfund Activity**

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

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Use of Estimates**

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

**G. Budgetary Information**

**Budget Policy**

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

**Legal Compliance**

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

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN**

**Deposits**

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

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

At June 30, 2019, \$5,649,505 of the City's bank balances of \$17,507,576 was exposed to custodial credit risk as follows, while \$11,858,071 was covered by the FDIC:

Uninsured and collateral held by pledging financial institution	<u>\$ 5,649,505</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, 2019, 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>\$ 475,423</u>	<u>\$ 475,423</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

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

**Credit Risk** - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to limit its investments in securities issued by a state or local government or any U. S. agency or instrumentality to the top three ratings issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2019, investments in U. S. agency obligations not directly guaranteed by the U. S. government were rated AAA by Standard & Poor's.

**Concentration of Credit Risk** - The City's funds must be diversified by security type and institution with the exception of fully insured or fully collateralized investments and except for authorized investment pools, no more than 30% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution. At June 30, 2019, 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	\$17,342,600
Investments	<u>475,422</u>
	<u>\$17,818,022</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

Included in the following balance sheet captions:

**Government-wide Statement of Net Position**

Cash and cash equivalents	\$14,416,546
Certificates of deposit	442,718
Restricted assets:	
Cash and cash equivalents	1,960,389
Certificates of deposit	<u>998,369</u>
 Total	 <u>\$ 17,818,022</u>

**Investment Income**

Investment income for the year ended June 30, 2019  
consisted of:

Interest and dividend income	<u>\$ 144,387</u>
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**NOTE 3. RESTRICTED ASSETS**

The City's restricted assets are as follows as of June 30, 2019:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
<b>Governmental activities:</b>			
General Fund:			
Retiree Life fund	\$ 35,045	\$ —	\$ 35,045
Police fund	32,405	—	32,405
City of Franklin 2009 Bond Fund	1,124,393	—	1,124,393
Taeyang pledge	—	217,556	217,556
HRA/FSA fund	<u>12,455</u>	<u>—</u>	<u>12,455</u>
Total governmental activities	<u>1,204,298</u>	<u>217,556</u>	<u>1,421,854</u>
<b>Business-type activities:</b>			
Enterprise Fund			
Water and Wastewater Fund:			
Customer deposits	—	349,840	349,840
Debt service reserve	457,807	300,222	758,029
Depreciation reserve	285,787	—	285,787
Maintenance and replacement reserve	<u>12,497</u>	<u>130,751</u>	<u>143,248</u>
Total business-type activities	<u>756,091</u>	<u>780,813</u>	<u>1,536,904</u>
Total restricted assets	<u>\$ 1,960,389</u>	<u>\$ 998,369</u>	<u>\$ 2,958,758</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,740,563	\$ 317,979	(\$ 1,062,979)	\$ 995,563
Streets and sidewalks	11,211,351	386,590	—	11,597,941
Construction in progress	4,387	11,144	—	15,531
Total capital assets, not being depreciated	<u>12,956,301</u>	<u>715,713</u>	<u>( 1,062,979)</u>	<u>12,609,035</u>
Capital assets being depreciated:				
Buildings and improvements	2,066,350	6,760	( 25,200)	2,047,910
Land improvements	19,440	—	—	19,440
Vehicles	1,488,879	129,000	( 239,399)	1,378,480
Furniture, fixtures and equipment	1,463,232	131,551	( 466,588)	1,128,195
Total capital assets, being depreciated	<u>5,037,901</u>	<u>267,311</u>	<u>( 731,187)</u>	<u>4,574,025</u>
Less accumulated depreciation:				
Buildings and improvements	( 823,726)	( 51,810)	9,293	( 866,243)
Land improvements	( 1,944)	( 1,296)	—	( 3,240)
Vehicles	( 1,041,617)	( 165,094)	239,399	( 967,312)
Furniture, fixtures and equipment	( 1,062,733)	( 101,070)	462,945	( 700,858)
Total accumulated depreciation	<u>( 2,930,020)</u>	<u>( 319,270)</u>	<u>711,637</u>	<u>( 2,537,653)</u>
Total capital assets, being depreciated, net	<u>2,107,881</u>	<u>( 51,959)</u>	<u>( 19,550)</u>	<u>2,036,372</u>
Governmental activities capital assets, net	<u>\$ 15,064,182</u>	<u>\$ 663,754</u>	<u>(\$ 1,082,529)</u>	<u>\$ 14,645,407</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 383,391	\$ —	(\$ 2,861)	\$ 380,530
Construction in progress	72,540	104,146	( 22,540)	154,146
Total capital assets, not being depreciated	<u>455,931</u>	<u>104,146</u>	<u>( 25,401)</u>	<u>534,676</u>
Capital assets being depreciated:				
Utility plant	40,408,131	434,426	( 995,553)	39,847,004
Buildings	72,738	14,000	—	86,738
Furniture and equipment	3,108,780	482,755	( 927,239)	2,664,296
Vehicles	742,894	—	( 129,336)	613,558
Land improvements	39,858	2,861	—	42,719
Total capital assets being depreciated	<u>44,372,401</u>	<u>934,042</u>	<u>( 2,052,128)</u>	<u>43,254,315</u>
Less accumulated depreciation:				
Utility plant	( 21,345,974)	( 1,027,682)	990,864	( 21,382,792)
Buildings	( 67,894)	( 894)	—	( 68,788)
Furniture and equipment	( 2,625,795)	( 149,564)	894,395	( 1,880,964)
Vehicles	( 547,863)	( 49,456)	128,836	( 468,483)
Land improvements	( 10,780)	( 2,848)	—	( 13,628)
Total accumulated depreciation	<u>( 24,598,306)</u>	<u>( 1,230,444)</u>	<u>2,014,095</u>	<u>( 23,814,655)</u>
Total capital assets, being depreciated, net	<u>19,774,095</u>	<u>( 296,402)</u>	<u>( 38,033)</u>	<u>19,439,660</u>
Business-type activities capital assets, net	<u>\$ 20,230,026</u>	<u>(\$ 192,256)</u>	<u>(\$ 63,434)</u>	<u>\$ 19,974,336</u>



**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 4. CAPITAL ASSETS (Continued)**

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

**Governmental activities:**

General government	\$ 71,622
Public safety	157,153
Public works	87,986
Community and cultural	<u>2,509</u>

Total depreciation expense - governmental activities	<u>\$ 319,270</u>
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**Business-type activities:**

Water and wastewater	<u>\$ 1,230,443</u>
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**NOTE 5. LONG-TERM LIABILITIES**

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

Changes in long-term liabilities for the year ended June 30, 2019 were as follows:

	Balance <u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2019</u>	Amounts Due <u>in One Year</u>
<b>Governmental activities:</b>					
Bonds payable	\$ 795,000	\$ —	(\$ 270,000)	\$ 525,000	\$ 80,000
Less: unamortized discount	( 11,890)	—	1,711	( 10,179)	—
Bonds payable, net	<u>783,110</u>	—	( 268,289)	<u>514,821</u>	<u>80,000</u>
Total governmental activities	<u>\$ 783,110</u>	<u>\$ —</u>	<u>(\$ 268,289)</u>	<u>\$ 514,821</u>	<u>\$ 80,000</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 5. LONG-TERM LIABILITIES (Continued)**

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Amounts Due in One Year
<b>Business-type activities:</b>					
Revenue bonds	\$ 4,565,000	\$ —	(\$ 360,000)	\$ 4,205,000	\$ 245,000
Unamortized discounts, premiums, net	<u>79,650</u>	<u>—</u>	<u>( 4,225)</u>	<u>75,425</u>	<u>—</u>
Total business-type activities	<u>\$ 4,644,650</u>	<u>\$ —</u>	<u>( \$ 364,225)</u>	<u>\$ 4,280,425</u>	<u>\$ 245,000</u>
Total governmental and business-type activities	<u>\$ 5,427,760</u>	<u>\$ —</u>	<u>( \$ 632,514)</u>	<u>\$ 4,795,246</u>	<u>\$ 325,000</u>

**Governmental activities:**

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

Governmental activities long-term debt of the City consisted of the following at June 30, 2019:

**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.

\$ 525,000

**Revenue bonds**

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 5. LONG-TERM LIABILITIES (Continued)**

**Water and Wastewater Fund:**

Revenue bonds outstanding at June 30, 2019 were as follows:

	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Principal at June 30, 2019</u>
Revenue bonds, Series 2009 (A)	2.00 - 4.375%	December 1, 2024	\$ 265,000
Revenue bonds, Series 2012 (B)	2.00 - 3.75%	December 1, 2033	2,840,000
Revenue bonds, Series 2016 (C)	3.00 - 3.60%	February 1, 2037	<u>1,100,000</u>
			4,205,000
Unamortized discounts, premiums, net			<u>75,425</u>
Total revenue bonds payable - business-type activities			<u>\$ 4,280,425</u>

- (A) \$1,545,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009, dated October 13, 2009; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on December 1 in annual installments of \$125,000 to \$160,000 through 2024; interest payable semi-annually on June 1 and December 1; issued to currently refund certain outstanding lease purchase obligations and finance the construction of improvements to City's water and sewer system; secured by water and sewer system revenues.
- (B) \$3,860,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding Bonds, Series 2012, dated July 24, 2012; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on December 1 in annual installments of \$135,000 to \$230,000 through 2033; interest payable semi-annually on June 1 and December 1; issued to currently refund the City's outstanding Water and Sewer Revenue Bonds, Series 2004; secured by water and sewer system revenues.
- (C) \$1,190,000 Kentucky Bond Corporation Revenue Lease, dated November 30, 2016; City of Franklin, Kentucky portion of Kentucky Bond Corporation Financing Program Revenue Bonds, Series 2016D; maturing on February 1 in annual installments of \$45,000 to \$80,000 through 2037; interest at 3% to 3.5% payable semi-annually on February 1 and August 1; issued to finance water and sewer system improvements; secured by water and sewer system revenues.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 5. LONG-TERM LIABILITIES (Continued)**

**Annual Debt Service Requirements**

The annual requirements to amortize long-term debt outstanding as of June 30, 2019 are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities		Government-Wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 80,000	\$ 19,040	\$ 245,000	\$ 131,756	\$ 325,000	\$ 150,796
2021	80,000	16,080	250,000	125,206	330,000	141,286
2022	85,000	12,900	255,000	118,006	340,000	130,906
2023	90,000	9,400	265,000	110,497	355,000	119,897
2024	190,000	7,600	270,000	102,566	460,000	110,166
2025 - 2029	—	—	1,265,000	394,863	1,265,000	394,863
2030 - 2034	—	—	1,425,000	178,034	1,425,000	178,034
2035 - 2037	—	—	230,000	16,275	230,000	16,275
	<u>\$ 525,000</u>	<u>\$ 65,020</u>	<u>\$ 4,205,000</u>	<u>\$ 1,177,203</u>	<u>\$ 4,730,000</u>	<u>\$ 1,242,223</u>

**NOTE 6. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payable as of June 30, 2019 are as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	\$ 174,072	\$ 119,029
Special Revenue Funds:		
Economic Development Revolving Loan Fund	50,993	—
Municipal Aid Fund	—	7,917
Greenlawn Shady Rest Cemetery Fund	15,505	23,123
Community Development Fund	—	32,206
Stormwater Fund	28,191	15,709
Permanent Fund		
Greenlawn Shady Rest Perpetual Fund	—	250
Total governmental funds	<u>268,761</u>	<u>198,234</u>
Proprietary Funds:		
Water and Wastewater Fund	44,448	152,031
Sanitation Fund	<u>54,514</u>	<u>17,458</u>
Total proprietary funds	<u>98,962</u>	<u>169,489</u>
	<u>\$ 367,723</u>	<u>\$ 367,723</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 6. INTERFUND RECEIVABLES AND PAYABLES (Continued)**

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

**NOTE 7. INTERFUND TRANSFERS**

Interfund transfers for the year ending June 30, 2019 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 71,000	\$ 383,000
Special Revenue Fund		
Economic Development Revolving Loan Fund	—	71,000
Municipal Aid Fund	100,000	—
Greenlawn Shady Rest Cemetery Fund	186,000	—
Stormwater Fund	100,000	—
Permanent Fund		
Greenlawn-Shady Rest Cemetery Perpetual Fund	—	3,000
Total governmental funds	<u>\$ 457,000</u>	<u>\$ 457,000</u>

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

**NOTE 8. RETIREMENT PLAN**

**County Employees Retirement System**

**Plan Description**

The County Employees Retirement System (CERS) is a cost sharing multiple-employer defined benefit pension plan created by the Kentucky General Assembly, pursuant to the provisions of Kentucky Revised Statute Section 78.520. CERS is administered by the Board of Trustees of Kentucky Retirement Systems (KRS), pursuant to Kentucky Revised Statute Section 61.645, and covers substantially all regular full-time City employees (members) employed in nonhazardous and hazardous duty positions. The KRS issues a publicly available annual report that includes financial statements and required supplementary information for CERS. That report may be obtained at <https://kyret.ky.gov>.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 8. RETIREMENT PLAN (Continued)**

**Benefits Provided**

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

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



**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 8. RETIREMENT PLAN (Continued)**

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

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

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 8. RETIREMENT PLAN (Continued)**

**Contributions**

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

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

For the year ended June 30, 2019, the City contributed 21.48% (nonhazardous – 16.22% pension; 5.26% insurance) and 35.34% (hazardous – 24.87% pension; 10.47% insurance) of each employee's creditable compensation to CERS, in accordance with its actuarially determined contribution rate. The City's employer's contributions to CERS for pension benefits for the year ended June 30, 2019 were \$614,767.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 8. RETIREMENT PLAN (Continued)**

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

At June 30, 2019, the City reported a liability of \$9,999,688 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and rolled-forward using generally accepted actuarial principles. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the City's proportion was 0.087888% (non-hazardous), a decrease of 0.002432% from its proportion measured as of June 30, 2017, and 0.192149% (hazardous), a decrease of .001283% from its proportion as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$1,665,455. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 544,414	\$ 78,351
Difference between expected and actual experience	421,146	537,743
Change of assumptions	1,017,771	—
Change in proportion and differences between employer contributions and proportionate share of contributions	41,829	115,044
Contributions subsequent to the measurement date of June 30, 2018	<u>614,767</u>	<u>—</u>
Total	<u>\$ 2,639,927</u>	<u>\$ 731,138</u>

The amount shown above for "contributions subsequent to the measurement date of June 30, 2018," will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

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

Year Ended June 30:	
2020	\$ 985,903
2021	458,438
2022	( 100,606)
2023	<u>( 49,713)</u>
	<u>\$ 1,294,022</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 8. RETIREMENT PLAN (Continued)**

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

*Actuarial assumptions.* The total pension liability as of June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30 %
Salary increases	3.05 % average, including inflation.
Investment rate of return	6.25 %, net of pension plan investment expense, including inflation.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

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

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 8. RETIREMENT PLAN (Continued)**

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

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

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

*Discount rate.* The discount rate used to measure the total pension liability was 6.25% for the year ended June 30, 2018. The projection of cash flows used to determine the discount rate assumed that participating employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 8. RETIREMENT PLAN (Continued)**

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the City calculated using the discount rate of 6.25%, as well as the net pension liability if calculated using a discount rate that is 1-percentage-point lower (5.25 %) or 1-percentage-point higher (7.25 %) than the current rate:

	1% Decrease <u>(5.25%)</u>	Current Discount Rate (6.25%)	1% Increase <u>(7.25%)</u>
City of Franklin's net pension liability			
Hazardous	\$ 5,822,438	\$ 4,647,041	\$ 3,675,355
Nonhazardous	<u>6,738,428</u>	<u>5,352,647</u>	<u>4,191,605</u>
Total	<u>\$ 12,560,866</u>	<u>\$ 9,999,688</u>	<u>\$ 7,866,960</u>

**Pension Plan Fiduciary Net Position**

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

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

**Kentucky Retirement Systems' Insurance Fund**

**Plan Description**

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The Insurance Fund is administered by the Board of Trustees of Kentucky Retirement Systems (KRS), pursuant to Kentucky Revised Statute Section 61.645, and covers substantially all regular full-time City employees (members) employed in nonhazardous and hazardous duty positions. The KRS issues a publicly available annual report that includes financial statements and required supplementary information. That report may be obtained at <https://kyret.ky.gov>.

*Benefits provided.* The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty.



**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

*Contributions.* Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2019 was 5.26% of covered payroll. Contributions to the Insurance Fund from the City were \$223,998 for the year ended June 30, 2019. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2018. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2019, the City's proportion was 0.087895% (non-hazardous) and 0.192160% (hazardous).

**Net OPEB Liability**

At June 30, 2019, the City reported a liability of \$2,930,581 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

actuarial valuation as of June 30, 2017 and rolled-forward using generally accepted actuarial principles. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the Insurance Fund relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the City's proportion was .087895% (non-hazardous), a decrease of .002425% from its proportion measured as of June 30, 2017, and 0.192160% (hazardous), a decrease of .001272% from its proportion as of June 30, 2017.

*Actuarial assumptions.* The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actual assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30%
Salary increases	3.05%, average
Investment rate of return	6.25%
Healthcare cost trend rates (Pre-65)	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to ultimate trend rate of 4.05% over a period of 12 years.
Healthcare cost trend rates (Post-65)	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2019, is determined using these updated benefit provisions.

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

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

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

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

*Discount rate.* The discount rate used to measure the total OPEB liability was 5.85% for non-hazardous and 5.97% for hazardous employees. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (25 years as of June 30, 2018).

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

**Changes in the Net OPEB Liability**

*Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the discount rate.* The following presents the City's proportionate share of the collective net OPEB liabilities, calculated using discount rates of 5.97% (hazardous) and 5.85% (nonhazardous), as well as what the City's proportionate share of the collective net OPEB liabilities would be if it were calculated using a discount rate that is 1 percentage point lower (6.97% and 4.85%), respectively, or 1 percentage point higher (4.85% and 6.85%), respectively, than the current discount rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
City of Franklin's net OPEB liability			
Hazardous	\$ 1,904,399	\$ 1,370,023	\$ 942,241
Nonhazardous	<u>2,026,915</u>	<u>1,560,558</u>	<u>1,163,308</u>
Total	<u>\$ 3,931,314</u>	<u>\$ 2,930,581</u>	<u>\$ 2,105,549</u>

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

	<u>1% Decrease</u>	<u>Current Health-care Cost Trend Rates</u>	<u>1% Increase</u>
City of Franklin's net OPEB liability			
Hazardous	\$ 933,052	\$ 1,370,023	\$ 1,911,230
Nonhazardous	<u>1,161,851</u>	<u>1,560,558</u>	<u>2,030,519</u>
Total	<u>\$ 2,094,903</u>	<u>\$ 2,930,581</u>	<u>\$ 3,941,749</u>

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

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

For the year ended June 30, 2019, the City recognized OPEB expense of \$416,952. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:



**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ —	\$ 334,966
Changes of assumptions	732,089	7,354
Net difference between projected and actual earnings on OPEB plan investments	—	237,737
Changes in proportion and difference between employer contributions and proportionate share of contributions	—	55,382
Contributions subsequent to the measurement date of June 30, 2018	<u>223,998</u>	<u>—</u>
Total	<u>\$ 956,087</u>	<u>\$ 635,439</u>

The amount shown above for “contributions subsequent to the measurement date of June 30, 2018,” will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019, related to OPEB, are recognized in OPEB expense as follows:

Year ended June 30,	
2020	\$ 76,075
2021	76,075
2022	459
2023	( 21,501)
2024	( 21,913)
Thereafter	<u>( 12,545)</u>
	<u>\$ 96,650</u>

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

In addition to the other post-employment benefits provided by the City through the Kentucky Retirement Systems’ Insurance Fund, described above, the City also maintains an informal retirement plan authorized by the Mayor/Commission. The City does not issue a separate, publicly available OPEB financial report. City employees who retired prior to May 1, 1988, plus employees/spouses who retired after May 1, 1988 but who elected not to participate in the CERS plan (above), are paid a \$100 per month retirement benefit. Eighteen retired City employees are currently covered under the plan. Retirement benefits are financed on a pay as you go basis. Payments under the plan totaled \$17,500 for the year ended June 30, 2019.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

In addition to providing retirement benefits, the City also provides certain health care and life insurance benefits for these retired employees and their spouses. The cost of the retiree health care and life insurance benefits is borne 100% by the City and is financed on a pay as you go basis. For the year ended June 30, 2019, payments under the plan totaled \$67,742.

At June 30, 2019, the City reported a total OPEB liability of \$330,124. The City's total OPEB liability was measured as of June 30, 2019 and was calculated by the City using the alternative measurement method permitted by GASB Statement 75 for employers in OPEB plans with fewer than 100 employees as of the beginning of the measurement period.

The following simplifying assumptions were made:

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

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

*Healthcare cost trend rate* - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services' long-term healthcare trends analysis model. A rate of 4.80% per year initially, reduced to an ultimate rate of 4.50% per year.

*Discount rate* - The discount rate used to measure the total OPEB liability was 3.19%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019. No assets have been accumulated in an irrevocable trust, so the municipal rate has been applied to all periods. The discount rate was 3.62% for the June 30, 2018 measurement date.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

**Changes in the Total OPEB Liability**

*Sensitivity of the City's total OPEB liability to changes in the discount rate.* The following presents the City's total OPEB liability as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.19%) or 1 percentage point higher (4.19%) than the current discount rate:

	<u>1% Decrease</u> <u>(2.13%)</u>	<u>Discount Rate</u> <u>(3.13%)</u>	<u>1% Increase</u> <u>(4.13%)</u>
City of Franklin's total OPEB liability	<u>\$ 340,851</u>	<u>\$ 330,124</u>	<u>\$ 320,001</u>

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
City of Franklin's total OPEB liability	<u>\$ 321,505</u>	<u>\$ 330,124</u>	<u>\$ 339,090</u>

**NOTE 11. DEFERRED COMPENSATION PLAN**

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

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or \$19,000 for 2019, whichever is less. During the fiscal year ending June 30, 2019, contributions made on behalf of employees totaled \$76,718.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 12. SOLID WASTE COLLECTION FRANCHISE AGREEMENTS**

**Commercial and Residential**

On September 30, 2013, the City entered into an exclusive commercial and residential franchise agreement with Scott Waste Services, LLC (franchisee), for the collection of residential and commercial solid waste and wastewater treatment plant waste in the City. Pursuant to franchise agreement for residential services, the City shall withhold 10% of the monthly gross receipts (franchise fee) received by the City from utility bill payments attributable to operations conducted by franchisee. In addition, City shall withhold 3% of the monthly gross receipts as a collection fee for its billing and collection services provided. For commercial services, the franchisee shall bill all commercial and industrial customers and pay to the City a fee of 10% of collected gross receipts for commercial and industrial services. The franchise agreement was for a five-year period beginning October 1, 2013 and ending September 30, 2018. On August 15, 2019, the City entered into an amended and restated franchise agreement with Scott Waste Services, LLC. See Note 19 – Subsequent Events.

**Industrial**

In September, 2013, the City entered into non-exclusive industrial franchise agreements with franchisees for the collection of industrial solid waste in the City and/or industrial parks located therein. The industrial franchisee must remit to the City monthly 10% of the gross receipts received attributable to its operations in the industrial franchise area. The franchise agreements were for a five-year period beginning October 1, 2013 and ending September 30, 2018. On August 15, 2019, the City entered into an amended and restated franchise agreement with Scott Waste Services, LLC. See Note 19 – Subsequent Events.

**NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION**

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

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)**

**Fire Station and Equipment**

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

**Personnel**

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

**Financial Contributions**

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

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

**Term**

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



**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 14. RISK MANAGEMENT**

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

**NOTE 15. CONTINGENCIES**

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

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2019 may be impaired. In the opinion of the City, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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, 2019, there were two series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$111,111,682.

**NOTE 17. TAX ABATEMENTS**

The City participates, along with the Commonwealth of Kentucky, in the Kentucky Business Investment Program ("KBI"). KBI provides a wage incentive of up to 1% of the gross wages of each employee for qualified businesses in the City. An eligible company must be engaged in one of the following activities: manufacturing, agribusiness, regional or national headquarters operations, or certain nonretail service or technology activities. The minimum requirements for an eligible project are: create a minimum of 10 new, full-time jobs for Kentucky residents, incur at least \$100,000 in eligible costs, and meet a minimum level of wages and benefits. The tax incentives involved with this program are available for up to 10 years. The authority for this program is established in KRS 154.32. For the year ended June 30, 2019, City tax abatements were approximately \$137,000 relating to the City's participation in the KBI program.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 18. RECENT PRONOUNCEMENTS**

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

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

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 18. RECENT PRONOUNCEMENTS (Continued)**

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

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

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

**NOTE 19. SUBSEQUENT EVENTS**

**Amended and Restated Franchise Agreement**

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 19. SUBSEQUENT EVENTS (Continued)**

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

**Bond Redemptions**

On December 1, 2019, the City redeemed the outstanding principal amount and accrued interest of its General Obligation Public Project Refunding and Improvement Bonds, Series 2009, dated October 13, 2009. The principal amount of bonds maturing on October 1 of years 2020 through 2024 totaling \$445,000 were redeemed plus accrued interest of \$2,927.

In addition, on December 1, 2019, the City redeemed the outstanding principal amount and accrued interest of its Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009, dated October 13, 2009. The principal amount of bonds maturing on December 1 of years 2021 through 2024 totaling \$265,000 were redeemed plus accrued interest of \$5,563.



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

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**General Fund**

**Year Ended June 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Taxes	\$ 962,580	\$ 1,022,395	\$ 1,096,214	\$ 73,819
Occupational taxes	2,338,255	2,332,855	2,456,405	123,550
Insurance premium taxes	1,607,000	1,767,000	1,843,588	76,588
Business license taxes	676,650	729,150	833,930	104,780
Franchise taxes	96,200	87,950	95,732	7,782
Intergovernmental	169,001	242,864	186,055	56,809
Interfund charges	1,049,346	1,049,346	1,049,346	—
Fines and forfeitures	70,500	55,500	49,364	( 6,136)
Miscellaneous	<u>159,651</u>	<u>190,742</u>	<u>188,423</u>	<u>( 2,319)</u>
Total revenues	<u>7,129,183</u>	<u>7,477,802</u>	<u>7,799,057</u>	<u>321,255</u>
<b>Expenditures</b>				
General government:				
Legislative:				
Personal services	124,460	124,427	128,015	( 3,588)
Contractual services	13,570	20,275	25,664	( 5,389)
Materials and supplies	950	950	1,850	( 900)
Other	<u>17,100</u>	<u>21,600</u>	<u>21,076</u>	<u>524</u>
Total legislative	<u>156,080</u>	<u>167,252</u>	<u>176,605</u>	<u>( 9,353)</u>
Administrative:				
Personal services	531,980	531,924	535,885	( 3,961)
Contractual services	45,245	33,743	35,700	( 1,957)
Materials and supplies	8,050	11,950	9,899	2,051
Other	<u>9,500</u>	<u>10,110</u>	<u>8,480</u>	<u>1,630</u>
Total administrative	<u>594,775</u>	<u>587,727</u>	<u>589,964</u>	<u>( 2,237)</u>
Finance and accounting:				
Personal services	563,958	529,614	536,253	( 6,639)
Contractual services	135,840	130,755	118,406	12,349
Materials and supplies	99,000	91,550	69,778	21,772
Other	<u>10,750</u>	<u>12,150</u>	<u>9,816</u>	<u>2,334</u>
Total finance and accounting	<u>809,548</u>	<u>764,069</u>	<u>734,253</u>	<u>29,816</u>
Risk management:				
Personal services	217,460	203,454	214,789	( 11,335)
Contractual services	14,500	12,000	12,000	—
Materials and supplies	3,500	3,500	3,674	( 174)
Other	<u>50,235</u>	<u>55,981</u>	<u>51,363</u>	<u>4,618</u>
Total risk management	<u>285,695</u>	<u>274,935</u>	<u>281,826</u>	<u>( 6,891)</u>
Total general government	<u>1,846,098</u>	<u>1,793,983</u>	<u>1,782,648</u>	<u>11,335</u>

See Independent Auditor's Report

**CITY OF FRANKLIN, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**General Fund**  
**Year Ended June 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Public safety:				
Police department:				
Administration:				
Personal services	\$ 232,754	\$ 236,196	\$ 241,924	(\$ 5,728)
Contractual services	5,952	6,097	3,637	2,460
Materials and supplies	2,625	3,500	2,934	566
Other	<u>3,585</u>	<u>2,085</u>	<u>637</u>	<u>1,448</u>
Total administration	<u>244,916</u>	<u>247,878</u>	<u>249,132</u>	<u>( 1,254)</u>
Patrol:				
Personal services	1,806,052	1,673,550	1,664,182	9,368
Contractual services	61,150	99,850	92,799	7,051
Materials and supplies	73,225	70,750	72,076	( 1,326)
Other	<u>17,655</u>	<u>8,850</u>	<u>3,477</u>	<u>5,373</u>
Total patrol	<u>1,958,082</u>	<u>1,853,000</u>	<u>1,832,534</u>	<u>20,466</u>
Non-sworn personnel:				
Personal services	77,834	87,380	86,638	742
Contractual services	85,644	85,066	82,054	3,012
Materials and supplies	12,800	10,800	8,426	2,374
Other	<u>581</u>	<u>581</u>	<u>250</u>	<u>331</u>
Total non-sworn personnel	<u>176,859</u>	<u>183,827</u>	<u>177,368</u>	<u>6,459</u>
Total police department	<u>2,379,857</u>	<u>2,284,705</u>	<u>2,259,034</u>	<u>25,671</u>
Fire department:				
Inspection and administration:				
Contractual services	<u>1,300</u>	<u>1,300</u>	<u>437</u>	<u>863</u>
Firefighting:				
Contractual services	<u>273,065</u>	<u>273,065</u>	<u>274,408</u>	<u>( 1,343)</u>
Total fire department	<u>274,365</u>	<u>274,365</u>	<u>274,845</u>	<u>( 480)</u>
Total public safety	<u>2,654,222</u>	<u>2,559,070</u>	<u>2,533,879</u>	<u>25,191</u>

See Independent Auditor's Report

**CITY OF FRANKLIN, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**General Fund**  
**Year Ended June 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Public services:				
Public works:				
Personal services	\$ 532,128	\$ 515,110	\$ 523,747	(\$ 8,637)
Contractual services	175,323	179,137	164,735	14,402
Materials and supplies	116,100	114,950	98,391	16,559
Other	<u>4,500</u>	<u>2,100</u>	<u>1,046</u>	<u>1,054</u>
Total public works	<u>828,051</u>	<u>811,297</u>	<u>787,919</u>	<u>23,378</u>
Code enforcement:				
Personal services	78,377	77,221	79,318	( 2,097)
Contractual services	4,380	4,074	2,125	1,949
Materials and supplies	9,118	2,550	1,687	863
Other	<u>6,600</u>	<u>3,910</u>	<u>3,540</u>	<u>370</u>
Total code enforcement	<u>98,475</u>	<u>87,755</u>	<u>86,670</u>	<u>1,085</u>
Total public services	<u>926,526</u>	<u>899,052</u>	<u>874,589</u>	<u>24,463</u>
Community services:				
Economic development	269,594	346,634	333,497	13,137
Parks and recreation	<u>225,000</u>	<u>225,000</u>	<u>225,180</u>	( 180)
Total community services	<u>494,594</u>	<u>571,634</u>	<u>558,677</u>	<u>12,957</u>
Capital outlay:				
Vehicles	94,200	160,873	129,000	31,873
Equipment	117,850	98,635	103,521	( 4,886)
Land and improvements	—	460,334	329,123	131,211
Buildings	8,000	33,860	29,260	4,600
Reserve for capital improvement	<u>117,500</u>	<u>217,600</u>	<u>—</u>	<u>217,600</u>
Total capital outlay	<u>337,550</u>	<u>971,302</u>	<u>590,904</u>	<u>380,398</u>
Debt service:				
Principal	270,000	270,000	270,000	—
Interest	<u>25,245</u>	<u>25,245</u>	<u>25,245</u>	<u>—</u>
Total debt service	<u>295,245</u>	<u>295,245</u>	<u>295,245</u>	<u>—</u>
Total expenditures	<u>6,554,235</u>	<u>7,090,286</u>	<u>6,635,942</u>	<u>454,344</u>

See Independent Auditor's Report

**CITY OF FRANKLIN, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**General Fund**  
**Year Ended June 30, 2019**

	<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>574,948</u>	\$ <u>387,516</u>	\$ <u>1,163,115</u>	\$ <u>775,599</u>
Other financing sources (uses):				
Sale of capital assets	5,000	5,000	17,708	12,708
Transfers in	48,500	48,500	71,000	22,500
Transfers out	( <u>383,000</u> )	( <u>383,000</u> )	( <u>383,000</u> )	<u>—</u>
Total other financing sources (uses)	( <u>329,500</u> )	( <u>329,500</u> )	( <u>294,292</u> )	<u>35,208</u>
Net change in fund balance	245,448	58,016	868,823	810,807
Fund balances, beginning of year	<u>8,496,725</u>	<u>8,496,725</u>	<u>8,496,725</u>	<u>—</u>
Fund balances, end of year	\$ <u>8,742,173</u>	\$ <u>8,554,741</u>	\$ <u>9,365,548</u>	\$ <u>810,807</u>

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# CITY OF FRANKLIN, KENTUCKY

## Infrastructure Condition and Maintenance Data June 30, 2019

### 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					
		2019		2017		2016	
	OCI Condition Rating	Square Feet	%	Square Feet	%	Square Feet	%
Acceptable	75 - 100	4,162,508	79.66	4,215,587	84.09	3,765,426	79.31
Marginally deficient	50 - 74	770,049	14.74	643,425	12.83	982,154	20.69
Moderately deficient	25 - 49	292,922	5.60	154,144	3.08	—	—
Severely deficient	0 - 24	—	—	—	—	—	—
Total		<u>5,225,479</u>	<u>100.00</u>	<u>5,013,156</u>	<u>100.00</u>	<u>4,747,580</u>	<u>100.00</u>

		Comparison of Estimated-to-Actual Maintenance/Preservation				
		2019	2018	2017	2016	2015
Original estimate		\$ 396,607	\$ 183,465	\$ 152,901	\$ 272,226	\$ 243,770
Actual		\$ 336,616	\$ 143,844	\$ 105,261	\$ 250,387	\$ 222,785

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

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

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

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

See Independent Auditor's Report

**CITY OF FRANKLIN, KENTUCKY**

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

	2019	2018	2017	2016	2015
Total net pension liability for County Employees Retirement Systems	\$ 8,508,762,000	\$ 8,090,585,976	\$ 6,639,559,678	\$ 5,834,631,445	\$ 4,446,199,755
City's proportion of the net pension liability	.1175%	.1188%	.1156%	.1150%	.1166%
City's proportionate share of the net pension liability	\$ 9,999,688	\$ 9,614,320	\$ 7,677,024	\$ 6,708,131	\$ 5,186,001
City's covered payroll	\$ 3,480,555	\$ 3,378,134	\$ 3,253,039	\$ 3,205,636	\$ 3,162,531
City's proportionate share of the net pension liability as a percentage of its covered payroll	287.30%	284.60%	236.00%	209.26%	163.98%
Plan fiduciary net position as a percentage of the total pension liability	52.40%	52.40%	59.11%	59.35%	65.96%

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

See Independent Auditor's Report

**CITY OF FRANKLIN, KENTUCKY**

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

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

Notes to Schedule:

Valuation date	June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, closed
Remaining amortization period	27 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.0%, average
Investment rate of return	7.50%

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

See Independent Auditor's Report

**CITY OF FRANKLIN, KENTUCKY**

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

	2019	2018
Total net OPEB liability for County Employees' Retirement Systems	\$ 2,488,439,000	\$ 2,837,013,635
City's proportion of the net OPEB liability (asset)	.1178%	.1204%
City's proportionate share of the net OPEB liability (asset)	\$ 2,930,581	\$ 3,414,788
City's covered payroll	\$ 3,480,555	\$ 3,378,134
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	84.20%	101.09%
Total pension plan's fiduciary net position	\$ 3,695,108,000	\$ 3,401,537,049
Total pension plan's OPEB liability	\$ 6,183,547,000	\$ 6,288,550,680
Total pension plan's fiduciary net position as a percentage of the total OPEB liability	59.76%	54.52%

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

Additional years will be reported as incurred.

Note: The County Employer's Retirement System measurement date is 12 months prior to the City's Financial Statements, the 2019 measurement date is 06/30/18.

See Independent Auditor's Report

# CITY OF FRANKLIN, KENTUCKY

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

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

Notes to Schedule:

Valuation date	June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.0%, average
Investment rate of return	7.50%
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post-65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

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

See Independent Auditor's Report



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

	2019	2018	2017
Total OPEB liability	<u>\$ 330,124</u>	<u>\$ 427,987</u>	<u>\$ 515,756</u>

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

See Independent Auditor's Report

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

	2019	2018	2017
City OPEB contributions	<u>\$ 85,242</u>	<u>\$ 102,886</u>	<u>\$ 122,400</u>

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

See Independent Auditor's Report

## **SUPPLEMENTARY INFORMATION**

## **Nonmajor Governmental Funds**

### **Special Revenue Funds**

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

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

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

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

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

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

### **Permanent Funds**

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

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

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

**CITY OF FRANKLIN, KENTUCKY**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2019**

	<u>Special Revenue</u>					
	<u>Cemetery</u>	<u>Community Development</u>	<u>Municipal Aid</u>	<u>Economic Development</u>	<u>Stormwater</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 92,406	\$ —	\$ 57,312	\$ —	\$ 518,295	\$ 668,013
Certificates of deposit	—	—	—	—	—	—
Receivables (net of allowance for uncollectibles):						
Accounts	4,890	—	—	—	24,885	29,775
Intergovernmental	—	—	19,705	—	—	19,705
Due from other funds	15,505	—	—	50,993	28,191	94,689
Prepaid items	<u>570</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>35</u>	<u>605</u>
Total assets	<u>\$ 113,371</u>	<u>\$ —</u>	<u>\$ 77,017</u>	<u>\$ 50,993</u>	<u>\$ 571,406</u>	<u>\$ 812,787</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 866	\$ —	\$ —	\$ —	\$ 912	\$ 1,778
Due to other funds	<u>23,123</u>	<u>32,206</u>	<u>7,917</u>	<u>—</u>	<u>15,709</u>	<u>78,955</u>
Total liabilities	<u>23,989</u>	<u>32,206</u>	<u>7,917</u>	<u>—</u>	<u>16,621</u>	<u>80,733</u>
Fund balances:						
Nonspendable:						
Prepaid items	570	—	—	—	35	605
Perpetual care	—	—	—	—	—	—
Restricted						
Highway and streets	—	—	69,100	—	—	69,100
Committed						
Stormwater	—	—	—	—	554,750	554,750
Assigned to:						
Other purposes	88,812	—	—	50,993	—	139,805
Unassigned	<u>—</u>	<u>( 32,206)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>( 32,206)</u>
Total fund balances	<u>89,382</u>	<u>( 32,206)</u>	<u>69,100</u>	<u>50,993</u>	<u>554,785</u>	<u>732,054</u>
Total liabilities and fund balances	<u>\$ 113,371</u>	<u>\$ —</u>	<u>\$ 77,017</u>	<u>\$ 50,993</u>	<u>\$ 571,406</u>	<u>\$ 812,787</u>

See Independent Auditor's Report



<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Perpetual</u>	
\$ 116,677	\$ 784,690
442,718	442,718
600	30,375
—	19,705
—	94,689
—	605
<u>\$ 559,995</u>	<u>\$ 1,372,782</u>
\$ —	\$ 1,778
<u>250</u>	<u>79,205</u>
<u>250</u>	<u>80,983</u>
—	605
559,745	559,745
—	69,100
—	554,750
—	139,805
<u>—</u>	<u>( 32,206)</u>
<u>559,745</u>	<u>1,291,799</u>
<u>\$ 559,995</u>	<u>\$ 1,372,782</u>

**CITY OF FRANKLIN, KENTUCKY**

**COMBINING BALANCE SHEET  
NONMAJOR PERMANENT FUNDS**

**June 30, 2019**

	<u>Francis Harris Cemetery Perpetual</u>	<u>Greenlawn- Shady Rest Cemetery Perpetual</u>	<u>Total Nonmajor Permanent Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,104	\$ 103,927	\$ 106,031
Certificates of deposit	50,000	390,610	440,610
Accounts receivable	<u>—</u>	<u>600</u>	<u>600</u>
 Total assets	 <u>\$ 52,104</u>	 <u>\$ 495,137</u>	 <u>\$ 547,241</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Due to other funds	\$ —	\$ 250	\$ 250
Fund balances			
Nonspendable:			
Cemetery maintenance	52,629	—	52,629
Perpetual care	<u>—</u>	<u>507,116</u>	<u>507,116</u>
 Total fund balances	 <u>52,629</u>	 <u>507,116</u>	 <u>559,745</u>
 Total liabilities and fund balances	 <u>\$ 52,629</u>	 <u>\$ 507,366</u>	 <u>\$ 559,995</u>

See Independent Auditor's Report

**CITY OF FRANKLIN, KENTUCKY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2019**

	<u>Special Revenue</u>					
	<u>Cemetery</u>	<u>Community Development</u>	<u>Municipal Aid</u>	<u>Economic Development</u>	<u>Stormwater</u>	<u>Total</u>
<b>Revenues</b>						
Intergovernmental	\$ —	\$ —	\$ 186,240	\$ —	\$ —	\$ 186,240
Charges for sales and services	85,050	—	—	—	253,293	338,343
Contributions	—	—	—	—	—	—
Investment income	699	—	459	—	790	1,948
Total revenues	85,749	—	186,699	—	254,083	526,531
<b>Expenditures</b>						
Current:						
Public works	—	—	355,819	—	183,914	539,733
Community services	257,262	—	—	—	—	257,262
Capital outlay	5,000	—	—	—	530	5,530
Total expenditures	262,262	—	355,819	—	184,444	802,525
Excess (deficiency) of revenues over (under) expenditures	( 176,513)	—	( 169,120)	—	69,639	( 275,994)
<b>Other financing sources (uses):</b>						
Transfers in	186,000	—	100,000	—	100,000	386,000
Transfers out	—	( 71,000)	—	—	—	( 71,000)
Total other financing sources (uses)	186,000	( 71,000)	100,000	—	100,000	315,000
Net change in fund balances	9,487	( 71,000)	( 69,120)	—	169,639	39,006
Fund balances, beginning of year	79,895	38,794	138,220	50,993	385,146	693,048
Fund balances, end of year	\$ 89,382	( \$ 32,206)	\$ 69,100	\$ 50,993	\$ 554,785	\$ 732,054

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<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Perpetual</u>	
\$ —	\$ 186,240
—	338,343
7,750	7,750
<u>7,779</u>	<u>9,727</u>
<u>15,529</u>	<u>542,060</u>
—	539,733
25	257,287
<u>—</u>	<u>5,530</u>
<u>25</u>	<u>802,550</u>
<u>15,504</u>	<u>( 260,490)</u>
—	386,000
<u>( 3,000)</u>	<u>( 74,000)</u>
<u>( 3,000)</u>	<u>312,000</u>
12,504	51,510
<u>547,241</u>	<u>1,240,289</u>
<u>\$ 559,745</u>	<u>\$ 1,291,799</u>

**CITY OF FRANKLIN, KENTUCKY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR PERMANENT FUNDS  
Year Ended June 30, 2019**

	Francis Harris Cemetery <u>Perpetual</u>	Greenlawn- Shady Rest Cemetery <u>Perpetual</u>	Total Nonmajor Permanent <u>Funds</u>
Revenues			
Investment income	\$ 550	\$ 7,229	\$ 7,779
Contributions	<u>—</u>	<u>7,750</u>	<u>7,750</u>
Total revenues	550	14,979	15,529
Expenditures			
Current:			
Community services	<u>25</u>	<u>—</u>	<u>25</u>
Excess of revenues over expenditures	525	14,979	15,504
Other financing uses			
Transfers out	<u>—</u>	( <u>3,000</u> )	( <u>3,000</u> )
Net change in fund balance	525	11,979	12,504
Fund balance, beginning of year	<u>52,104</u>	<u>495,137</u>	<u>547,241</u>
Fund balance, end of year	<u>\$ 52,629</u>	<u>\$ 507,116</u>	<u>\$ 559,745</u>

See Independent Auditor's Report



**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE  
Greenlawn - Shady Rest Cemetery Special Revenue Fund  
Year Ended June 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Charges for sales and services	\$ 72,000	\$ 81,300	\$ 85,050	\$ 3,750
Investment income	75	175	204	29
Miscellaneous	<u>450</u>	<u>450</u>	<u>495</u>	<u>45</u>
Total revenues	<u>72,525</u>	<u>81,925</u>	<u>85,749</u>	<u>3,824</u>
<b>Expenditures</b>				
Current:				
Community services:				
Personal services	9,051	9,148	9,148	—
Contractual services	191,970	193,052	192,905	147
Materials and supplies	2,717	2,267	2,098	169
Administrative overhead	44,846	44,846	44,846	—
Other	<u>7,296</u>	<u>7,299</u>	<u>8,265</u>	<u>( 966)</u>
Total community services	255,880	256,612	257,262	( 650)
Capital outlay	<u>—</u>	<u>5,000</u>	<u>5,000</u>	<u>—</u>
Total expenditures	<u>255,880</u>	<u>261,612</u>	<u>262,262</u>	<u>( 650)</u>
Deficiency of revenues under expenditures	( 183,355)	( 179,687)	( 176,513)	3,174
Other financing sources:				
Transfers in	<u>186,000</u>	<u>186,000</u>	<u>186,000</u>	<u>—</u>
Net change in fund balance	2,645	6,313	9,487	3,174
Fund balance, beginning of year	<u>79,895</u>	<u>79,895</u>	<u>79,895</u>	<u>—</u>
Fund balance, end of year	<u>\$ 82,540</u>	<u>\$ 86,208</u>	<u>\$ 89,382</u>	<u>\$ 3,174</u>

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**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE  
Municipal Aid Special Revenue Fund  
Year Ended June 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Intergovernmental:				
Liquid fuel tax	\$ 168,108	\$ 168,108	\$ 166,463	(\$ 1,645)
Mineral and coal severance tax	19,488	19,487	19,777	290
Investment income	150	550	459	( 91)
Contributions	<u>100,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues	287,746	188,145	186,699	( 1,446)
<b>Expenditures</b>				
Current:				
Public works	<u>382,000</u>	<u>381,500</u>	<u>355,819</u>	<u>25,681</u>
Excess (deficiency) of revenues over expenditures	( 94,254)	( 193,355)	( 169,120)	24,235
Other financing sources (uses)				
Transfers in	<u>—</u>	<u>100,000</u>	<u>100,000</u>	<u>—</u>
Net change in fund balance	( 94,254)	( 93,355)	( 69,120)	24,235
Fund balance, beginning of year	<u>138,220</u>	<u>138,220</u>	<u>138,220</u>	<u>—</u>
Fund balance, end of year	<u>\$ 43,966</u>	<u>\$ 44,865</u>	<u>\$ 69,100</u>	<u>\$ 24,235</u>

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**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**  
**Stormwater Special Revenue Fund**  
**Year Ended June 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Charges for sales and services	\$ 250,000	\$ 247,500	\$ 247,043	(\$ 457)
Fines and forfeitures	7,500	5,500	6,250	750
Investment income	—	—	790	790
<b>Total revenues</b>	<u>257,500</u>	<u>253,000</u>	<u>254,083</u>	<u>1,083</u>
<b>Expenditures</b>				
Current:				
Public works:				
Personal services	143,578	139,022	140,811	( 1,789)
Contractual services	46,820	42,839	25,254	17,585
Materials and supplies	25,484	21,434	17,687	3,747
Other	1,900	5,263	162	5,101
Total public works	217,782	208,558	183,914	24,644
Capital outlay	20,000	1,463	530	933
<b>Total expenditures</b>	<u>237,782</u>	<u>210,021</u>	<u>184,444</u>	<u>25,577</u>
Excess of revenues over expenditures	19,718	42,979	69,639	26,660
Other financing sources (uses):				
Transfers in	100,000	100,000	100,000	—
Net change in fund balance	119,718	142,979	169,639	26,660
Fund balance, beginning of year	385,146	385,146	385,146	—
Fund balance, end of year	<u>\$ 504,864</u>	<u>\$ 528,125</u>	<u>\$ 554,785</u>	<u>\$ 26,660</u>

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## **PROPRIETARY FUNDS**

### **Enterprise Funds**

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

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

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

**CITY OF FRANKLIN, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**Water and Wastewater Fund**  
**Year Ended June 30, 2019**

	<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	\$ 3,102,751	\$ 3,051,500	\$ 3,015,016	(\$ 36,484)
Wastewater division	<u>2,658,000</u>	<u>2,637,410</u>	<u>2,679,372</u>	<u>41,962</u>
Total operating revenues	<u>5,760,751</u>	<u>5,688,910</u>	<u>5,694,388</u>	<u>5,478</u>
Nonoperating revenues:				
Investment income	9,750	19,750	32,602	12,852
Sales of assets	2,000	2,000	( 36,508)	( 38,508)
Miscellaneous	<u>21,850</u>	<u>31,486</u>	<u>46,275</u>	<u>14,789</u>
Total nonoperating revenues	<u>33,600</u>	<u>53,236</u>	<u>42,369</u>	<u>( 10,867)</u>
Total revenues	<u>5,794,351</u>	<u>5,742,146</u>	<u>5,736,757</u>	<u>( 5,389)</u>
Expenditures				
Administration division:				
Administrative:				
Personal services	147,542	148,518	191,688	( 43,170)
Contractual services	2,355	44,836	45,200	( 364)
Materials and supplies	27,850	28,450	7,827	20,623
Other	<u>26,000</u>	<u>164,907</u>	<u>179,470</u>	<u>( 14,563)</u>
Total administration division	<u>203,747</u>	<u>386,711</u>	<u>424,185</u>	<u>( 37,474)</u>
Water division:				
Production:				
Personal services	444,439	443,825	536,507	( 92,682)
Contractual services	240,249	223,218	202,041	21,177
Materials and supplies	159,943	175,737	163,183	12,554
Other	<u>74,144</u>	<u>10,150</u>	<u>5,491</u>	<u>4,659</u>
Total water production	<u>918,775</u>	<u>852,930</u>	<u>907,222</u>	<u>( 54,292)</u>

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**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**Water and Wastewater Fund**

**Year Ended June 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Distribution:				
Personal services	\$ 345,314	\$ 248,936	\$ 301,625	(\$ 52,689)
Contractual services	85,747	70,140	30,248	39,892
Materials and supplies	130,200	91,268	138,518	( 47,250)
Other	<u>16,094</u>	<u>7,999</u>	<u>4,395</u>	<u>3,604</u>
Total water distribution	<u>577,355</u>	<u>418,343</u>	<u>474,786</u>	<u>( 56,443)</u>
Meter reading and maintenance:				
Personal services	72,282	69,163	85,624	( 16,461)
Contractual services	11,012	10,188	4,507	5,681
Materials and supplies	147,290	217,550	201,472	16,078
Other	<u>1,140</u>	<u>1,140</u>	<u>917</u>	<u>223</u>
Total water meter reading and maintenance	<u>231,724</u>	<u>298,041</u>	<u>292,520</u>	<u>5,521</u>
Total water division	<u>1,727,854</u>	<u>1,569,314</u>	<u>1,674,528</u>	<u>( 105,214)</u>
Wastewater division:				
Treatment:				
Personal services	248,644	251,331	303,537	( 52,206)
Contractual services	288,543	295,077	267,343	27,734
Materials and supplies	99,510	92,801	78,681	14,120
Other	<u>75,094</u>	<u>4,200</u>	<u>3,096</u>	<u>1,104</u>
Total wastewater treatment	<u>711,791</u>	<u>643,409</u>	<u>652,657</u>	<u>( 9,248)</u>
Collection and rehabilitation:				
Personal services	254,953	268,241	325,580	( 57,339)
Contractual services	95,336	61,832	65,513	( 3,681)
Materials and supplies	75,030	73,510	56,747	16,763
Other	<u>4,450</u>	<u>2,774</u>	<u>2,420</u>	<u>354</u>
Total wastewater collection and rehabilitation	<u>429,769</u>	<u>406,357</u>	<u>450,260</u>	<u>( 43,903)</u>
Total wastewater division	<u>1,141,560</u>	<u>1,049,766</u>	<u>1,102,917</u>	<u>( 53,151)</u>
Administrative overhead	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>	<u>—</u>

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**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**Water and Wastewater Fund**

**Year Ended June 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Debt service:				
Principal	\$ 360,000	\$ 360,000	\$ 360,000	\$ —
Interest	141,936	141,936	149,590	( 7,654)
Administrative fees	<u>3,313</u>	<u>3,313</u>	<u>3,313</u>	<u>—</u>
Total debt service	<u>505,249</u>	<u>505,249</u>	<u>512,903</u>	<u>( 7,654)</u>
Capital outlays	<u>1,001,122</u>	<u>1,456,695</u>	<u>747,191</u>	<u>709,504</u>
Total expenditures	<u>5,279,532</u>	<u>5,667,735</u>	<u>5,161,724</u>	<u>506,011</u>
Excess of revenues over expenditures	<u>\$ 514,819</u>	<u>\$ 74,411</u>	575,033	<u>\$ 500,622</u>
Add:				
Principal payments			360,000	
Capital outlays, including capitalized labor and materials			747,191	
Capital contributions			265,596	
Less:				
Depreciation expense			( 1,230,943)	
Amortization expense			<u>( 2,310)</u>	
Change in net position			714,567	
Net position, beginning of year			<u>19,761,438</u>	
Net position, end of year			<u>\$20,476,005</u>	

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**CITY OF FRANKLIN, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**Sanitation Fund**  
**Year Ended June 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services:				
Hand pick-up	\$ 689,520	\$ 700,000	\$ 733,251	\$ 33,251
Collection fees	18,000	18,000	21,998	3,998
Fines and forfeitures	25,000	25,000	23,938	( 1,062)
Franchise fee	<u>202,132</u>	<u>207,500</u>	<u>229,379</u>	<u>21,879</u>
Total operating revenues	934,652	950,500	1,008,566	58,066
Nonoperating revenues:				
Investment income	<u>325</u>	<u>850</u>	<u>1,394</u>	<u>544</u>
Total revenues	<u>934,977</u>	<u>951,350</u>	<u>1,009,960</u>	<u>58,610</u>
Expenditures				
Sanitation operations:				
Personal services	8,638	4,404	( 784)	5,188
Contractual services	689,520	700,000	733,254	( 33,254)
Administrative overhead	<u>209,500</u>	<u>209,500</u>	<u>209,500</u>	<u>—</u>
Total expenditures	<u>907,658</u>	<u>913,904</u>	<u>941,970</u>	<u>( 28,066)</u>
Excess of revenues over expenditures	<u>\$ 27,319</u>	<u>\$ 37,446</u>	<u>67,990</u>	<u>\$ 30,544</u>
Net position, beginning of year			<u>16,911</u>	
Net position, end of year			<u>\$ 84,901</u>	

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Franklin, Kentucky (City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 5, 2020.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2019-1).

### **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.

*1 (City & Moore, LLP*

Bowling Green, Kentucky  
March 5, 2020

**CITY OF FRANKLIN, KENTUCKY**

**SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2019**

**FINDINGS - FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCIES**

**2019-1 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.