

**CITY OF FRANKLIN, KENTUCKY**

**ANNUAL FINANCIAL REPORT**

**Year Ended June 30, 2012**

**CITY OF FRANKLIN, KENTUCKY**

**ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

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

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 12, General Fund budgetary comparison schedule on pages 56 - 59, infrastructure condition and maintenance data on page 60, and schedules of funding progress and employer contributions on pages 61 - 62 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual funds statements and schedules on pages 63 - 74 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

January 24, 2013

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

# **City of Franklin, Kentucky**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2012 and 2011**

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, 2012. 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***

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$33,321,372 and \$31,299,696 for the prior fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported ending net assets of \$15,230,120 which includes unrestricted net assets of \$1,968,902. Respectively for the prior fiscal year \$14,540,339 of net assets and \$1,372,333 of unrestricted net assets.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,046,313 with \$1,568,938 for the prior fiscal year.
- For the year ended June 30, 2012, total debt decreased by \$1,210,775 during the year due to principal reductions. For the prior fiscal year, total debt decreased by \$1,422,830 during the year due to principal reductions.
- The City had total revenues of \$13,832,745 for the year ended June 30, 2012 which includes: program revenues (charges for service) of \$6,772,279, operating grants and contributions of \$300,138, capital grants and contributions of \$1,065,128 and general revenues of \$5,695,200. The City had total expenses of \$11,811,069 for the year ended June 30, 2012. Comparatively, the City had total revenues of \$12,244,093 for the year ended June 30, 2011 which includes: program revenues (charges for service) of \$6,814,598, operating grants and contributions of \$471,769, capital grants and contributions of \$402,185 and general revenues of \$4,555,541. The City had total expenses of \$10,883,345 for the year ended June 30, 2011.
- The City's total capital outlays were \$2,258,583 for the current fiscal year and \$830,828 for the prior fiscal year. For the Governmental Funds, capital outlays were \$173,127 for the current fiscal year and \$211,327 for the prior fiscal year. For the Proprietary Funds, capital outlays for the current fiscal year were \$2,085,456 and the prior fiscal year of \$628,424.

#### ***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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 13 and 14 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 23 through 55 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 assets may serve, over time, as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$33,321,372 for the current fiscal year and \$31,299,696 at the close of the prior fiscal year.

By far the largest portion of the City’s net assets (83%) 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 assets of the City may be used to meet the government’s ongoing obligations to citizens and creditors.

	<b>2012</b>		
	<b>Net Assets</b>		
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
Current and other assets	\$ 8,400,975	\$ 3,193,625	\$ 11,594,600
Capital assets	<u>13,576,023</u>	<u>22,266,351</u>	<u>35,842,374</u>
Total assets	<u>\$ 21,976,998</u>	<u>\$ 25,459,976</u>	<u>\$ 47,436,974</u>
Long-term liabilities outstanding	\$ 5,991,615	\$ 6,257,951	\$ 12,249,566
Other liabilities	<u>755,263</u>	<u>1,110,773</u>	<u>1,866,036</u>
Total liabilities	<u>\$ 6,746,878</u>	<u>\$ 7,368,724</u>	<u>\$ 14,115,602</u>
Net assets			
Invested in capital assets, net of related debt	\$ 12,414,327	\$ 16,717,734	\$ 29,132,061
Restricted	846,891	1,930,026	2,776,917
Unrestricted	<u>1,968,902</u>	<u>(556,508)</u>	<u>1,412,394</u>
Total net assets	<u>\$ 15,230,120</u>	<u>\$ 18,091,252</u>	<u>\$ 33,321,372</u>

	<b>2011 Net Assets</b>		
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
Current and other assets	\$ 7,842,599	\$ 3,380,264	\$ 11,222,863
Capital assets	<u>13,658,760</u>	<u>21,152,608</u>	<u>34,811,368</u>
Total assets	<u>\$ 21,501,359</u>	<u>\$ 24,532,872</u>	<u>\$ 46,034,231</u>
Long-term liabilities outstanding	\$ 6,378,122	\$ 7,060,039	\$ 13,438,161
Other liabilities	<u>582,898</u>	<u>713,476</u>	<u>1,296,374</u>
Total liabilities	<u>\$ 6,961,020</u>	<u>\$ 7,773,515</u>	<u>\$ 14,734,535</u>
Net assets			
Invested in capital assets, net of related debt	\$ 12,303,743	\$ 14,827,449	\$ 27,131,192
Restricted	864,263	1,725,697	2,589,960
Unrestricted	<u>1,372,333</u>	<u>206,211</u>	<u>1,578,544</u>
Total net assets	<u>\$ 14,540,339</u>	<u>\$ 16,759,357</u>	<u>\$ 31,299,696</u>

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

**2012**  
**Changes in Net Assets**

	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 1,061,286	\$ 5,710,993	\$ 6,772,279
Operating grants and contributions	300,138	—	300,138
Capital grants and contributions	507,000	558,128	1,065,128
General revenues			
Property taxes	798,981	—	798,981
Occupational fees	2,076,788	—	2,076,788
Insurance premium fees	1,895,800	—	1,895,800
Franchise fees	93,696	—	93,696
Business license fees	319,125	—	319,125
Interest income	8,140	16,022	24,162
Miscellaneous income	445,199	36,857	482,056
Gain on the sale of assets	4,233	359	4,592
Transfers	<u>(155,000)</u>	<u>155,000</u>	<u>—</u>
Total revenues and transfers	<u>7,355,386</u>	<u>6,477,359</u>	<u>13,832,745</u>
<b>Expenses</b>			
General government	1,657,018	—	1,657,018
Public safety	2,343,240	—	2,343,240
Public works	1,105,534	—	1,105,534
Community and cultural	1,371,424	—	1,371,424
Interest expense on long-term debt	188,389	249,625	438,014
Water and wastewater	—	3,597,354	3,597,354
Sanitation	—	1,190,904	1,190,904
Fiber Optic	<u>—</u>	<u>107,581</u>	<u>107,581</u>
Total expenses	<u>6,665,605</u>	<u>5,145,464</u>	<u>11,811,069</u>
<b>Increase in Net Assets</b>	689,781	1,331,895	2,021,676
<b>Net assets, beginning of year</b>	<u>14,540,339</u>	<u>16,759,357</u>	<u>31,299,696</u>
<b>Net assets – June 30, 2012</b>	<u>\$ 15,230,120</u>	<u>\$ 18,091,252</u>	<u>\$ 33,321,372</u>

**2011  
Changes in Net Assets**

	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 1,093,724	\$ 5,720,874	\$ 6,814,598
Operating grants and contributions	471,769	—	471,769
Capital grants and contributions	—	402,185	402,185
General revenues			
Property taxes	832,732	—	832,732
Occupational fees	1,857,165	—	1,857,165
Insurance premium fees	1,184,939	—	1,184,939
Franchise fees	96,332	—	96,332
Business license fees	297,422	—	297,422
Interest income	13,106	24,455	37,561
Miscellaneous income	<u>225,656</u>	<u>23,734</u>	<u>249,390</u>
 Total revenues	 <u>6,072,845</u>	 <u>6,171,248</u>	 <u>12,244,093</u>
<b>Expenses</b>			
General government	1,604,134	—	1,604,134
Public safety	2,209,324	—	2,209,324
Public works	994,741	—	994,741
Community and cultural	659,583	—	659,583
Interest expense on long-term debt	145,462	279,749	425,211
Water and wastewater	—	3,842,808	3,842,808
Sanitation	—	1,145,927	1,145,927
Fiber Optic	<u>—</u>	<u>1,617</u>	<u>1,617</u>
 Total expenses	 <u>5,613,244</u>	 <u>5,270,101</u>	 <u>10,883,345</u>
<b>Increase in Net Assets</b>	459,601	901,147	1,360,748
<b>Net assets, beginning of year</b>	<u>14,080,738</u>	<u>15,858,210</u>	<u>29,938,948</u>
 <b>Net assets – June 30, 2011</b>	 <u>\$ 14,540,339</u>	 <u>\$ 16,759,357</u>	 <u>\$ 31,299,696</u>

## Financial Analysis of the Government's Funds

### **Governmental Funds**

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

As of the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$3,912,313 compared to \$3,396,722 for the prior fiscal year. The City's major sources of revenues are insurance premium fees, payroll occupational fees and property taxes. The funds balance primarily represents the accumulation of revenues in excess of expenditures not reimbursed by funding sources.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were approximately \$1,607,000 increase in revenue and \$2,478,000 decrease in appropriations which can be briefly summarized as follows:

- The City received and disbursed a \$500,000 incentive pass-through grant for a new industry.
- Occupational fees and insurance fees were much stronger than anticipated in the original budget. Occupational fees and insurance fees combined were budgeted to increase \$705,000 in the revised budget. It should be noted that \$450,000 of insurance fees received were for life insurance and will not repeat in future years.
- The original budget included sale of property the City leases, however, the sale did not occur. Lease receipts of \$400,000 were received that were not originally budgeted. The original budget included pay off of the related note payable which accounted for \$3,800,000 of the decrease in appropriations.
- Increase in community services related to investment for economic development of approximately \$210,000 and increased appropriations to parks and recreation of \$175,000.
- Capital improvements were budgeted to increase by approximately \$333,000 with the purchase of a backhoe and Cartegraph software to manage work orders and construction projects. Reserve for future improvements was also included in the budget.

Total revenues for the year were higher than final budgetary estimates while expenses were lower than final budgetary estimates. There was an excess of revenues over expenditures primarily related to the increased revenues and lower capital expenditures than budgeted. There was an increase in fund balance for the year related to the additional revenues.

### ***Proprietary Funds***

Operating revenues of the City's proprietary funds decreased .2% from the prior year to \$5,710,993. The City kept rates static for the year. Operating revenues from Water and Wastewater decreased by 1.4% to \$4,519,778 while operating revenues from Sanitation services increased 3.0% to \$1,168,867. The Fiber Optic services began providing services with revenues of \$22,348. Total operating expenses decreased 1.9% to \$4,875,019. Operating expenses for Water & Wastewater decreased by 6.5% to \$3,576,534 while operating expenses for Sanitation services increased by 3.9% to 1,190,904. Fiber Optic service expenditures were \$107,581.

### ***Capital Asset and Debt Administration***

#### ***Capital Assets***

As of June 30, 2012, the City's investment in capital assets net of related debt for its governmental and business-type activities was \$29,132,061 and \$27,131,192 as of June 30, 2011. This investment in capital assets includes land, buildings, improvements, machinery and equipment and streets.

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

- Capital expenditure of \$1,229,329 for design, make ready and construction costs of Fiber Optic network.
- Capital expenditures of \$567,293 for improvements and additions to the City's water and waste water system.
- Capital expenditures of \$288,833 for equipment and vehicles for the City's water and waste water system.
- Equipment used by Street department of \$79,970.

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

- Equipment used by Street department of \$44,228.
- Cruisers for the Police department of \$144,661.
- Capital expenditure of \$123,748 for design and make ready costs of Fiber Optic network.
- Capital expenditures of \$504,673 for improvements and additions to the City's water and sewer system.

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

The City had \$11,724,044 in revenue bonds and capital lease obligations outstanding as of June 30, 2012, which is a decrease of \$1,210,775 from the previous year. The City made principal payments of \$1,222,783 during fiscal year 2012. In the previous year, the City had \$12,934,819 in revenue bonds and capital lease obligations outstanding as of June 30, 2011, which is a decrease of \$1,422,830 from the previous year. The City made principal payments of \$1,434,921 during fiscal year 2011.

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

As the City completed the year, its governmental funds reported a combined fund balance of \$3,912,314 at June 30, 2012, excluding capital assets and long-term debt. Included in this year's total change in fund balance is an increase of \$551,862 in the City's General Fund. For the previous year, the City's governmental funds reported a combined fund balance of \$3,396,772 at June 30, 2011, excluding capital assets and long-term debt. Included in last year's total change in fund balance was a decrease of \$3,258,029 in the City's General Fund of which \$3,433,804 was spent for economic development and \$186,810 was reserved for debt service at June 30, 2011.

### ***Modified Approach to Infrastructure***

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

It is the City's policy to assess the condition of the roads annually for cracks, potholes, misalignment, drainage condition and number of specific safety hazards. There were no roads severely deficient in condition at June 30, 2012.

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.

When funds become available, the Public Works Department plans to upscale its software to a more recent version.

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

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

- In 2008 the City of Franklin was awarded a \$1,000,000 grant from the U.S. Department of Commerce, Economic Development administration to aid in the costs of the construction of a fiber optic project. The purpose of the project is to enhance economic development and City services by providing a reliable, advanced telecommunication service. During fiscal year 2011-2012, the City contracted for the purchase and installation of equipment, the construction of the fiber cable and the splicing and testing of the system. Those contracts, with change orders, total \$1,415,167. As of June 30, 2012, the construction was underway and the total project was approximately 30% complete. Final completion is expected on or before February 28, 2013.

- During 2012, the Franklin-Simpson Industrial Authority acquired 451 acres of land and began the development of the Henderson Interstate Industrial Park. The property is located on Hwy 100 near exit 6 of the I-65 interstate. The City is in the process of passing an ordinance in conjunction with Simpson County authorizing and establishing a development area for economic and infrastructure development at the Industrial Park. With all utilities available and instant interstate access, the Industrial Park is a prime location for many industrial prospects.
- In September 2012, the City passed an Alcoholic Beverage Control Ordinance expanding the types of licenses for sale of alcoholic beverages. To date, eight malt beverage licenses have been issued. The State of Kentucky has set the package liquor quota at three licenses. To date none have been issued but eleven applicants have applied. The three package liquor licenses should be awarded by end of February 2013.
- In November 2010, Tractor Supply Co announced that an 850,000 square foot distribution facility — which will be one of the biggest buildings in south central Kentucky — was under construction in the Sanders Interstate Industrial Park off Highway 100 on Raines Drive. The facility became operational in December 2011 employing 160 people. At third quarter 2012 reporting, Tractor Supply Co. employed 336 at the distribution facility.
- In May 2012, Franklin Precision Industry announced its plans to expand operations in Franklin, adding 113 new full-time jobs and investing more than \$50.5 million for construction and equipment.
- In May 2012, New Mather Metals Inc. announced its plans to add a new production line to its existing operation in Franklin, creating 20 additional jobs and making a \$5.9 million investment.
- In May 2012, Chemway Holdings, a chemical packaging company, announced its plan to invest nearly \$1.2 million to move its operations to a larger facility in Franklin. The expansion will add 15 jobs to the company's existing workforce.
- In April 2012, Vermont Thread Gage LLC announced that more than \$1.7 million will be invested in its Franklin plant, expanding the facility by 35,000 square feet. The project will add 15 new jobs.

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

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF NET ASSETS**  
**June 30, 2012**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 667,745	\$ 1,482,784	\$ 2,150,529
Certificates of deposit	436,141	—	436,141
Receivables (net of allowance for uncollectibles):			
Accounts	17,771	592,439	610,210
Taxes	766,809	—	766,809
Notes	3,871,129	—	3,871,129
Intergovernmental	46,588	646,827	693,415
Interest	141	—	141
Internal balances	1,357,961	( 1,357,961)	—
Inventory	—	53,622	53,622
Prepaid items	128,193	4,555	132,748
Restricted assets:			
Cash and cash equivalents	1,108,497	618,554	1,727,051
Certificates of deposit	—	1,152,330	1,152,330
Interest receivable	—	475	475
Capital assets, net of accumulated depreciation:			
Nondepreciable	11,332,890	374,238	11,707,128
Depreciable capital assets	2,212,276	20,505,204	22,717,480
Construction in progress	—	1,330,385	1,330,385
Debt issuance costs	30,857	56,524	87,381
	<u>\$ 21,976,998</u>	<u>\$ 25,459,976</u>	<u>\$ 47,436,974</u>
Total assets			
	<u>\$ 21,976,998</u>	<u>\$ 25,459,976</u>	<u>\$ 47,436,974</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Accounts payable	\$ 446,410	\$ 685,493	\$ 1,131,903
Other accrued liabilities	168,033	375,619	543,652
Accrued interest payable	43,606	18,210	61,816
Accrued vacation	94,124	29,421	123,545
Deferred revenues	—	2,030	2,030
Deposits	3,090	—	3,090
Noncurrent liabilities:			
Customer deposits	—	493,036	493,036
OPEB liability	( 13,865)	46,351	32,486
Due within one year	384,077	405,780	789,857
Due in more than one year	5,621,403	5,312,784	10,934,187
	<u>6,746,878</u>	<u>7,368,724</u>	<u>14,115,602</u>
Total liabilities			
	<u>6,746,878</u>	<u>7,368,724</u>	<u>14,115,602</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	12,414,327	16,717,734	29,132,061
Restricted for:			
Expendable:			
Highways and streets	58,157	—	58,157
Debt service and capital activity	189,135	1,930,026	2,119,161
Economic development	76,345	—	76,345
Other purposes	40,698	—	40,698
Nonexpendable:			
Perpetual care	482,556	—	482,556
Unrestricted	1,968,902	( 556,508)	1,412,394
	<u>15,230,120</u>	<u>18,091,252</u>	<u>33,321,372</u>
Total net assets			
	<u>15,230,120</u>	<u>18,091,252</u>	<u>33,321,372</u>
Total liabilities and net assets	<u>\$ 21,976,998</u>	<u>\$ 25,459,976</u>	<u>\$ 47,436,974</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012**

Function/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 1,657,018	\$ 810,337	\$ —	\$ —	(\$ 846,681)	\$ —	(\$ 846,681)
Public safety	2,343,240	27,649	102,357	—	( 2,213,234)	—	( 2,213,234)
Public works	1,105,534	75,800	197,781	7,000	( 824,953)	—	( 824,953)
Community and cultural	1,371,424	147,500	—	500,000	( 723,924)	—	( 723,924)
Interest on long-term debt	188,389	—	—	—	( 188,389)	—	( 188,389)
Total governmental activities	<u>6,665,605</u>	<u>1,061,286</u>	<u>300,138</u>	<u>507,000</u>	<u>( 4,797,181)</u>	<u>—</u>	<u>( 4,797,181)</u>
Business-type activities:							
Water and wastewater	3,846,979	4,519,778	—	—	—	672,799	672,799
Sanitation	1,190,904	1,168,867	—	—	—	( 22,037)	( 22,037)
Fiber optic	107,581	22,348	—	558,128	—	472,895	472,895
Total business-type activities	<u>5,145,464</u>	<u>5,710,993</u>	<u>—</u>	<u>558,128</u>	<u>—</u>	<u>1,123,657</u>	<u>1,123,657</u>
Total primary government	<u>\$ 11,811,069</u>	<u>\$ 6,772,279</u>	<u>\$ 300,138</u>	<u>\$ 1,065,128</u>	<u>( 4,797,181)</u>	<u>1,123,657</u>	<u>( 3,673,524)</u>
General revenues:							
Property taxes					798,981	—	798,981
Occupational taxes					2,076,788	—	2,076,788
Insurance premium taxes					1,895,800	—	1,895,800
Franchise taxes					93,696	—	93,696
Business license taxes					319,125	—	319,125
Interest income					8,140	16,022	24,162
Miscellaneous					445,199	36,857	482,056
Gain on sale of assets					4,233	359	4,592
Transfers					( 155,000)	155,000	—
Total general revenues and transfers					<u>5,486,962</u>	<u>208,238</u>	<u>5,695,200</u>
Change in net assets					689,781	1,331,895	2,021,676
Net assets, beginning of year					<u>14,540,339</u>	<u>16,759,357</u>	<u>31,299,696</u>
Net assets, end of year					<u>\$ 15,230,120</u>	<u>\$ 18,091,252</u>	<u>\$ 33,321,372</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2012**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 434,372	\$ 233,373	\$ 667,745
Certificates of deposit	—	436,141	436,141
Receivables (net of allowance for uncollectibles):			
Accounts	17,221	550	17,771
Taxes	766,809	—	766,809
Notes	3,871,129	—	3,871,129
Intergovernmental	16,031	30,556	46,587
Interest	—	141	141
Due from other funds	1,453,860	58,537	1,512,397
Prepaid items	127,733	460	128,193
Restricted assets			
Cash and cash equivalents	<u>1,106,848</u>	<u>1,649</u>	<u>1,108,497</u>
 Total assets	 <u>\$ 7,794,003</u>	 <u>\$ 761,407</u>	 <u>\$ 8,555,410</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 351,717	\$ 94,692	\$ 446,409
Due to other funds	122,230	32,206	154,436
Accrued expenses	168,033	—	168,033
Deferred revenue	3,871,129	—	3,871,129
Deposits	—	3,090	3,090
Total liabilities	<u>4,513,109</u>	<u>129,988</u>	<u>4,643,097</u>
Fund balances:			
Nonspendable:			
Prepaid items	127,733	460	128,193
Perpetual care	—	482,556	482,556
Assigned to:			
Economic development	877,015	—	877,015
Debt service	189,135	—	189,135
Retirement benefits	24,242	—	24,242
Drug enforcement	16,456	—	16,456
Other purposes	—	148,403	148,403
Unassigned	<u>2,046,313</u>	<u>—</u>	<u>2,046,313</u>
Total fund balances	<u>3,280,894</u>	<u>631,419</u>	<u>3,912,313</u>
 Total liabilities and fund balances	 <u>\$ 7,794,003</u>	 <u>\$ 761,407</u>	 <u>\$ 8,555,410</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**RECONCILIATION OF THE BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
June 30, 2012**

Total fund balances - governmental funds		\$ 3,912,313
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
		13,545,166
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable	(\$ 6,005,480)	
Compensated absences	( 94,124)	
Accrued interest on long-term obligations	( 43,606)	
OPEB liability	<u>13,865</u>	( 6,129,345)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		
		3,871,129
Bond issuance costs are recognized as debt service expenditures when paid in the year of issuance in government funds but are capitalized in the Statement of Net Assets and amortized over the life of the bonds.		
		<u>30,857</u>
Net assets of governmental activities		<u>\$ 15,230,120</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2012**

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues</b>			
Taxes:			
Property	\$ 798,981	\$ —	\$ 798,981
Occupational	2,076,787	—	2,076,787
Insurance premium	1,895,800	—	1,895,800
Franchise	93,696	—	93,696
Business license	319,125	—	319,125
Intergovernmental	633,012	208,276	841,288
Charges for sales and services	—	89,100	89,100
Interfund charges	843,620	—	843,620
Fines and forfeitures	49,122	—	49,122
Contributions and donations	—	15,400	15,400
Investment income	2,369	5,771	8,140
Miscellaneous	<u>568,855</u>	<u>315</u>	<u>569,170</u>
Total revenues	<u>7,281,367</u>	<u>318,862</u>	<u>7,600,229</u>
<b>Expenditures</b>			
Current:			
General government	\$ 1,588,053	\$ —	\$ 1,588,053
Public safety	2,193,156	—	2,193,156
Public works	825,619	224,971	1,050,590
Community services	1,113,234	255,201	1,368,435
Capital outlay	148,117	25,010	173,127
Debt service:			
Principal	374,085	—	374,085
Interest	<u>186,473</u>	<u>—</u>	<u>186,473</u>
Total expenditures	<u>6,428,737</u>	<u>505,182</u>	<u>6,933,919</u>
Excess (deficiency) of revenues over (under) expenditures	<u>852,630</u>	<u>( 186,320)</u>	<u>666,310</u>
<b>Other financing sources (uses):</b>			
Transfers in	—	153,000	153,000
Transfers out	<u>( 305,000)</u>	<u>( 3,000)</u>	<u>( 308,000)</u>
Sale of capital assets	4,232	—	4,232
Total other financing sources (uses)	<u>( 300,768)</u>	<u>150,000</u>	<u>( 150,768)</u>
Net change in fund balances	551,862	<u>( 36,320)</u>	515,542
Fund balances, beginning of year	<u>2,729,034</u>	<u>667,738</u>	<u>3,396,772</u>
Fund balances, end of year	<u>\$ 3,280,896</u>	<u>\$ 631,418</u>	<u>\$ 3,912,314</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, 2012**

	<u>Total Governmental Funds</u>
Net change in fund balances - total governmental funds	\$ 515,542
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 depreciation exceeded capital outlays in the current period.	( 113,594)
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 assets. Also, governmental funds report the effect of issuance costs, 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.	369,992
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated absences	(\$ 4,392)
OPEB expense	14,133
Accrued interest on long-term debt	<u>2,177</u>
	11,918
Principal collections on notes receivable are included in governmental funds. Principal collections reduce long-term notes receivable in the government-wide statement of net assets.	( <u>94,077</u> )
Change in net assets of governmental activities	<u>\$ 689,781</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS**

**June 30, 2012**

	Enterprise Funds			
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Fiber Optic</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,166,363	\$ 316,421	\$ —	\$ 1,482,784
Accounts receivable, net	504,168	88,271	—	592,439
Intergovernmental receivables	—	—	646,827	646,827
Due from other funds	55,693	11,313	—	67,006
Inventory	53,622	—	—	53,622
Prepaid items	3,833	667	55	4,555
Restricted assets:				
Cash and cash equivalents	618,554	—	—	618,554
Certificates of deposit	1,152,330	—	—	1,152,330
Interest receivable	<u>475</u>	<u>—</u>	<u>—</u>	<u>475</u>
Total current assets	<u>3,555,038</u>	<u>416,672</u>	<u>646,882</u>	<u>4,618,592</u>
Noncurrent assets:				
Capital assets:				
Land	332,924	40,114	1,200	374,238
Depreciable capital assets, net	20,059,033	—	446,171	20,505,204
Construction in progress	<u>204,064</u>	<u>—</u>	<u>1,126,321</u>	<u>1,330,385</u>
Net capital assets	20,596,021	40,114	1,573,692	22,209,827
Debt issue costs	<u>56,524</u>	<u>—</u>	<u>—</u>	<u>56,524</u>
Total noncurrent assets	<u>20,652,545</u>	<u>40,114</u>	<u>1,573,692</u>	<u>22,266,351</u>
Total assets	<u>\$ 24,207,583</u>	<u>\$ 456,786</u>	<u>\$ 2,220,574</u>	<u>\$ 26,884,943</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2012**

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 471,919	\$ 96,698	\$ 116,876	\$ 685,493
Accrued liabilities	59,283	314,133	2,203	375,619
Accrued interest	18,210	—	—	18,210
Accrued vacation	29,421	—	—	29,421
Due to other funds	3,313	—	1,421,654	1,424,967
Deferred revenue	—	—	2,030	2,030
Current maturities of notes payable	165,780	—	—	165,780
Payable from restricted assets:				
Current maturities of revenue bonds payable	240,000	—	—	240,000
Customer deposits	<u>493,036</u>	<u>—</u>	<u>—</u>	<u>493,036</u>
Total current liabilities	<u>1,480,962</u>	<u>410,831</u>	<u>1,542,763</u>	<u>3,434,556</u>
Noncurrent liabilities:				
OPEB liability	24,787	21,564	—	46,351
Notes payable	610,024	—	—	610,024
Revenue bonds payable	<u>4,702,760</u>	<u>—</u>	<u>—</u>	<u>4,702,760</u>
Total noncurrent liabilities	<u>5,337,571</u>	<u>21,564</u>	<u>—</u>	<u>5,359,135</u>
Total liabilities	<u>6,818,533</u>	<u>432,395</u>	<u>1,542,763</u>	<u>8,793,691</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	15,103,929	40,114	1,573,691	16,717,734
Restricted for debt service and capital activity	1,283,199	—	646,827	1,930,026
Unrestricted	<u>1,001,922</u>	<u>(15,723)</u>	<u>(1,542,707)</u>	<u>(556,508)</u>
Total net assets	<u>17,389,050</u>	<u>24,391</u>	<u>677,811</u>	<u>18,091,252</u>
Total liabilities and net assets	<u>\$ 24,207,583</u>	<u>\$ 456,786</u>	<u>\$ 2,220,574</u>	<u>\$ 26,884,943</u>

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS - PROPRIETARY FUNDS  
Year Ended June 30, 2012**

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Operating revenues				
Charges for services	\$ 4,420,012	\$ 1,135,860	\$ 22,348	\$ 5,578,220
Fines and forfeitures	<u>99,766</u>	<u>33,007</u>	<u>—</u>	<u>132,773</u>
Total operating revenues	<u>4,519,778</u>	<u>1,168,867</u>	<u>22,348</u>	<u>5,710,993</u>
Operating expenses				
Salaries, wages and benefits	1,081,557	18,325	34,857	1,134,739
Maintenance	219,482	963,079	51,990	1,234,551
Utilities	289,066	—	4,226	293,292
Administrative	509,120	209,500	—	718,620
Supplies	452,696	—	1,389	454,085
Other	18,405	—	2,419	20,824
Depreciation	<u>1,006,208</u>	<u>—</u>	<u>12,700</u>	<u>1,018,908</u>
Total operating expenses	<u>3,576,534</u>	<u>1,190,904</u>	<u>107,581</u>	<u>4,875,019</u>
Operating income (loss)	<u>943,244</u>	<u>( 22,037)</u>	<u>( 85,233)</u>	<u>835,974</u>
Nonoperating revenues (expenses):				
Investment income	15,172	850	—	16,022
Intergovernmental revenue	—	—	558,128	558,128
Miscellaneous revenue	36,857	—	—	36,857
Interest expense	( 249,625)	—	—	( 249,625)
Amortization expense	( 18,489)	—	—	( 18,489)
Administrative fees	( 2,331)	—	—	( 2,331)
Gain on disposal of assets	<u>359</u>	<u>—</u>	<u>—</u>	<u>359</u>
Total nonoperating revenues (expenses)	<u>( 218,057)</u>	<u>850</u>	<u>558,128</u>	<u>340,921</u>
Income (loss) before transfers	725,187	( 21,187)	472,895	1,176,895
Transfers in	<u>—</u>	<u>—</u>	<u>155,000</u>	<u>155,000</u>
Change in net assets	725,187	( 21,187)	627,895	1,331,895
Net assets, beginning of year	<u>16,663,863</u>	<u>45,578</u>	<u>49,916</u>	<u>16,759,357</u>
Net assets, end of year	<u>\$ 17,389,050</u>	<u>\$ 24,391</u>	<u>\$ 677,811</u>	<u>\$ 18,091,252</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
Year Ended June 30, 2012**

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 4,566,063	\$ 1,157,434	\$ 24,378	\$ 5,747,875
Cash payments to employees and retirees	( 1,069,933)	( 11,334)	( 34,857)	( 1,116,124)
Cash payments to suppliers	( 1,196,410)	( 940,050)	( 56,705)	( 2,193,165)
Payments for administrative overhead	( 509,120)	( 209,500)	—	( 718,620)
Net cash provided by (used in) operating activities	<u>1,790,600</u>	<u>( 3,450)</u>	<u>( 67,184)</u>	<u>1,719,966</u>
<b>Cash flows from noncapital financing activities</b>				
Borrowings from other funds	—	—	1,062,686	1,062,686
Transfers from other funds	—	—	155,000	155,000
Net cash provided by noncapital financing activities	<u>—</u>	<u>—</u>	<u>1,217,686</u>	<u>1,217,686</u>
<b>Cash flows from capital and related financing activities</b>				
Proceeds from capital grants	22,064	—	—	22,064
Proceeds from the sale of capital assets	9,688	—	—	9,688
Purchase of capital assets	( 479,497)	—	( 1,150,502)	( 1,629,999)
Principal paid on bonds, notes and lease obligations	( 848,698)	—	—	( 848,698)
Interest paid on bonds, notes and lease obligations	( 251,561)	—	—	( 251,561)
Administrative fees paid	( 2,331)	—	—	( 2,331)
Net cash used in capital and related financing activities	<u>( 1,550,335)</u>	<u>—</u>	<u>( 1,150,502)</u>	<u>( 2,700,837)</u>
<b>Cash flows from investing activities</b>				
Proceeds from sale and maturities of certificates of deposit	90,108	—	—	90,108
Interest received	15,425	850	—	16,275
Net cash provided by investing activities	<u>105,533</u>	<u>850</u>	<u>—</u>	<u>106,383</u>
Net increase (decrease) in cash and cash equivalents	345,798	( 2,600)	—	343,198
Cash and cash equivalents, beginning of year	<u>1,439,119</u>	<u>319,021</u>	<u>—</u>	<u>1,758,140</u>
Cash and cash equivalents, end of year	<u>\$ 1,784,917</u>	<u>\$ 316,421</u>	<u>\$ —</u>	<u>\$ 2,101,338</u>
<b>Reflected in the Statement of Fund Net Assets - Proprietary Funds as:</b>				
Cash and cash equivalents	\$ 1,166,363	\$ 316,421	\$ —	\$ 1,482,784
Restricted cash and cash equivalents	<u>618,554</u>	<u>—</u>	<u>—</u>	<u>618,554</u>
Total	<u>\$ 1,784,917</u>	<u>\$ 316,421</u>	<u>\$ —</u>	<u>\$ 2,101,338</u>

See Notes to Financial Statements

(Continued)

**CITY OF FRANKLIN, KENTUCKY**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)**  
**Year Ended June 30, 2012**

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss)	\$ 943,244	(\$ 22,037)	(\$ 85,233)	\$ 835,974
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,006,208	—	12,700	1,018,908
Nonoperating revenues	36,857	—	—	36,857
Change in assets and liabilities:				
Increase in accounts receivable	( 20,946)	( 11,433)	—	( 32,379)
(Increase) decrease in due from other funds	( 62,328)	22,402	—	( 39,926)
Increase in inventory and prepaid items	( 23,764)	( 45)	( 55)	( 23,864)
Increase (decrease) in accounts payable	( 74,976)	3,957	1,171	( 69,848)
Increase (decrease) in accrued liabilities	8,780	( 3,285)	2,203	7,698
Increase in accrued vacation	3,896	—	—	3,896
Increase in customer deposits	30,374	—	—	30,374
Decrease in due to other funds	( 55,693)	—	—	( 55,693)
Deferred revenue	—	—	2,030	2,030
Increase (decrease) in OPEB liability	( 1,052)	6,991	—	5,939
Net cash provided by (used in) operating activities	<u>\$ 1,790,600</u>	<u>(\$ 3,450)</u>	<u>(\$ 67,184)</u>	<u>\$ 1,719,966</u>

See Notes to Financial Statements

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**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 conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's reporting entity applies all relevant (GASB) pronouncements.

Business-type activities and proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. 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, 2012**

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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, 2012**

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

**Special Revenue Funds**

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

**Permanent Funds**

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

**Proprietary Funds**

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

**Enterprise Funds**

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

**Water and Wastewater Fund**

The Water and Wastewater Fund, a major enterprise fund, accounts for the operations of the City's water and wastewater system.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

**Sanitation Fund**

The Sanitation Fund, a major enterprise fund, accounts for the operations of the City's sanitation system.

**Fiber Optic Fund**

The Fiber Optic Fund, a nonmajor enterprise fund, accounts for the operations of the City's fiber optic system.

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

**Government-wide and Proprietary Funds**

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

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

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

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

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

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

**Governmental Fund Financial Statements**

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

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

The City reports deferred revenue on its combined balance sheet. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred 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 deferred revenue is removed from the combined balance sheet and revenue is recognized.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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, 2012, 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, 2012**

**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, 2012**

**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 financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities and business-type activities. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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.

**Deferred 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 deferred. In addition, in governmental fund financial statements, notes and lease receivables at fiscal year-end are recorded as deferred revenue because potential revenue does not meet the “available” criteria for recognition in the current period.

**Fund Balance Classification**

The City implemented the provisions of GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance—amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Commission). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

**CITY OF FRANKLIN**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

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

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

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

**Net Assets**

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

Invested in capital assets, net of related debt, 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 assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

**E. Revenues, Expenditures and Expenses**

**Operating Revenues and Expenses**

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

**Interfund Activity**

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

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

**F. Use of Estimates**

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

**G. Budgetary Information**

**Budget Policy**

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

**Legal Compliance**

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

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

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

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.

**Excess of Expenditures over Appropriations**

The following funds that have budgets adopted annually had excess expenditures over appropriations for the fiscal year ended June 30, 2012:

Municipal Aid Fund	<u>\$ 67,765</u>
Sanitation Fund	<u>\$ 31,402</u>

Fund excess expenditures were funded by available net assets.

**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, 2012, \$2,801,947 of the City's bank balances of \$4,513,669 were exposed to custodial credit risk as follows, while \$1,711,722 was covered by the FDIC:

Uninsured and collateral held by pledging financial institution	<u>\$ 2,801,947</u>
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**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

**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, 2012, 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>\$ 1,585,480</u>	<u>\$ 1,585,480</u>

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

**Credit Risk** - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to limit its investments in securities issued by a state or local government or any U. S. agency or instrumentality to the top three ratings issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2012, 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, 2012, 100% of the City's investments were in U. S. Obligation Mutual Funds.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

**Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

Carrying value:	
Deposits	\$ 3,880,571
Investments	<u>1,585,480</u>
	<u>\$ 5,466,051</u>

Included in the following balance sheet captions:

**Government-wide Statement of Net Assets**

Cash and cash equivalents	\$ 2,150,529
Certificates of deposit	436,141
Restricted assets:	
Cash and cash equivalents	1,727,051
Certificates of deposit	<u>1,152,330</u>
Total	<u>\$ 5,466,051</u>

**Investment Income**

Investment income for the year ended June 30, 2012 consisted of:	
Interest and dividend income	<u>\$ 24,162</u>

**NOTE 3. NOTES RECEIVABLE**

Notes receivable at June 30, 2012 consists of the following:

**General Fund:**

African American Heritage Center, Inc. note receivable, dated April 28, 2009; receivable in annual installments of \$5,000 beginning July 1, 2009; final installment of \$4,000 due on July 1, 2013; non-interest bearing.	\$ 9,000
Franklin-Simpson Industrial Authority promissory note receivable, dated December 3, 2010; receivable in 240 monthly installments of \$33,333, including interest at 7.95%; secured by real estate mortgage.	<u>3,862,129</u>
	<u>\$ 3,871,129</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 4. RESTRICTED ASSETS**

The City's restricted assets are as follows as of June 30, 2012:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Interest Receivable</u>	<u>Total</u>
<b>Governmental activities:</b>				
General Fund:				
Retiree Life fund	\$ 24,242	\$ —	\$ —	\$ 24,242
Police fund	16,456	—	—	16,456
City of Franklin 2009 Construction Fund	877,015	—	—	877,015
City of Franklin 2009 Bond Fund	<u>189,135</u>	<u>—</u>	<u>—</u>	<u>189,135</u>
Total General Fund	1,106,848	—	—	1,106,848
Special Revenue Fund				
Cemetery Fund	<u>1,649</u>	<u>—</u>	<u>—</u>	<u>1,649</u>
Total governmental activities	<u>1,108,497</u>	<u>—</u>	<u>—</u>	<u>1,108,497</u>
<b>Business-type activities:</b>				
Enterprise Fund				
Water and Wastewater Fund:				
Customer deposits	99,224	388,461	162	487,847
Debt service reserve	431,767	347,974	127	779,868
Depreciation reserve	—	273,843	186	274,029
Maintenance and replacement reserve	—	142,052	—	142,052
Construction Fund	<u>87,563</u>	<u>—</u>	<u>—</u>	<u>87,563</u>
Total business-type activities	<u>618,554</u>	<u>1,152,330</u>	<u>475</u>	<u>1,771,359</u>
Total restricted assets	<u>\$ 1,727,051</u>	<u>\$ 1,152,330</u>	<u>\$ 475</u>	<u>\$ 2,879,856</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 841,978	\$ —	(\$ 40,000)	\$ 801,978
Streets and sidewalks	<u>10,480,902</u>	<u>50,010</u>	<u>—</u>	<u>10,530,912</u>
Total capital assets, not being depreciated	<u>11,322,880</u>	<u>50,010</u>	<u>( 40,000)</u>	<u>11,332,890</u>
Capital assets being depreciated:				
Buildings and improvements	2,093,660	—	—	2,093,660
Vehicles	1,868,405	494	( 61,413)	1,807,486
Furniture, fixtures and equipment	<u>1,395,942</u>	<u>122,623</u>	<u>( 177,487)</u>	<u>1,341,078</u>
Total capital assets, being depreciated	<u>5,358,007</u>	<u>123,117</u>	<u>( 238,900)</u>	<u>5,242,224</u>
Less accumulated depreciation:				
Buildings and improvements	( 501,613)	( 51,341)	—	( 552,954)
Vehicles	( 1,445,614)	( 102,800)	61,413	( 1,487,001)
Furniture, fixtures and equipment	<u>( 1,074,900)</u>	<u>( 92,580)</u>	<u>177,487</u>	<u>( 989,993)</u>
Total accumulated depreciation	<u>( 3,022,127)</u>	<u>( 246,721)</u>	<u>238,900</u>	<u>( 3,029,948)</u>
Total capital assets, being depreciated, net	<u>2,335,880</u>	<u>( 123,604)</u>	<u>—</u>	<u>2,212,276</u>
Governmental activities capital assets, net	<u>\$13,658,760</u>	<u>(\$ 73,594)</u>	<u>(\$ 40,000)</u>	<u>\$13,545,166</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 361,862	\$ 12,376	\$ —	\$ 374,238
Construction in progress	<u>559,529</u>	<u>823,409</u>	<u>( 52,553)</u>	<u>1,330,385</u>
Total capital assets, not being depreciated	<u>921,391</u>	<u>835,785</u>	<u>( 52,553)</u>	<u>1,704,623</u>
Capital assets being depreciated:				
Utility plant	35,491,894	599,557	( 80,387)	36,011,064
Buildings	94,371	352,504	—	446,875
Furniture and equipment	2,661,361	213,699	( 1,229)	2,873,831
Vehicles	<u>494,168</u>	<u>136,464</u>	<u>( 107,962)</u>	<u>522,670</u>
Total capital assets being depreciated	<u>38,741,794</u>	<u>1,302,224</u>	<u>( 189,578)</u>	<u>39,854,440</u>
Less accumulated depreciation:				
Utility plant	( 16,085,095)	( 833,532)	71,057	( 16,847,570)
Buildings	( 88,457)	( 6,493)	—	( 94,950)
Furniture and equipment	( 1,850,818)	( 162,961)	1,229	( 2,012,550)
Vehicles	<u>( 486,207)</u>	<u>( 15,921)</u>	<u>107,962</u>	<u>( 394,166)</u>
Total accumulated depreciation	<u>( 18,510,577)</u>	<u>( 1,018,907)</u>	<u>180,248</u>	<u>( 19,349,236)</u>
Total capital assets, being depreciated, net	<u>20,231,217</u>	<u>283,317</u>	<u>( 9,330)</u>	<u>20,505,204</u>
Business-type activities capital assets, net	<u>\$21,152,608</u>	<u>\$ 1,119,102</u>	<u>(\$ 61,883)</u>	<u>\$22,209,827</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 5. CAPITAL ASSETS (Continued)**

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

<b>Governmental activities:</b>	
General government	\$ 83,844
Public safety	148,057
Public works	53,381
Community and cultural	<u>1,440</u>
Total depreciation expense - governmental activities	<u>\$ 286,722</u>
<b>Business-type activities:</b>	
Water and wastewater	\$ 1,006,208
Fiber Optic	<u>12,700</u>
Total depreciation expense - business-type activities	<u>\$ 1,018,908</u>

**NOTE 6. LONG-TERM LIABILITIES**

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

Changes in long-term liabilities for the year ended June 30, 2012 were as follows:

	Balance <u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2012</u>	Amounts Due <u>in One Year</u>
<b>Governmental activities:</b>					
Bonds payable	\$ 2,475,000	\$ —	(\$ 225,000)	\$ 2,250,000	\$ 230,000
Less: unamortized discount	<u>( 23,866)</u>	<u>—</u>	<u>1,711</u>	<u>( 22,155)</u>	<u>—</u>
Bonds payable, net	2,451,134	—	( 223,289)	2,227,845	230,000
Lease purchase agreements	—	—	—	—	—
Notes payable	<u>3,926,720</u>	<u>—</u>	<u>( 149,085)</u>	<u>3,777,635</u>	<u>154,077</u>
Total governmental activities	<u>\$ 6,377,854</u>	<u>\$ —</u>	<u>(\$ 372,374)</u>	<u>\$ 6,005,480</u>	<u>\$ 384,077</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 6. LONG-TERM LIABILITIES (Continued)**

	<u>Balance</u> <u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts Due</u> <u>in One Year</u>
<b>Business-type activities:</b>					
Revenue bonds	\$ 5,730,000	\$ —	(\$ 685,000)	\$ 5,045,000	\$ 240,000
Less: unamortized discount and deferred amount	( 112,537)	—	10,296	( 102,241)	—
Bonds payable, net	5,617,463	—	( 674,704)	4,942,759	240,000
Lease purchase agreements	—	—	—	—	—
Notes payable	939,502	—	( 163,697)	775,805	165,780
Total business-type activities	<u>\$ 6,556,965</u>	<u>\$ —</u>	<u>(\$ 838,401)</u>	<u>\$ 5,718,564</u>	<u>\$ 405,780</u>
Total governmental and business-type activities	<u>\$12,934,819</u>	<u>\$ —</u>	<u>(\$ 1,210,775)</u>	<u>\$11,724,044</u>	<u>\$ 789,857</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, 2012:

**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.

\$ 2,250,000

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 6. LONG-TERM LIABILITIES (Continued)**

**Notes payable:**

\$4,000,000 JPMorgan Chase Bank (“Chase Bank”) General Obligation Refunding Note, Series 2010, dated June 30, 2010; principal payable in quarterly installments of \$36,174 to \$39,320 beginning January 5, 2011 through October 5, 2013; unpaid principal balance (\$3,544,775) due on January 5, 2014 final maturity date; interest at 2.96% payable in quarterly installments commencing on October 5, 2010; issued to (i) refund the outstanding principal plus interest and prepayment penalty of the City of Franklin General Obligation Note, Series 2010 in the original principal amount of \$4,000,000, dated April 1, 2010 (“Refunded Note”) (ii) fund the construction by the Franklin-Simpson Industrial Authority of an addition to an existing manufacturing facility to be leased to World Color (USA), LLC, not already funded by Refunded Note, and (iii) pay Refunding Note costs of issuance; secured by the full faith, credit and taxing power of the City, assignment to Chase Bank of all of City’s right, title and interest in and to (i) the Interlocal Agreement Regarding Industrial Development, dated March 8, 2010, by and among the County of Simpson, Kentucky, the City and the Franklin-Simpson Industrial Authority and (ii) the Assignment of Leases and Rents, dated March 31, 2010 from the Franklin-Simpson Industrial Authority to the City.

\$ 3,777,635

**Business-type activities:**

**Notes payable:**

**Water and Wastewater Fund:**

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

71,554

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

704,251

Total notes payable

\$ 775,805

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 6. LONG-TERM LIABILITIES (Continued)**

**Revenue bonds**

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

**Water and Wastewater Fund:**

Revenue bonds outstanding at June 30, 2012 were as follows:

	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Principal at June 30, 2012</u>
Revenue bonds, Series 2004 (A)	2.00 - 4.75%	December 1, 2033	\$ 3,755,000
Revenue bonds, Series 2009 (B)	2.00 - 4.375%	December 1, 2024	<u>1,290,000</u>
			5,045,000
Less: unamortized discounts			<u>( 102,241)</u>
Total revenue bonds payable - business-type activities			<u>\$ 4,942,759</u>

- (A) \$4,495,000 City of Franklin Water and Sewer Revenue Bonds, Series 2004, dated September 1, 2004; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on December 1 in annual installments of \$85,000 to \$265,000 through 2033; interest payable semi-annually on June 1 and December 1; issued to fund construction of new water supply dam; secured by water and sewer system revenues.
- (B) \$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.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 6. LONG-TERM LIABILITIES (Continued)**

**Annual Debt Service Requirements**

The annual requirements to amortize long-term debt outstanding as of June 30, 2012 are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities		Government-Wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 384,077	\$ 176,931	\$ 405,780	\$ 214,545	\$ 789,857	\$ 391,476
2014	3,853,558	141,717	417,889	205,164	4,271,447	346,881
2015	240,000	55,500	410,370	195,155	650,370	250,655
2016	245,000	48,945	407,525	184,800	652,525	233,745
2017	250,000	41,520	419,241	173,831	669,241	215,351
2018 - 2022	775,000	107,135	1,135,000	715,641	1,910,000	822,776
2023 - 2027	280,000	17,000	1,010,000	494,484	1,290,000	511,484
2028 - 2032	—	—	1,100,000	256,755	1,100,000	256,755
2033 - 2034	—	—	515,000	24,819	515,000	24,819
	<u>\$ 6,027,635</u>	<u>\$ 588,748</u>	<u>\$ 5,820,805</u>	<u>\$ 2,465,194</u>	<u>\$11,848,440</u>	<u>\$ 3,053,942</u>

**Industrial Development Project Financing**

On April 1, 2010, the City entered into a \$4,000,000 General Obligation Note with Regions Bank to fund the construction by the Franklin-Simpson Industrial Authority (“Industrial Authority”) of an addition to an existing manufacturing facility to be leased to World Color (USA), LLC (“World Color”). On June 30, 2010, the Regions Bank note was refunded from JPMorgan Chase Bank General Obligation Refunding Note (“Refunding Note”) proceeds. The Refunding Note was issued by the City to reduce future note debt service requirements due to a lower fixed interest rate on Refunding Note.

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

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE 6. LONG-TERM LIABILITIES (Continued)**

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

On December 3, 2010, the City (“holder”) and Authority (“maker”) entered into a Promissory Note in the principal amount of \$4,000,000 (see Note 3). As of June 30, 2012, the City has recorded a note receivable from the Authority and deferred revenues of \$3,862,129 in the General Fund.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 96,423	\$ 303,576	\$ 399,999
2014	104,374	295,625	399,999
2015	112,981	287,018	399,999
2016	122,297	277,702	399,999
2017	132,382	267,617	399,999
2018-2022	844,813	1,155,181	1,999,994
2023-2027	1,255,519	744,475	1,999,994
2028-2031	<u>1,193,340</u>	<u>173,323</u>	<u>1,366,663</u>
	<u>\$ 3,862,129</u>	<u>\$ 3,504,517</u>	<u>\$ 7,366,646</u>

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 7. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payable as of June 30, 2012 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General Fund	\$ 1,453,860	\$ 122,230
Special Revenue Funds:		
Economic Development Revolving Loan Fund	50,993	—
Community Development Fund	—	32,206
Municipal Aid Fund	7,540	—
Cemetary Fund	<u>4</u>	<u>—</u>
Total governmental funds	<u>1,512,397</u>	<u>154,436</u>
Proprietary Funds:		
Water and Wastewater Fund	55,693	3,313
Sanitation Fund	11,313	—
Fiber Optic Fund	<u>—</u>	<u>1,421,654</u>
Total proprietary funds	<u>67,006</u>	<u>1,424,967</u>
	<u>\$ 1,579,403</u>	<u>\$ 1,579,403</u>

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

**NOTE 8. INTERFUND TRANSFERS**

Interfund transfers for the year ending June 30, 2012 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ —	\$ 305,000
Special Revenue Fund		
Greenlawn-Shady Rest Cemetery Fund	153,000	—
Permanent Fund		
Greenlawn-Shady Rest Cemetery Perpetual Fund	<u>—</u>	<u>3,000</u>
Total governmental funds	<u>153,000</u>	<u>308,000</u>
Proprietary Funds:		
Fiber Optic Fund	<u>155,000</u>	<u>—</u>
Total proprietary funds	<u>\$ 308,000</u>	<u>\$ 308,000</u>

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE 8. INTERFUND TRANSFERS (Continued)**

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

**NOTE 9. RETIREMENT PLAN**

**Plan Descriptions and Funding Information**

**County Employees Retirement System**

The County Employees Retirement System (CERS) is a cost sharing multiple-employer defined benefit pension plan created by the Kentucky General Assembly, pursuant to the provisions of Kentucky Revised Statute (KRS) 78.520. CERS is administered by the Board of Trustees of Kentucky Retirement Systems (KRS) and covers substantially all regular full-time City employees (members) employed in nonhazardous and hazardous duty positions. The CERS provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the state legislature. The KRS issues a publicly available annual report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601.

Plan members participating in CERS on or before August 31, 2008, with nonhazardous and hazardous duty positions, were required to contribute 5% and 8%, respectively, of their annual creditable compensation. For plan members who began participating in CERS on or after September 1, 2008, contribution rates are 6% and 9%, respectively. Participating employers were required to contribute at an actuarially determined rate. Per KRS Section 61.565(3), normal contributions and past service contribution rates shall be determined by the Board of Trustees on the basis of an annual valuation last proceeding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of the biennium, if it is determined on the basis of subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2012, participating employers contributed 18.96% (nonhazardous) and 35.76% (hazardous) of each employee's creditable compensation. The actuarially determined rates set by the Board for the year ended June 30, 2012, were 18.96% and 35.76% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE 9. RETIREMENT PLAN (Continued)**

The City's employer contributions to CERS for the years ended June 30, 2012, 2011 and 2010, were equal to the required contributions for each year and are as follows:

<u>Fiscal Year Ending</u>	<u>Non-hazardous Duty Positions Contribution</u>	<u>Percent of Compensation</u>	<u>Hazardous Duty Positions Contribution</u>	<u>Percent of Compensation</u>
2012	\$ 341,564	18.96%	\$ 357,416	35.76%
2011	\$ 279,934	16.93%	\$ 312,334	33.25%
2010	\$ 275,925	16.16%	\$ 299,245	32.97%

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

**Plan Description and Contribution Information**

In addition to the pension benefits described above in Note 9, the City maintains an informal retirement plan authorized by the Mayor/Commission. The City does not issue a separate, publicly available OPEB financial report. City employees who retired prior to May 1, 1988, plus employees/spouses who retired after May 1, 1988 but who elected not to participate in the CERS plan (above), are paid a \$100 per month retirement benefit. Twenty retired City employees are currently covered under the plan. Retirement benefits are financed on a pay as you go basis. Payments under the plan totaled \$24,000 for the year ended June 30, 2012.

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, 2012, payments under the plan totaled \$99,548.

**Annual OPEB Cost and Net OPEB Obligation**

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

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

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

Annual required contribution	\$ 151,095
Interest on net OPEB obligation	—
Adjustment to annual required contribution	<u>( 30,485)</u>
Annual OPEB cost (expense)	120,610
Contributions made	<u>( 128,804)</u>
Decrease in net OPEB obligation	( 8,194)
Net OPEB obligation—beginning of year	<u>40,680</u>
 Net OPEB obligation—end of year	 <u>\$ 32,486</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012 and 2011 were as follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$120,610	106.79%	\$32,486
2011	\$158,818	74.4%	\$40,680

**Funded Status and Funding Progress**

As of June 30, 2012, the actuarial accrued liability for benefits was \$1,455,926, all of which was unfunded.

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

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

**Methods and Assumptions**

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

The following simplifying assumptions were made:

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

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

*Healthcare cost trend rate* - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 9.5 percent initially, reduced to an ultimate rate of 5.6 percent after six years, was used.

*Health insurance premiums* - 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4 percent was used. In addition, a simplified version of the unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized over retiree life expectancy not to exceed thirty years. The remaining amortization period at June 30, 2012 was thirty years.

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE 11. DEFERRED COMPENSATION PLAN**

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

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or \$17,000 for 2012, whichever is less. During the fiscal year ending June 30, 2012, contributions made on behalf of employees totaled \$53,603.

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

**Commercial and Residential**

On September 30, 2008, the City entered into an exclusive commercial and residential franchise agreement with Waste Management of Kentucky, LLC (franchisee), for the collection of residential and commercial solid waste and wastewater treatment plant waste in the City. Pursuant to franchise agreement, 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. The franchise agreement is for a five year period beginning October 1, 2008 and ending September 30, 2013.

**Industrial**

In September and October, 2008, the City entered into non-exclusive industrial franchise agreements with franchisees for the collection of industrial solid waste in the City and/or industrial parks located therein. The industrial franchisee must remit to the City monthly 10% of the gross receipts received attributable to its operations in the industrial franchise area. The franchise agreements are for a five year period beginning October 1, 2008 and ending September 30, 2013 and are renewable for three equal terms at the City's discretion.

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

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

On December 1, 2006, the City and Simpson County Fiscal Court ("County") entered into an Interlocal Agreement for fire protection and related emergency services. The County presently furnishes basic fire protection services within its boundaries and the City desires to contract for essential fire fighting, protection and emergency services for the City.

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

**Fire Station and Equipment**

Fire fighting equipment owned by the City and County will be used both within the City and County for automatic response and mutual aid on a non-exclusive basis and will remain the property of the contributing entity. The County shall have full use of fire station owned by City and shall maintain the station and grounds. The City shall retain ownership of the fire station and shall provide for major capital repairs of station required during the term of the agreement including extensions. As partial consideration for such, the County agrees to pay City directly, or by offset from amount City shall pay County for the services provided, the amount of \$25,000 per year, payable or offset on a monthly basis, until such time as City retires the existing debt service on the City's fire department building and improvements or until agreement is terminated, whichever is sooner. In addition, City agrees to provide at no charge, water and sewer services at fire department facility.

**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.

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

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

**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 \$191,195 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. County will also provide insurance coverage for property damage, collision and liability insurance coverage for vehicles, personnel and equipment owned by the City and operated by County.

**Term**

The term of the agreement is for five years, unless extended by mutual agreement or terminated. Twelve months prior to the expiration of the agreement, the County shall provide the City with a proposal for renewal which includes a five year comprehensive plan for services to be provided to City, including costs of providing services. The agreement may be terminated by either party by written notice at least three months prior to intended termination.

**NOTE 14. RISK MANAGEMENT**

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

**CITY OF FRANKLIN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**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, 2012 may be impaired. In the opinion of the City, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE 16. CONDUIT DEBT OBLIGATIONS**

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

As of June 30, 2012, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$51,787,290.

**CITY OF FRANKLIN, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 17. SUBSEQUENT EVENTS**

**Interlocal Agreement Extension**

On June 21, 2012, the City authorized the extension of the Interlocal Agreement for fire protection with the Simpson County Fiscal Court (see Note 13). The extended term is for 10 years commencing on July 1, 2012. City contributions to the County for the costs and expenses of the Franklin-Simpson Fire Rescue shall be not less than \$204,316 annually, payable monthly.

**Water and Sewer Bond Issue**

On July 24, 2012, the City issued \$3,860,000 aggregate principal amount of Water and Sewer Revenue Refunding Bonds, Series 2012 (“Series 2012 Bonds”). The Series 2012 Bonds were issued for the purpose of currently refunding the City’s outstanding Water and Sewer Revenue Bonds, Series 2004.

**Real Estate Purchases**

On November 20, 2012 and December 27, 2012, the City purchased real estate located at 200 S. Main Street and 202 S. Main Street, respectively. The real estate purchase price for 200 S. Main Street and 202 S. Main Street totaled \$340,000 and \$175,000, respectively. The City has applied for a federal Community Development Block grant relating to these real estate acquisitions.

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

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**General Fund**

**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 796,263	\$ 801,500	\$ 798,981	(\$ 2,519)
Occupational taxes	1,801,833	1,965,990	2,076,787	110,797
Insurance premium taxes	1,195,163	1,736,121	1,895,800	159,679
Business license taxes	275,746	297,174	319,125	21,951
Franchise taxes	95,243	94,669	93,696	( 973)
Intergovernmental	147,647	631,230	633,012	1,782
Interfund charges	887,121	851,621	843,620	( 8,001)
Fines and forfeitures	30,810	40,690	49,122	8,432
Miscellaneous	<u>100,343</u>	<u>518,067</u>	<u>571,224</u>	<u>53,157</u>
<b>Total revenues</b>	<u>5,330,169</u>	<u>6,937,062</u>	<u>7,281,367</u>	<u>344,305</u>
<b>Expenditures</b>				
<b>General government:</b>				
<b>Legislative:</b>				
Personal services	93,056	96,189	96,037	152
Contractual services	11,004	8,635	11,034	( 2,399)
Materials and supplies	1,555	685	485	200
Other	<u>14,850</u>	<u>9,830</u>	<u>9,413</u>	<u>417</u>
<b>Total legislative</b>	<u>120,465</u>	<u>115,339</u>	<u>116,969</u>	<u>( 1,630)</u>
<b>Administrative:</b>				
Personal services	392,280	419,621	415,530	4,091
Contractual services	4,726	14,319	12,758	1,561
Materials and supplies	4,550	6,786	8,656	( 1,870)
Other	<u>3,000</u>	<u>5,075</u>	<u>5,976</u>	<u>( 901)</u>
<b>Total administrative</b>	<u>404,556</u>	<u>445,801</u>	<u>442,920</u>	<u>2,881</u>
<b>Finance and accounting:</b>				
Personal services	571,716	555,248	551,799	3,449
Contractual services	143,600	120,892	119,526	1,366
Materials and supplies	41,720	41,936	38,676	3,260
Other	<u>8,250</u>	<u>12,070</u>	<u>10,661</u>	<u>1,409</u>
<b>Total finance and accounting</b>	<u>765,286</u>	<u>730,146</u>	<u>720,662</u>	<u>9,484</u>
<b>Risk management</b>	<u>315,894</u>	<u>317,691</u>	<u>307,502</u>	<u>10,189</u>
<b>Total general government</b>	<u>1,606,201</u>	<u>1,608,977</u>	<u>1,588,053</u>	<u>20,924</u>

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**General Fund**

**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Public safety:				
Police department:				
Administration:				
Personal services	\$ 369,347	\$ 378,061	\$ 377,796	\$ 265
Contractual services	26,915	20,032	25,906	( 5,874)
Materials and supplies	18,140	20,471	20,752	( 281)
Other	<u>3,450</u>	<u>3,863</u>	<u>5,583</u>	<u>( 1,720)</u>
Total administration	<u>417,852</u>	<u>422,427</u>	<u>430,037</u>	<u>( 7,610)</u>
Patrol:				
Personal services	1,380,011	1,376,726	1,362,438	14,288
Contractual services	23,053	20,728	26,531	( 5,803)
Materials and supplies	94,764	102,771	104,270	( 1,499)
Other	<u>6,975</u>	<u>6,180</u>	<u>5,216</u>	<u>964</u>
Total patrol	<u>1,504,803</u>	<u>1,506,405</u>	<u>1,498,455</u>	<u>7,950</u>
Non-sworn personnel:				
Personal services	68,469	64,132	63,682	450
Contractual services	41,628	21,457	21,457	—
Materials and supplies	530	35	35	—
Other	<u>200</u>	<u>21</u>	<u>21</u>	<u>—</u>
Total non-sworn personnel	<u>110,827</u>	<u>85,645</u>	<u>85,195</u>	<u>450</u>
Code enforcement:				
Contractual services	<u>—</u>	<u>—</u>	<u>7,619</u>	<u>( 7,619)</u>
Total police department	<u>2,033,482</u>	<u>2,014,477</u>	<u>2,021,306</u>	<u>( 6,829)</u>
Fire department:				
Inspection and administration:				
Contractual services	<u>1,250</u>	<u>1,250</u>	<u>1,150</u>	<u>100</u>

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**General Fund**

**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Fire department (continued)				
Firefighting:				
Contractual services	\$ 170,700	\$ 170,700	\$ 170,700	\$ —
Total fire department	<u>171,950</u>	<u>171,950</u>	<u>171,850</u>	<u>100</u>
Total public safety	<u>2,205,432</u>	<u>2,186,427</u>	<u>2,193,156</u>	<u>( 6,729)</u>
Public works:				
Personal services	566,681	578,132	564,725	13,407
Contractual services	139,825	136,686	142,115	( 5,429)
Materials and supplies	102,701	106,761	116,471	( 9,710)
Other	<u>6,320</u>	<u>3,546</u>	<u>2,308</u>	<u>1,238</u>
Total public works	<u>815,527</u>	<u>825,125</u>	<u>825,619</u>	<u>( 494)</u>
Community services:				
Economic development	116,563	827,274	831,234	( 3,960)
Parks and recreation	<u>107,000</u>	<u>282,000</u>	<u>282,000</u>	<u>—</u>
Total community services	<u>223,563</u>	<u>1,109,274</u>	<u>1,113,234</u>	<u>( 3,960)</u>
Capital outlay:				
Vehicles	—	5,885	495	5,390
Equipment	10,000	115,140	122,622	( 7,482)
Plant in service	—	25,000	25,000	—
Reserve for capital improvements	<u>—</u>	<u>197,000</u>	<u>—</u>	<u>197,000</u>
Total capital outlay	<u>10,000</u>	<u>343,025</u>	<u>148,117</u>	<u>194,908</u>
Debt service:				
Principal	4,151,726	374,085	374,085	—
Interest	99,211	186,473	186,473	—
Administrative fees	<u>500</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total debt service	<u>4,251,437</u>	<u>560,558</u>	<u>560,558</u>	<u>—</u>
Total expenditures	<u>9,112,160</u>	<u>6,633,386</u>	<u>6,428,737</u>	<u>204,649</u>

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**General Fund**

**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures	(\$ 3,781,991)	\$ 303,676	\$ 852,630	\$ 548,954
Other financing sources (uses):				
Transfers out	( 168,400)	( 305,000)	( 305,000)	—
Sale of capital assets	<u>3,960,059</u>	<u>4,232</u>	<u>4,232</u>	—
Total other financing sources (uses)	<u>3,791,659</u>	<u>( 300,768)</u>	<u>( 300,768)</u>	—
Net change in fund balance	9,668	2,908	551,862	548,954
Fund balances, beginning of year	<u>2,729,034</u>	<u>2,729,034</u>	<u>2,729,034</u>	—
Fund balances, end of year	<u>\$ 2,738,702</u>	<u>\$ 2,731,942</u>	<u>\$ 3,280,896</u>	<u>\$ 548,954</u>

**CITY OF FRANKLIN, KENTUCKY**

**Infrastructure Condition and Maintenance Data  
June 30, 2012**

**Modified Approach to Infrastructure**

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

	OCI Condition Rating	Square Feet of Road Area					
		2012		2011		2010	
		Square Feet	%	Square Feet	%	Square Feet	%
Acceptable	75 - 100	3,686,758	74.05	3,713,204	74.58	3,708,404	74.49
Marginally deficient	50 - 74	1,067,209	21.44	1,101,271	22.12	1,101,271	22.12
Moderately deficient	25 - 49	224,712	4.51	164,140	3.30	164,140	3.30
Severely deficient	0 - 24	—	—	—	—	4,800	.09
Total		<u>4,978,679</u>	<u>100.00</u>	<u>4,978,615</u>	<u>100.00</u>	<u>4,978,615</u>	<u>100.00</u>

	Comparison of Estimated-to-Actual Maintenance/Preservation				
	2012	2011	2010	2009	2008
Original estimate	\$ 164,260	\$ 113,590	\$ 211,961	\$ 199,661	\$ 314,310
Actual	\$ 225,025	\$ 113,168	\$ 202,470	\$ 173,746	\$ 248,637

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

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

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

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

**CITY OF FRANKLIN, KENTUCKY**

**SCHEDULE OF FUNDING PROGRESS - OPEB  
June 30, 2012**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)— Unit Credit Cost (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
6/30/2011	\$ -0-	\$ 1,595,663	\$ 1,595,663	0.0%	N/A	N/A
6/30/2012	\$ -0-	\$ 1,455,926	\$ 1,455,926	0.0%	N/A	N/A

**CITY OF FRANKLIN, KENTUCKY**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB  
June 30, 2012**

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 158,818	74.4%
2012	\$ 120,610	106.79%

## **SUPPLEMENTARY INFORMATION**

# **Nonmajor Governmental Funds**

## **Special Revenue Funds**

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

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

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

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

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

## **Permanent Funds**

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

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

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

**CITY OF FRANKLIN, KENTUCKY**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2012**

	Special Revenue				
	Cemetery	Community Development	Municipal Aid	Economic Development	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 14,803	\$ 57,558	\$ 114,738	\$ —	\$ 187,099
Certificates of deposit	—	—	—	—	—
Receivables (net of allowance for uncollectibles):					
Accounts	550	—	—	—	550
Intergovernmental	—	—	30,556	—	30,556
Interest	—	—	—	—	—
Due from other funds	4	—	7,540	50,993	58,537
Prepaid items	460	—	—	—	460
Restricted assets:					
Cash and cash equivalents	<u>1,649</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,649</u>
Total assets	<u>\$ 17,466</u>	<u>\$ 57,558</u>	<u>\$ 152,834</u>	<u>\$ 50,993</u>	<u>\$ 278,851</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 14	\$ —	\$ 94,678	\$ —	\$ 94,692
Due to other funds	—	32,206	—	—	32,206
Deposits	<u>3,090</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,090</u>
Total liabilities	<u>3,104</u>	<u>32,206</u>	<u>94,678</u>	<u>—</u>	<u>129,988</u>
Fund balances:					
Nonspendable:					
Prepaid items	460	—	—	—	460
Perpetual care	—	—	—	—	—
Assigned to:					
Other purposes	<u>13,902</u>	<u>25,352</u>	<u>58,156</u>	<u>50,993</u>	<u>148,403</u>
Total fund balances	<u>14,362</u>	<u>25,352</u>	<u>58,156</u>	<u>50,993</u>	<u>148,863</u>
Total liabilities and fund balances	<u>\$ 17,466</u>	<u>\$ 57,558</u>	<u>\$ 152,834</u>	<u>\$ 50,993</u>	<u>\$ 278,851</u>

<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Perpetual</u>	
\$ 46,275	\$ 233,374
436,141	436,141
—	550
—	30,556
140	140
—	58,537
—	460
<u>—</u>	<u>1,649</u>
<u>\$ 482,556</u>	<u>\$ 761,407</u>
\$ —	\$ 94,692
—	32,206
<u>—</u>	<u>3,090</u>
<u>—</u>	<u>129,988</u>
—	460
482,556	482,556
<u>—</u>	<u>148,403</u>
<u>482,556</u>	<u>631,419</u>
<u>\$ 482,556</u>	<u>\$ 761,407</u>

**CITY OF FRANKLIN, KENTUCKY**

**COMBINING BALANCE SHEET  
NONMAJOR PERMANENT FUNDS  
June 30, 2012**

	Francis Harris Cemetery <u>Perpetual</u>	Greenlawn- Shady Rest Cemetery <u>Perpetual</u>	Total Nonmajor Permanent <u>Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,209	\$ 43,066	\$ 46,275
Certificates of deposit	50,000	386,141	436,141
Accrued interest receivable	<u>—</u>	<u>140</u>	<u>140</u>
Total assets	<u>\$ 53,209</u>	<u>\$ 429,347</u>	<u>\$ 482,556</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Cemetery maintenance	\$ 53,209	\$ —	\$ 53,209
Perpetual care	<u>—</u>	<u>429,347</u>	<u>429,347</u>
Total fund balances	<u>\$ 53,209</u>	<u>\$ 429,347</u>	<u>\$ 482,556</u>

**CITY OF FRANKLIN, KENTUCKY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2012**

	Special Revenue				
	Cemetery	Community Development	Municipal Aid	Economic Development	Total
<b>Revenues</b>					
Intergovernmental	\$ —	\$ 17,875	\$ 190,401	\$ —	\$ 208,276
Charges for sales and services	89,100	—	—	—	89,100
Contributions	—	—	7,000	—	7,000
Investment income	92	—	345	—	437
Miscellaneous	<u>315</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>315</u>
<b>Total revenues</b>	<u>89,507</u>	<u>17,875</u>	<u>197,746</u>	<u>—</u>	<u>305,128</u>
<b>Expenditures</b>					
<b>Current:</b>					
Public works	—	—	224,971	—	224,971
Community services	253,775	—	—	—	253,775
Capital outlay	<u>—</u>	<u>—</u>	<u>25,010</u>	<u>—</u>	<u>25,010</u>
<b>Total expenditures</b>	<u>253,775</u>	<u>—</u>	<u>249,981</u>	<u>—</u>	<u>503,756</u>
Excess (deficiency) of revenues over (under) expenditures	( 164,268)	17,875	( 52,235)	—	( 198,628)
<b>Other financing sources (uses):</b>					
Transfers in	153,000	—	—	—	153,000
Transfers out	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total other financing     sources (uses)</b>	<u>153,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>153,000</u>
Net change in fund balances	( 11,268)	17,875	( 52,235)	—	( 45,628)
Fund balances, beginning of year	<u>25,629</u>	<u>7,477</u>	<u>110,391</u>	<u>50,993</u>	<u>194,490</u>
Fund balances, end of year	<u>\$ 14,361</u>	<u>\$ 25,352</u>	<u>\$ 58,156</u>	<u>\$ 50,993</u>	<u>\$ 148,862</u>

<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
Cemetery Perpetual	
\$ —	\$ 208,276
—	89,100
8,400	15,400
5,334	5,771
<u>—</u>	<u>315</u>
<u>13,734</u>	<u>318,862</u>
—	224,971
1,426	255,201
<u>—</u>	<u>25,010</u>
<u>1,426</u>	<u>505,182</u>
<u>12,308</u>	( <u>186,320</u> )
—	153,000
( <u>3,000</u> )	( <u>3,000</u> )
( <u>3,000</u> )	<u>150,000</u>
9,308	( 36,320)
<u>473,248</u>	<u>667,738</u>
<u>\$ 482,556</u>	<u>\$ 631,418</u>

**CITY OF FRANKLIN, KENTUCKY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR PERMANENT FUNDS  
Year Ended June 30, 2012**

	<u>Francis Harris Cemetery Perpetual</u>	<u>Greenlawn- Shady Rest Cemetery Perpetual</u>	<u>Total Nonmajor Permanent Funds</u>
Revenues			
Investment income	\$ 1,126	\$ 4,208	\$ 5,334
Contributions	<u>—</u>	<u>8,400</u>	<u>8,400</u>
Total revenues	1,126	12,608	13,734
Expenditures			
Current:			
Community services	<u>1,426</u>	<u>—</u>	<u>1,426</u>
Excess (deficiency) of revenues over (under) expenditures	( 300)	12,608	12,308
Other financing uses:			
Transfers out	<u>—</u>	( <u>3,000</u> )	( <u>3,000</u> )
Excess (deficiency) of revenues over (under) expenditures and other financing uses	( 300)	9,608	9,308
Fund balance, beginning of year	<u>53,509</u>	<u>419,739</u>	<u>473,248</u>
Fund balance, end of year	<u>\$ 53,209</u>	<u>\$ 429,347</u>	<u>\$ 482,556</u>

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE  
Greenlawn - Shady Rest Cemetery Special Revenue Fund  
Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Charges for sales and services	\$ 70,900	\$ 94,300	\$ 89,100	(\$ 5,200)
Investment income	50	90	92	2
Miscellaneous	<u>500</u>	<u>340</u>	<u>315</u>	<u>(25)</u>
Total revenues	<u>71,450</u>	<u>94,730</u>	<u>89,507</u>	<u>(5,223)</u>
<b>Expenditures</b>				
Current:				
Community services:				
Personal services	7,840	6,480	6,480	—
Contractual services	181,011	187,686	187,826	(140)
Materials and supplies	850	850	1,239	(389)
Administrative overhead	50,000	50,000	50,000	—
Other	<u>5,800</u>	<u>8,952</u>	<u>8,230</u>	<u>722</u>
Total expenditures	<u>245,501</u>	<u>253,968</u>	<u>253,775</u>	<u>193</u>
Excess (deficiency) of revenues over (under) expenditures	(174,051)	(159,238)	(164,268)	(5,030)
Other financing sources:				
Transfers in	<u>174,200</u>	<u>153,000</u>	<u>153,000</u>	<u>—</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	149	(6,238)	(11,268)	(5,030)
Fund balance, beginning of year	<u>25,629</u>	<u>25,629</u>	<u>25,629</u>	<u>—</u>
Fund balance, end of year	<u>\$ 25,778</u>	<u>\$ 19,391</u>	<u>\$ 14,361</u>	<u>(\$ 5,030)</u>

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE  
Community Development Fund  
Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental	\$ —	\$ 17,875	\$ 17,875	\$ —
Expenditures				
Current:				
Economic development	<u>—</u>	<u>57,558</u>	<u>—</u>	<u>57,558</u>
Excess (deficiency) of revenues over (under) expenditures	—	( 39,683)	17,875	57,558
Fund balance, beginning of year	<u>7,477</u>	<u>7,477</u>	<u>7,477</u>	<u>—</u>
Fund balance, end of year	<u>\$ 7,477</u>	<u>(\$ 32,206)</u>	<u>\$ 25,352</u>	<u>\$ 57,558</u>

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE  
Municipal Aid Special Revenue Fund  
Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental:				
Liquid fuel tax	\$ 161,567	\$ 168,489	\$ 182,769	\$ 14,280
Mineral and coal severance tax	7,073	8,856	7,632	( 1,224)
Investment income	397	351	345	( 6)
Contributions	<u>—</u>	<u>—</u>	<u>7,000</u>	<u>7,000</u>
Total revenues	<u>169,037</u>	<u>177,696</u>	<u>197,746</u>	<u>20,050</u>
Expenditures				
Current:				
Public works	169,000	164,206	224,971	( 60,765)
Capital outlay:				
Public works	<u>—</u>	<u>18,010</u>	<u>25,010</u>	<u>( 7,000)</u>
Total expenditures	<u>169,000</u>	<u>182,216</u>	<u>249,981</u>	<u>( 67,765)</u>
Excess (deficiency) of revenues over (under) expenditures	37	( 4,520)	( 52,235)	( 47,715)
Fund balance, beginning of year	<u>110,391</u>	<u>110,391</u>	<u>110,391</u>	<u>—</u>
Fund balance, end of year	<u>\$ 110,428</u>	<u>\$ 105,871</u>	<u>\$ 58,156</u>	<u>(\$ 47,715)</u>

## **PROPRIETARY FUNDS**

### **Enterprise Funds**

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

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

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

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

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**Water and Wastewater Fund**

**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for sales and services:				
Water division	\$ 2,517,093	\$ 2,440,972	\$ 2,471,908	\$ 30,936
Wastewater division	<u>2,096,201</u>	<u>2,040,444</u>	<u>2,047,870</u>	<u>7,426</u>
Total operating revenues	<u>4,613,294</u>	<u>4,481,416</u>	<u>4,519,778</u>	<u>38,362</u>
Nonoperating revenues:				
Investment income	19,525	10,542	15,172	4,630
Sales of assets	—	9,689	360	( 9,329)
Miscellaneous	<u>18,775</u>	<u>30,981</u>	<u>36,857</u>	<u>5,876</u>
Total nonoperating revenues	<u>38,300</u>	<u>51,212</u>	<u>52,389</u>	<u>1,177</u>
Total revenues	<u>4,651,594</u>	<u>4,532,628</u>	<u>4,572,167</u>	<u>39,539</u>
Expenditures				
Water division:				
Production:				
Personal services	277,197	295,670	296,980	( 1,310)
Contractual services	189,650	187,365	184,239	3,126
Materials and supplies	171,206	165,061	163,744	1,317
Other	<u>4,725</u>	<u>4,757</u>	<u>4,855</u>	<u>( 98)</u>
Total water production	<u>642,778</u>	<u>652,853</u>	<u>649,818</u>	<u>3,035</u>
Distribution:				
Personal services	369,591	347,016	217,534	129,482
Contractual services	48,770	37,372	29,400	7,972
Materials and supplies	174,900	179,765	97,700	82,065
Other	<u>10,750</u>	<u>8,616</u>	<u>8,599</u>	<u>17</u>
Total water distribution	<u>604,011</u>	<u>572,769</u>	<u>353,233</u>	<u>219,536</u>

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**Water and Wastewater Fund**

**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Meter reading and maintenance:				
Personal services	\$ 64,142	\$ 63,442	\$ 63,886	(\$ 444)
Contractual services	6,940	10,748	11,582	( 834)
Materials and supplies	65,000	54,506	54,504	2
Other	<u>330</u>	<u>719</u>	<u>741</u>	<u>( 22)</u>
 Total water meter reading and maintenance	 <u>136,412</u>	 <u>129,415</u>	 <u>130,713</u>	 <u>( 1,298)</u>
 Total water division	 <u>1,383,201</u>	 <u>1,355,037</u>	 <u>1,133,764</u>	 <u>221,273</u>
Wastewater division:				
Treatment:				
Personal services	305,658	278,035	273,388	4,647
Contractual services	205,920	194,699	217,639	( 22,940)
Materials and supplies	87,100	67,867	62,112	5,755
Other	<u>11,236</u>	<u>1,677</u>	<u>1,658</u>	<u>19</u>
 Total wastewater treatment	 <u>609,914</u>	 <u>542,278</u>	 <u>554,797</u>	 <u>( 12,519)</u>
Collection and rehabilitation:				
Personal services	236,676	231,549	229,770	1,779
Contractual services	83,150	76,780	68,867	7,913
Materials and supplies	103,300	84,780	71,998	12,782
Other	<u>5,600</u>	<u>1,597</u>	<u>2,010</u>	<u>( 413)</u>
 Total wastewater collection and rehabilitation	 <u>428,726</u>	 <u>394,706</u>	 <u>372,645</u>	 <u>22,061</u>
 Total wastewater division	 <u>1,038,640</u>	 <u>936,984</u>	 <u>927,442</u>	 <u>9,542</u>
 Administrative overhead	 <u>544,120</u>	 <u>517,120</u>	 <u>509,120</u>	 <u>8,000</u>
Debt service:				
Principal	848,698	848,698	848,698	—
Interest	249,658	251,658	249,625	2,033
Administrative fees	<u>2,347</u>	<u>2,331</u>	<u>2,331</u>	<u>—</u>
 Total debt service	 <u>1,100,703</u>	 <u>1,102,687</u>	 <u>1,100,654</u>	 <u>2,033</u>
 Capital outlays	 <u>440,500</u>	 <u>729,098</u>	 <u>856,127</u>	 <u>( 127,029)</u>
 Total expenditures	 <u>4,507,164</u>	 <u>4,640,926</u>	 <u>4,527,107</u>	 <u>113,819</u>

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**Water and Wastewater Fund**

**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Excess of revenues over expenditures	\$ <u>144,430</u>	(\$ <u>108,298</u> )	\$ 45,060	\$ <u>153,358</u>
Add:				
Principal payments			848,698	
Capital outlays			856,127	
Less:				
Depreciation expense			( 1,006,208)	
Amortization expense			<u>( 18,489)</u>	
Change in net assets			725,188	
Net assets, beginning of year			<u>16,663,863</u>	
Net assets, end of year			\$ <u>17,389,051</u>	

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**Sanitation Fund**

**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for services:				
Hand pick-up	\$ 584,248	\$ 612,844	\$ 619,109	\$ 6,265
Commercial dumpster	324,716	341,809	343,412	1,603
Collection fees	27,439	28,160	28,892	732
Fines and forfeitures	26,444	33,387	33,007	( 380)
Franchise fee	<u>145,232</u>	<u>143,406</u>	<u>144,447</u>	<u>1,041</u>
Total operating revenues	1,108,079	1,159,606	1,168,867	9,261
Nonoperating revenues:				
Investment income	<u>729</u>	<u>855</u>	<u>850</u>	<u>( 5)</u>
Total revenues	<u>1,108,808</u>	<u>1,160,461</u>	<u>1,169,717</u>	<u>9,256</u>
Expenditures				
Sanitation operations:				
Personal services	11,419	11,334	18,325	( 6,991)
Contractual services	914,629	938,668	963,079	( 24,411)
Administrative overhead	<u>182,500</u>	<u>209,500</u>	<u>209,500</u>	<u>—</u>
Total expenditures	<u>1,108,548</u>	<u>1,159,502</u>	<u>1,190,904</u>	<u>( 31,402)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 260</u>	<u>\$ 959</u>	<u>( 21,187)</u>	<u>(\$ 22,146)</u>
Net assets, beginning of year			<u>45,578</u>	
Net assets, end of year			<u>\$ 24,391</u>	

**CITY OF FRANKLIN, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE**

**Fiber Optic Fund**

**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for services	\$ 84,000	\$ 22,628	\$ 22,348	(\$ 280)
Miscellaneous	<u>93,182</u>	<u>331</u>	<u>—</u>	<u>(331)</u>
Total operating revenues	<u>177,182</u>	<u>22,959</u>	<u>22,348</u>	<u>(611)</u>
Nonoperating revenues:				
Grant revenue	714,983	747,250	558,128	( 189,122)
General Fund appropriation	<u>—</u>	<u>155,000</u>	<u>155,000</u>	<u>—</u>
Total nonoperating revenues	<u>714,983</u>	<u>902,250</u>	<u>713,128</u>	<u>(189,122)</u>
Total revenues	<u>892,165</u>	<u>925,209</u>	<u>735,476</u>	<u>(189,733)</u>
Expenditures				
Personal services	80,640	36,305	34,858	1,447
Contractual services	136,685	51,761	56,216	( 4,455)
Materials and supplies	3,000	1,216	1,389	( 173)
Other	3,448	1,909	2,419	( 510)
Capital outlay	<u>1,926,453</u>	<u>1,725,591</u>	<u>1,229,329</u>	<u>496,262</u>
Total expenditures	<u>2,150,226</u>	<u>1,816,782</u>	<u>1,324,211</u>	<u>492,571</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(\$ 1,258,061)</u>	<u>(\$ 891,573)</u>	<u>( 588,735)</u>	<u>\$ 302,838</u>
Add:				
Capital outlays			1,229,329	
Less:				
Depreciation expense			<u>(12,700)</u>	
Change in net assets			627,894	
Net assets, beginning of year			<u>49,916</u>	
Net assets, end of year			<u>\$ 677,810</u>	

**REPORT OF INDEPENDENT AUDITORS 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 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 24, 2013. 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.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (2012-1). *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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain other matters that we reported to management of the City in a separate letter dated January 24, 2013.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the governing body, others within the City, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

January 24, 2013

**CITY OF FRANKLIN, KENTUCKY**

**SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2012**

**FINDINGS - FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCIES**

**2012-1 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.