

CITY OF FRANKLIN, KENTUCKY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2010

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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, 2010, 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, 2010, 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 February 23, 2011, 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.

The accompanying management's discussion and analysis, General Fund budgetary comparison schedule and infrastructure condition and maintenance data as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

February 23, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Franklin, Kentucky

Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

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, 2009. 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 \$29,938,948 and \$29,356,074 for the prior fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported ending net assets of \$14,080,738 which includes unrestricted net assets of \$1,145,279. Respectively for the prior fiscal year \$14,181,290 of net assets and \$1,147,579 of unrestricted net assets.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,258,610 with \$1,128,312 for the prior fiscal year.
- For the year ended June 30, 2010, total debt increased by \$4,563,056 during the year due to issuance of new debt of \$12,395,669 offset by principal reductions of \$7,832,613. For the prior fiscal year, total debt decreased by \$1,299,305 due to principal reductions.
- The City had total revenues of \$11,450,364 for the year ended June 30, 2010 which includes: program revenues (charges for service) of \$6,699,696, operating grants and contributions of \$301,333, capital grants and contributions of \$196,567 and general revenues of \$4,252,768. The City had total expenses of \$10,867,490 for the year ended June 30, 2010. Comparatively, the City had total revenues of \$10,778,996 for the year ended June 30, 2009 which includes: program revenues (charges for service) of \$5,653,133, operating grants and contributions of \$235,684, capital grants and contributions of \$608,180 and general revenues of \$4,281,999. The City had total expenses of \$10,789,025 for the year ended June 30, 2009.
- The City's total capital outlays were \$803,468 for the current fiscal year and \$747,110 for the prior fiscal year. For the Governmental Funds capital outlays of \$161,272 for the current fiscal year and \$67,782 for the prior fiscal year. For the Proprietary Funds capital outlays for the current fiscal year were \$642,196 and the prior fiscal year of \$679,328.

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 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 24 through 54 of this report.

Government-wide Analysis

The Implementation of Governmental Accounting Standards Board (GASB) Statement 34 was implemented in fiscal 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 \$29,938,948 for the current fiscal year and \$29,356,074 at the close of the prior fiscal year.

By far the largest portion of the City’s net assets (76%) 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.

| | 2010 Net Assets | | |
|---|------------------------------------|--|----------------------|
| | Governmental Activities | Business- type Activities | Total |
| Current and other assets | \$ 7,824,565 | \$ 3,110,911 | \$ 10,935,476 |
| Capital assets | <u>13,683,223</u> | <u>21,549,736</u> | <u>35,232,959</u> |
| Total assets | <u>\$ 21,507,788</u> | <u>\$ 24,660,647</u> | <u>\$ 46,168,435</u> |
| Long-term liabilities outstanding | \$ 6,669,338 | \$ 8,107,048 | \$ 14,776,386 |
| Other liabilities | <u>757,712</u> | <u>695,389</u> | <u>1,453,101</u> |
| Total liabilities | <u>\$ 7,427,050</u> | <u>\$ 8,802,437</u> | <u>\$ 16,229,487</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | \$ 12,106,351 | \$ 14,114,964 | \$ 26,221,315 |
| Restricted | 829,108 | 1,920,343 | 2,749,451 |
| Unrestricted | <u>1,145,279</u> | <u>(177,097)</u> | <u>968,182</u> |
| Total net assets | <u>\$ 14,080,738</u> | <u>\$ 15,858,210</u> | <u>\$ 29,938,948</u> |

| | 2009 Net Assets | | |
|--|------------------------------------|--|----------------------|
| | Governmental Activities | Business- type Activities | Total |
| Current and other assets | \$ 2,732,618 | \$ 2,591,565 | \$ 5,324,183 |
| Capital assets | <u>13,769,297</u> | <u>21,951,039</u> | <u>35,720,336</u> |
| Total assets | <u>\$ 16,501,915</u> | <u>\$ 24,542,604</u> | <u>\$ 41,044,519</u> |
| Long-term liabilities outstanding | \$ 1,574,757 | \$ 8,617,626 | \$ 10,192,383 |
| Other liabilities | <u>745,868</u> | <u>750,194</u> | <u>1,496,062</u> |
| Total liabilities | <u>\$ 2,320,625</u> | <u>\$ 9,367,820</u> | <u>\$ 11,688,445</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | \$ 12,192,215 | \$ 13,809,204 | \$ 26,001,419 |
| Restricted | 841,496 | 1,862,514 | 2,704,010 |
| Unrestricted | <u>1,147,579</u> | <u>(496,934)</u> | <u>650,645</u> |
| Total net assets | <u>\$ 14,181,290</u> | <u>\$ 15,174,784</u> | <u>\$ 29,356,074</u> |

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

| | 2010 | | |
|--|------------------------------|----------------------|----------------------|
| | Changes in Net Assets | | |
| | Governmental | Business- | |
| | Activities | type | Total |
| | Activities | Activities | |
| Revenues | | | |
| Program revenues | | | |
| Charges for services | \$ 1,032,162 | \$ 5,667,534 | \$ 6,699,696 |
| Operating grants and contributions | 301,333 | — | 301,333 |
| Capital grants and contributions | — | 196,567 | 196,567 |
| General revenues | | | |
| Property taxes | 777,346 | — | 777,346 |
| Occupational fees | 1,855,376 | — | 1,855,376 |
| Insurance premium fees | 1,070,240 | — | 1,070,240 |
| Franchise fees | 96,593 | — | 96,593 |
| Business license fees | 290,086 | — | 290,086 |
| Interest income | 16,563 | 32,301 | 48,864 |
| Miscellaneous income | 60,469 | 46,352 | 106,821 |
| Gain (loss) on sale of capital assets | <u>7,442</u> | <u>—</u> | <u>7,442</u> |
| Total revenues | <u>5,507,610</u> | <u>5,942,754</u> | <u>11,450,364</u> |
| Expenses | | | |
| General government | 1,662,611 | — | 1,662,611 |
| Public safety | 2,172,922 | — | 2,172,922 |
| Public works | 1,061,653 | — | 1,061,653 |
| Community and cultural | 585,438 | — | 585,438 |
| Interest expense on long-term debt | 125,538 | 326,614 | 452,152 |
| Water and wastewater | — | 3,819,792 | 3,819,792 |
| Sanitation | — | 1,098,668 | 1,098,668 |
| Fiber Optic | <u>—</u> | <u>14,254</u> | <u>14,254</u> |
| Total expenses | <u>5,608,162</u> | <u>5,259,328</u> | <u>10,867,490</u> |
| Increase (Decrease) in Net Assets | (100,552) | 683,426 | 582,874 |
| Net assets, beginning of year | <u>14,181,290</u> | <u>15,174,784</u> | <u>29,356,074</u> |
| Net assets – June 30, 2010 | <u>\$ 14,080,738</u> | <u>\$ 15,858,210</u> | <u>\$ 29,938,948</u> |

2009
Changes in Net Assets

| | Governmental Activities | Business- type Activities | Total |
|--|------------------------------------|--|----------------------|
| Revenues | | | |
| Program revenues | | | |
| Charges for services | \$ 846,274 | \$ 4,806,859 | \$ 5,653,133 |
| Operating grants and contributions | 235,684 | — | 235,684 |
| Capital grants and contributions | 207,194 | 400,986 | 608,180 |
| General revenues | | | |
| Property taxes | 717,930 | — | 717,930 |
| Occupational fees | 1,739,623 | — | 1,739,623 |
| Insurance premium fees | 1,180,149 | — | 1,180,149 |
| Franchise fees | 108,844 | — | 108,844 |
| Business license fees | 318,736 | — | 318,736 |
| Interest income | 20,234 | 54,233 | 74,467 |
| Miscellaneous income | 84,006 | 62,440 | 146,446 |
| Gain (loss) on sale of capital assets | <u>(10,196)</u> | <u>6,000</u> | <u>(4,196)</u> |
| Total revenues | <u>5,448,478</u> | <u>5,330,518</u> | <u>10,778,996</u> |
| Expenses | | | |
| General government | 1,709,000 | — | 1,709,000 |
| Public safety | 2,026,425 | — | 2,026,425 |
| Public works | 1,174,201 | — | 1,174,201 |
| Community and cultural | 561,437 | — | 561,437 |
| Interest expense on long-term debt | 69,318 | 345,843 | 415,161 |
| Water and wastewater | — | 3,680,167 | 3,680,167 |
| Sanitation | — | 1,220,831 | 1,220,831 |
| Fiber Optic | <u>—</u> | <u>1,803</u> | <u>1,803</u> |
| Total expenses | <u>5,540,381</u> | <u>5,248,644</u> | <u>10,789,025</u> |
| Increase (Decrease) in Net Assets | (91,903) | 81,874 | (10,029) |
| Net assets, beginning of year | <u>14,273,193</u> | <u>15,092,910</u> | <u>29,366,103</u> |
| Net assets – June 30, 2009 | <u>\$ 14,181,290</u> | <u>\$ 15,174,784</u> | <u>\$ 29,356,074</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 \$6,612,481 compared to \$1,979,059 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 \$97,000 decrease in revenue and \$1,202,000 increase in appropriations which can be briefly summarized as follows:

- Decrease in intergovernmental grant revenue awarded but delayed to FY2011 and related expenses for streetscape project
- Increase in community services related to investment for economic development of approximately \$1,023,000 and increased appropriations to parks and recreation of \$30,000.

Total revenues for the year were higher than final budgetary estimates while expenses were lower than final budgetary estimates. There was a deficiency of revenues over expenditures primarily related to the investment in economic development. Funds utilized for this expenditure were provided by proceeds from notes and not operating revenues. Excluding this investment activity, there was an excess of revenues over expenditures. There was an increase in fund balance for the year.

Proprietary Funds

Operating revenues of the City's proprietary funds increased 17.9% from the prior year to \$5,667,534. At the beginning of the year, the City increased rates for water by 31.1% and for wastewater by 30.5%. Operating revenues from Water and Wastewater increased by 26.7% to \$4,565,156 while operating revenues from Sanitation services decreased 8.3% to \$1,102,378. Total operating expenses increased .5% to \$4,902,520. Operating expenses for Water & Wastewater increased by 3.7% to \$3,789,598 while operating expenses for Sanitation services decreased by 10.0% to 1,098,668.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2010, the City's investment in capital assets net of related debt for its governmental and business-type activities was \$26,221,315 and \$26,001,419 as of June 30, 2009. 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:

- Equipment used by Street department \$41,420.
- Cruisers for the Police department \$114,290.
- Capital expenditure of \$128,028 for design work of Fiber Optic network and fiber optic cable.
- Capital expenditures of \$514,168 for improvements and additions to the City's water and sewer system.

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

- Equipment used by Street department \$39,304.
- Capital expenditure of \$34,868 for design work of Fiber Optic network.
- Capital expenditures of \$644,461 for improvements and additions to the City's water and sewer system.

Long-term Debt

The City had \$14,357,649 in revenue bonds and capital lease obligations outstanding as of June 30, 2010, which is an increase of \$4,563,056 from the previous year. The City issued bonds and notes payable of \$12,395,669 during the year of which \$6,478,963 was used to refund revenue bonds and capital lease obligations. The City made principal payments of \$1,353,650. The previous year the City had \$9,794,593 in revenue bonds and capital lease obligations outstanding as of June 30, 2009, which is a net decrease of \$1,299,305 from the previous year. The City made principal payments of \$1,307,642 during fiscal 2009.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$6,612,481 excluding capital assets and long-term debt. Included in this year's total change in fund balance, however, is an increase of \$4,785,787 in the City's General Fund of which \$4,491,391 is reserved for economic development and \$184,208 is reserved for debt service. For the previous year, City's governmental funds reported a combined fund balance of 1,979,059 excluding capital assets and long-term debt. Included in the prior year total change in fund balance, however, is an increase of \$13,978 in the City's General Fund.

Modified Approach to Infrastructure

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

It is the City's policy to assess the condition of the roads annually for cracks, potholes, misalignment, drainage condition and number of specific safety hazards. There was one road that was severely deficient in condition at June 30, 2010 but was subsequently paved in the fall of 2010.

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

- The City has designed and begun bidding processes to construct a fiber optic loop for business and industry in Franklin and in the two industrial parks. The City 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. Total cost of construction is projected to be \$2,000,000. Construction of the fiber optic loop is projected to be completed during 2011.
- 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 new Tractor Supply distribution center will employ 200 at start-up and will eventually employ 250 people. Ground work began in October 2010 on the 91 acres acquired for the project. The large tract of land in the back of the industrial park will give Tractor Supply plenty of room to expand. In three years, Tractor Supply hopes to expand its building to 1 million square feet and increase its work force to 250. The distribution center is scheduled to be operational in July 2011.
- In November 2010 Simpson County Fiscal Court approved the issuance of up to \$10 million in hospital revenue bonds to pay for the 9,400 square foot expansion of the Franklin Medical Center. The expansion will add 2 operating rooms, an endoscopy suite, a six-bed operating recovery area and a central sterile supply area. Of the \$10 million issue, \$5 million refinanced bonds issued for an earlier project at the facility that included the addition of a 25-bed patient wing completed in December 2007. This is the third expansion at the hospital in south Franklin in the past three years. The former F-S Memorial Hospital underwent a \$5 million improvement project in 2006-07 and added a \$3.5 million two-story Medical Pavilion in 2009-10.

- In December 2010, the Franklin-Simpson Industrial Authority completed construction of a 105,000 square foot expansion for Quad/Graphics, Inc. Prior to the expansion, Quad/Graphics operated a 460,000-square-foot facility in Franklin employing approximately 425 people. The expansion will create 135 new jobs for Franklin with a total of 565,000 square feet under roof.
- In November 2010, Charles Dewese Construction co. announced its expansion of the company headquarters in Simpson County, adding 50 new jobs and investing \$500,000 in the community. The expansion will diversify business opportunities and expand the company's headquarters to include commercial construction projects.
- Renovations are complete to re-open the Roxy Theater in downtown Franklin. The space has been transformed into a multipurpose building with a combination of office, retail and entertainment space. The Sweet Shoppe, a sandwich, candy and ice cream parlor, within the Roxy Theater building opened in the spring of 2010. The auditorium features three tiers of tables with enough space to seat approximately 200 for dinner functions and possibly 300 for concerts.
- The City experienced some layoffs and loss of jobs in late 2008, during 2009 and 2010 as did many communities. Although there have been reductions, the City has seen continued construction with various enterprises opening during 2009 and 2010. CVS Pharmacy, Hibbett Sports, Dollar Tree, Holiday Inn Express and Comfort Inn and Suites opened in 2009 with Casa Grande, Harman's and Hollywood Grill restaurants opening in 2010. All adding additional jobs to our employment base. With these additions, the City now has over 500 hotel rooms and 10 restaurants that serve alcoholic beverages which is an important factor for tourism growth for the community.

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, 2010

| | Primary Government | | Total |
|--|----------------------------|-----------------------------|--------------------------|
| | Governmental Activities | Business-type Activities | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,091,913 | \$ 281,899 | \$ 1,373,812 |
| Certificates of deposit | 432,433 | — | 432,433 |
| Receivables (net of allowance for uncollectibles): | | | |
| Accounts | 7,554 | 595,916 | 603,470 |
| Taxes | 646,350 | — | 646,350 |
| Notes | 519,849 | — | 519,849 |
| Intergovernmental | 41,164 | 83,711 | 124,875 |
| Interest | 749 | — | 749 |
| Internal balances | 318,659 | (318,659) | — |
| Inventory | — | 38,736 | 38,736 |
| Prepaid items | 19,420 | 9,739 | 29,159 |
| Restricted assets: | | | |
| Cash and cash equivalents | 4,710,732 | 1,015,047 | 5,725,779 |
| Certificates of deposit | — | 1,330,449 | 1,330,449 |
| Interest receivable | — | 1,163 | 1,163 |
| Capital assets, net of accumulated depreciation: | | | |
| Nondepreciable | 11,322,495 | 348,542 | 11,671,037 |
| Depreciable capital assets | 2,360,728 | 20,769,198 | 23,129,926 |
| Construction in progress | — | 431,996 | 431,996 |
| Debt issuance costs | <u>35,742</u> | <u>72,910</u> | <u>108,652</u> |
| Total assets | <u>\$ 21,507,788</u> | <u>\$ 24,660,647</u> | <u>\$ 46,168,435</u> |
| LIABILITIES AND NET ASSETS | | | |
| Liabilities: | | | |
| Accounts payable | \$ 550,344 | \$ 271,231 | \$ 821,575 |
| Other accrued liabilities | 106,149 | 369,395 | 475,544 |
| Accrued interest payable | 19,120 | 23,129 | 42,249 |
| Accrued vacation | 82,099 | 31,634 | 113,733 |
| Noncurrent liabilities: | | | |
| Customer deposits | — | 418,737 | 418,737 |
| Due within one year | 293,274 | 1,141,642 | 1,434,916 |
| Due in more than one year | <u>6,376,064</u> | <u>6,546,669</u> | <u>12,922,733</u> |
| Total liabilities | <u>7,427,050</u> | <u>8,802,437</u> | <u>16,229,487</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 12,106,351 | 14,114,964 | 26,221,315 |
| Restricted for: | | | |
| Highways and streets | 91,910 | — | 91,910 |
| Debt service and capital activity | 184,208 | 1,920,343 | 2,104,551 |
| Economic development | 58,470 | — | 58,470 |
| Perpetual care | 460,666 | — | 460,666 |
| Other purposes | 33,854 | — | 33,854 |
| Unrestricted | <u>1,145,279</u> | <u>(177,097)</u> | <u>968,182</u> |
| Total net assets | <u>14,080,738</u> | <u>15,858,210</u> | <u>29,938,948</u> |
| Total liabilities and net assets | <u>\$ 21,507,788</u> | <u>\$ 24,660,647</u> | <u>\$ 46,168,435</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 885,643 | \$ 206,270 | \$ 1,091,913 |
| Certificates of deposit | — | 432,433 | 432,433 |
| Receivables (net of allowance for uncollectibles): | | | |
| Accounts | 6,954 | 600 | 7,554 |
| Taxes | 646,350 | — | 646,350 |
| Notes | 14,000 | — | 14,000 |
| Intergovernmental | 30,861 | 10,303 | 41,164 |
| Interest | — | 749 | 749 |
| Due from other funds | 356,459 | 50,993 | 407,452 |
| Prepaid items | 19,000 | 420 | 19,420 |
| Restricted assets | | | |
| Cash and cash equivalents | <u>4,709,453</u> | <u>1,279</u> | <u>4,710,732</u> |
| Total assets | <u>\$ 6,668,720</u> | <u>\$ 703,047</u> | <u>\$ 7,371,767</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 510,515 | \$ 39,829 | \$ 550,344 |
| Due to other funds | 50,993 | 37,800 | 88,793 |
| Accrued expenses | 106,149 | — | 106,149 |
| Deferred revenue | <u>14,000</u> | <u>—</u> | <u>14,000</u> |
| Total liabilities | <u>681,657</u> | <u>77,629</u> | <u>759,286</u> |
| Fund balances: | | | |
| Reserved for: | | | |
| Prepaid items | 19,000 | 420 | 19,420 |
| Debt service | 184,208 | — | 184,208 |
| Economic development | 4,491,391 | — | 4,491,391 |
| Drug enforcement | 15,558 | — | 15,558 |
| Retirement benefits | 18,296 | — | 18,296 |
| Perpetual care | — | 459,336 | 459,336 |
| Unreserved | 1,258,610 | — | 1,258,610 |
| Unreserved, reported in nonmajor: | | | |
| Special revenue funds | <u>—</u> | <u>165,662</u> | <u>165,662</u> |
| Total fund balances | <u>5,987,063</u> | <u>625,418</u> | <u>6,612,481</u> |
| Total liabilities and fund balances | <u>\$ 6,668,720</u> | <u>\$ 703,047</u> | <u>\$ 7,371,767</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, 2010**

| | | |
|--|-------------------|----------------------|
| Total fund balances - governmental funds | | \$ 6,612,481 |
| 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. | | 13,683,223 |
| Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Bonds and notes payable | (\$ 6,669,338) | |
| Compensated absences | (82,099) | |
| Accrued interest on long-term obligations | (<u>19,120</u>) | (6,770,557) |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | | 519,849 |
| 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>35,742</u> |
| Net assets of governmental activities | | <u>\$ 14,080,738</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, 2010**

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------|--|---|
| Revenues | | | |
| Taxes: | | | |
| Property | \$ 777,346 | \$ — | \$ 777,346 |
| Occupational | 1,855,376 | — | 1,855,376 |
| Insurance premium | 1,070,240 | — | 1,070,240 |
| Franchise | 96,593 | — | 96,593 |
| Business license | 290,086 | — | 290,086 |
| Intergovernmental | 176,997 | 154,031 | 331,028 |
| Charges for sales and services | — | 78,005 | 78,005 |
| Interfund charges | 831,984 | — | 831,984 |
| Fines and forfeitures | 38,408 | — | 38,408 |
| Contributions and donations | — | 6,000 | 6,000 |
| Investment income | 4,998 | 11,565 | 16,563 |
| Miscellaneous | <u>117,684</u> | <u>855</u> | <u>118,539</u> |
| Total revenues | <u>5,259,712</u> | <u>250,456</u> | <u>5,510,168</u> |
| Expenditures | | | |
| Current: | | | |
| General government | \$ 1,563,528 | \$ — | \$ 1,563,528 |
| Public safety | 2,026,130 | — | 2,026,130 |
| Public works | 759,732 | 239,518 | 999,250 |
| Community services | 765,222 | 286,328 | 1,051,550 |
| Capital outlay | 126,069 | 35,202 | 161,271 |
| Debt service: | | | |
| Principal | 294,445 | — | 294,445 |
| Interest | 136,751 | — | 136,751 |
| Administrative fees | 4,086 | — | 4,086 |
| Bond closing costs | <u>37,535</u> | <u>—</u> | <u>37,535</u> |
| Total expenditures | <u>5,713,498</u> | <u>561,048</u> | <u>6,274,546</u> |
| Deficiency of revenues under expenditures | <u>(453,786)</u> | <u>(310,592)</u> | <u>(764,378)</u> |
| Other financing sources (uses): | | | |
| Transfers in | — | 162,100 | 162,100 |
| Transfers out | (153,400) | (8,700) | (162,100) |
| Proceeds of general obligation notes | 4,225,000 | — | 4,225,000 |
| Proceeds of refunding notes | 4,000,000 | — | 4,000,000 |
| Proceeds of refunding bonds | 2,695,000 | — | 2,695,000 |
| Discount on refunding bonds | (26,950) | — | (26,950) |
| Bond refunding debt service - principal | (1,505,311) | — | (1,505,311) |
| Note refunding debt service - principal | (4,000,000) | — | (4,000,000) |
| Sale of capital assets | <u>5,174</u> | <u>4,887</u> | <u>10,061</u> |
| Total other financing sources (uses) | <u>5,239,513</u> | <u>158,287</u> | <u>5,397,800</u> |

See Notes to Financial Statements

(Continued)

CITY OF FRANKLIN, KENTUCKY

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
Year Ended June 30, 2010**

| | <u>General</u> | Nonmajor Governmental <u>Funds</u> | Total Governmental <u>Funds</u> |
|----------------------------------|---------------------|--|---------------------------------------|
| Net change in fund balances | 4,785,727 | (152,305) | 4,633,422 |
| Fund balances, beginning of year | <u>1,201,336</u> | <u>777,723</u> | <u>1,979,059</u> |
| Fund balances, end of year | <u>\$ 5,987,063</u> | <u>\$ 625,418</u> | <u>\$ 6,612,481</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, 2010**

| | <u>Total Governmental Funds</u> |
|--|---|
| Net change in fund balances - total governmental funds | \$ 4,633,422 |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> | |
| 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. | (83,455) |
| 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. | (5,058,841) |
| 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 | (\$ 14,195) |
| Bad debt expense | (51,595) |
| Accrued interest on long-term debt | (<u>19,120</u>) |
| | (84,910) |
| 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. | (10,000) |
| In the statement of activities, only the gain on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balance by the net book value of the assets sold. | (2,619) |
| Certain construction expenditures incurred on behalf of local industrial authority are reported as expenditures in governmental funds; however, in the statement of activities, expenses are not recognized because such amounts are recorded as note receivable from industrial authority. | <u>505,848</u> |
| Change in net assets of governmental activities | (<u>\$ 100,555</u>) |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
June 30, 2010

| | Enterprise Funds | | | |
|---------------------------------|-------------------------|-------------------|-------------------|----------------------|
| | Water and Wastewater | Sanitation | Fiber Optic | Total |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 186,875 | \$ 95,024 | \$ — | \$ 281,899 |
| Accounts receivable, net | 561,856 | 34,060 | — | 595,916 |
| Intergovernmental receivables | 6,294 | — | 77,417 | 83,711 |
| Due from other funds | — | 301,221 | — | 301,221 |
| Inventory | 38,736 | — | — | 38,736 |
| Prepaid items | 9,132 | 607 | — | 9,739 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 1,015,047 | — | — | 1,015,047 |
| Certificates of deposit | 1,330,449 | — | — | 1,330,449 |
| Interest receivable | <u>1,163</u> | <u>—</u> | <u>—</u> | <u>1,163</u> |
| Total current assets | <u>3,149,552</u> | <u>430,912</u> | <u>77,417</u> | <u>3,657,881</u> |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Land | 307,228 | 40,114 | 1,200 | 348,542 |
| Depreciable capital assets, net | 20,769,198 | — | — | 20,769,198 |
| Construction in progress | <u>199,882</u> | <u>—</u> | <u>232,114</u> | <u>431,996</u> |
| Net capital assets | 21,276,308 | 40,114 | 233,314 | 21,549,736 |
| Debt issue costs | <u>72,910</u> | <u>—</u> | <u>—</u> | <u>72,910</u> |
| Total noncurrent assets | <u>21,349,218</u> | <u>40,114</u> | <u>233,314</u> | <u>21,622,646</u> |
| Total assets | <u>\$ 24,498,770</u> | <u>\$ 471,026</u> | <u>\$ 310,731</u> | <u>\$ 25,280,527</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
June 30, 2010

| | Enterprise Funds | | | |
|--|-------------------------|-------------------|-------------------|----------------------|
| | Water and Wastewater | Sanitation | Fiber Optic | Total |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 176,947 | \$ 93,907 | \$ 377 | \$ 271,231 |
| Accrued liabilities | 48,251 | 321,144 | — | 369,395 |
| Accrued interest | 23,129 | — | — | 23,129 |
| Accrued vacation | 31,634 | — | — | 31,634 |
| Due to other funds | 349,777 | — | 270,103 | 619,880 |
| Current maturities of notes payable | 206,642 | — | — | 206,642 |
| Current maturities of capital lease obligations | 195,000 | — | — | 195,000 |
| Payable from restricted assets: | | | | |
| Current maturities of revenue bonds payable | 740,000 | — | — | 740,000 |
| Customer deposits | <u>418,737</u> | <u>—</u> | <u>—</u> | <u>418,737</u> |
| Total current liabilities | <u>2,190,117</u> | <u>415,051</u> | <u>270,480</u> | <u>2,875,648</u> |
| Noncurrent liabilities: | | | | |
| Notes payable | 939,502 | — | — | 939,502 |
| Revenue bonds payable | <u>5,607,167</u> | <u>—</u> | <u>—</u> | <u>5,607,167</u> |
| Total noncurrent liabilities | <u>6,546,669</u> | <u>—</u> | <u>—</u> | <u>6,546,669</u> |
| Total liabilities | <u>8,736,786</u> | <u>415,051</u> | <u>270,480</u> | <u>9,422,317</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 13,841,536 | 40,114 | 233,314 | 14,114,964 |
| Restricted for debt service and capital activity | 1,920,343 | — | — | 1,920,343 |
| Unrestricted | <u>105</u> | <u>15,861</u> | <u>(193,063)</u> | <u>(177,097)</u> |
| Total net assets | <u>15,761,984</u> | <u>55,975</u> | <u>40,251</u> | <u>15,858,210</u> |
| Total liabilities and net assets | <u>\$ 24,498,770</u> | <u>\$ 471,026</u> | <u>\$ 310,731</u> | <u>\$ 25,280,527</u> |

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
Year Ended June 30, 2010**

| | Enterprise Funds | | | |
|---|---------------------------------|-------------------|------------------------|----------------------|
| | <u>Water and Wastewater</u> | <u>Sanitation</u> | <u>Fiber Optic</u> | <u>Total</u> |
| Operating revenues | | | | |
| Charges for services | \$ 4,447,528 | \$ 1,098,260 | \$ — | \$ 5,545,788 |
| Fines and forfeitures | <u>117,628</u> | <u>4,118</u> | <u>—</u> | <u>121,746</u> |
| Total operating revenues | <u>4,565,156</u> | <u>1,102,378</u> | <u>—</u> | <u>5,667,534</u> |
| Operating expenses | | | | |
| Salaries, wages and benefits | 1,140,443 | 10,800 | — | 1,151,243 |
| Maintenance | 185,555 | 937,868 | 483 | 1,123,906 |
| Utilities | 310,323 | — | — | 310,323 |
| Administrative | 514,410 | 150,000 | 13,574 | 677,984 |
| Supplies | 575,487 | — | 32 | 575,519 |
| Other | 19,881 | — | 165 | 20,046 |
| Depreciation | <u>1,043,499</u> | <u>—</u> | <u>—</u> | <u>1,043,499</u> |
| Total operating expenses | <u>3,789,598</u> | <u>1,098,668</u> | <u>14,254</u> | <u>4,902,520</u> |
| Operating income (loss) | <u>775,558</u> | <u>3,710</u> | <u>(14,254)</u> | <u>765,014</u> |
| Nonoperating revenues (expenses): | | | | |
| Investment income | 32,123 | 178 | — | 32,301 |
| Intergovernmental revenue | 119,150 | — | 77,417 | 196,567 |
| Miscellaneous revenue | 46,352 | — | — | 46,352 |
| Interest expense | (310,093) | — | — | (310,093) |
| Amortization expense | (30,194) | — | — | (30,194) |
| Administrative fees | <u>(16,521)</u> | <u>—</u> | <u>—</u> | <u>(16,521)</u> |
| Total nonoperating revenues (expenses) | <u>(159,183)</u> | <u>178</u> | <u>77,417</u> | <u>(81,588)</u> |
| Change in net assets | 616,375 | 3,888 | 63,163 | 683,426 |
| Net assets, beginning of year | <u>15,145,609</u> | <u>52,087</u> | <u>(22,912)</u> | <u>15,174,784</u> |
| Net assets, end of year | <u>\$ 15,761,984</u> | <u>\$ 55,975</u> | <u>\$ 40,251</u> | <u>\$ 15,858,210</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2010**

| | Enterprise Funds | | | |
|--|-------------------------|------------------|-------------------|---------------------|
| | Water and Wastewater | Sanitation | Fiber Optic | Total |
| Cash flows from operating activities | | | | |
| Cash received from customers | \$ 4,583,302 | \$ 1,099,190 | \$ — | \$ 5,682,492 |
| Cash payments to employees and retirees | (1,140,137) | (10,800) | — | (1,150,937) |
| Cash payments to suppliers | (1,618,255) | (854,245) | (518) | (2,473,018) |
| Payments for administrative overhead | (514,410) | (150,000) | (13,574) | (677,984) |
| Net cash provided by (used in) operating activities | <u>1,310,500</u> | <u>84,145</u> | <u>(14,092)</u> | <u>1,380,553</u> |
| Cash flows from noncapital financing activities | | | | |
| Borrowings from other funds | <u>—</u> | <u>—</u> | <u>142,120</u> | <u>142,120</u> |
| Net cash provided by noncapital financing activities | <u>—</u> | <u>—</u> | <u>142,120</u> | <u>142,120</u> |
| Cash flows from capital and related financing activities | | | | |
| Proceeds from capital grants | 199,368 | — | — | 199,368 |
| Proceeds from refunding bonds | 1,529,550 | — | — | 1,529,550 |
| Purchase of capital assets | (514,168) | — | (128,028) | (642,196) |
| Principal paid on bonds, notes and lease obligations | (2,048,442) | — | — | (2,048,442) |
| Interest paid on bonds, notes and lease obligations | (311,330) | — | — | (311,330) |
| Administrative fees paid | (16,521) | — | — | (16,521) |
| Debt issue costs paid | (37,737) | — | — | (37,737) |
| Net cash used in capital and related financing activities | <u>(1,199,280)</u> | <u>—</u> | <u>(128,028)</u> | <u>(1,327,308)</u> |
| Cash flows from investing activities | | | | |
| Proceeds from sale and maturities of certificates of deposit | 31,760 | — | — | 31,760 |
| Interest received | <u>33,320</u> | <u>178</u> | <u>—</u> | <u>33,498</u> |
| Net cash provided by investing activities | <u>65,080</u> | <u>178</u> | <u>—</u> | <u>65,258</u> |
| Net increase in cash and cash equivalents | 176,300 | 84,323 | — | 260,623 |
| Cash and cash equivalents, beginning of year | <u>1,025,622</u> | <u>10,701</u> | <u>—</u> | <u>1,036,323</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,201,922</u> | <u>\$ 95,024</u> | <u>\$ —</u> | <u>\$ 1,296,946</u> |
| Reflected in the Statement of Fund Net Assets - Proprietary Funds as: | | | | |
| Cash and cash equivalents | \$ 186,875 | \$ 95,024 | \$ — | \$ 281,899 |
| Restricted cash and cash equivalents | <u>1,015,047</u> | <u>—</u> | <u>—</u> | <u>1,015,047</u> |
| Total | <u>\$ 1,201,922</u> | <u>\$ 95,024</u> | <u>\$ —</u> | <u>\$ 1,296,946</u> |

See Notes to Financial Statements

(Continued)

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2010

| | Enterprise Funds | | | |
|--|-------------------------|------------------|--------------------|---------------------|
| | Water and Wastewater | Sanitation | Fiber Optic | Total |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss) | \$ 775,558 | \$ 3,710 | (\$ 14,254) | \$ 765,014 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 1,043,499 | — | — | 1,043,499 |
| Nonoperating revenues | 46,352 | — | — | 46,352 |
| Change in assets and liabilities: | | | | |
| Increase in accounts receivable | (49,153) | (3,188) | — | (52,341) |
| Decrease in due from other funds | 251 | 99,202 | — | 99,453 |
| (Increase) decrease in inventory and prepaid items | 36,627 | (14) | — | 36,613 |
| Increase (decrease) in accounts payable | (48,857) | 18,169 | 162 | (30,526) |
| Decrease in accrued liabilities | (1,993) | (3,546) | — | (5,539) |
| Increase in accrued vacation | 2,299 | — | — | 2,299 |
| Increase in customer deposits | 20,947 | — | — | 20,947 |
| Decrease in due to other funds | (495,228) | (30,188) | — | (525,416) |
| Decrease in deferred revenue | (19,802) | — | — | (19,802) |
| Net cash provided by (used in) operating activities | <u>\$ 1,310,500</u> | <u>\$ 84,145</u> | <u>(\$ 14,092)</u> | <u>\$ 1,380,553</u> |

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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, 2010

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, 2010

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, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds

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

Permanent Funds

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

Proprietary Funds

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

Enterprise Funds

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

Water and Wastewater Fund

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sanitation Fund

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

Fiber Optic Fund

The Fiber Optic Fund, 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.

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Financial Statements

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

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

The City reports 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, 2010

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, 2010, 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, 2010

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, 2010

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, 2010

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.

Net Assets/Fund Balance

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. Designation of fund balance in the fund financial statements represent tentative management plans that are subject to change. The City’s policy is to first apply restricted resources when an expense is incurred for purposes for which both unrestricted and restricted net assets are available.

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, 2010

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, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Excess of Expenditures over Appropriations

The following funds that have budgets adopted annually had excess expenditures over appropriations for the fiscal year ended June 30, 2010:

| | |
|--|------------------|
| Greenlawn-Shady Rest Cemetery Special Revenue Fund | <u>\$ 488</u> |
| Municipal Aid Special Revenue Fund | <u>\$ 29,354</u> |
| Sanitation Fund | <u>\$ 18,873</u> |

Fund excess expenditures were funded by available fund balance/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.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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

At June 30, 2010, \$1,117,893 of the City's bank balances of \$6,850,300 were exposed to custodial credit risk as follows, while \$5,732,407 was covered by the FDIC:

| | |
|---|---------------------|
| Uninsured and collateral held by pledging financial institution | <u>\$ 1,117,893</u> |
|---|---------------------|

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, 2010, the City had the following investments and maturities:

| Type | Fair Value | Maturities In Years Less than 1 |
|-------------------|---------------------|---------------------------------------|
| U. S. obligations | <u>\$ 2,028,550</u> | <u>\$ 2,028,550</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, 2010, investments in U. S. agency obligations not directly guaranteed by the U. S. government were rated AAA by Standard & Poor's.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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

Concentration of Credit Risk - The City's funds must be diversified by security type and institution with the exception of fully insured or fully collateralized investments and except for authorized investment pools, no more than 30% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution. At June 30, 2010, 100% of the City's investments were in U. S. Obligation Mutual Funds.

Summary of Carrying Values

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

| | |
|-----------------|---------------------|
| Carrying value: | |
| Deposits | \$ 6,833,923 |
| Investments | <u>2,028,550</u> |
| | <u>\$ 8,862,473</u> |

Included in the following balance sheet captions:

| | |
|--|---------------------|
| Government-wide Statement of Net Assets | |
| Cash and cash equivalents | \$ 1,373,812 |
| Certificates of deposit | 432,433 |
| Restricted assets: | |
| Cash and cash equivalents | 5,725,779 |
| Certificates of deposit | <u>1,330,449</u> |
| Total | <u>\$ 8,862,473</u> |

Investment Income

Investment income for the year ended June 30, 2010 consisted of:

| | |
|------------------------------|------------------|
| Interest and dividend income | <u>\$ 48,864</u> |
|------------------------------|------------------|

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 3. NOTES RECEIVABLE

Notes receivable at June 30, 2010 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. \$ 14,000

NOTE 4. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2010:

| | <u>Cash</u> | <u>Certificates of Deposit</u> | <u>Interest Receivable</u> | <u>Total</u> |
|--|---------------------|------------------------------------|--------------------------------|---------------------|
| Governmental activities: | | | | |
| General Fund: | | | | |
| Retiree Life fund | \$ 18,296 | \$ — | \$ — | \$ 18,296 |
| Police fund | 15,558 | — | — | 15,558 |
| City of Franklin 2010 Construction Account | 3,617,548 | — | — | 3,617,548 |
| City of Franklin 2009 Construction Fund | 873,843 | — | — | 873,843 |
| City of Franklin 2009 Bond Fund | <u>184,208</u> | <u>—</u> | <u>—</u> | <u>184,208</u> |
| Total General Fund | 4,709,453 | — | — | 4,709,453 |
| Special Revenue Fund | | | | |
| Cemetery Fund | <u>1,279</u> | <u>—</u> | <u>—</u> | <u>1,279</u> |
| Total governmental activities | <u>4,710,732</u> | <u>—</u> | <u>—</u> | <u>4,710,732</u> |
| Business-type activities: | | | | |
| Enterprise Fund | | | | |
| Water and Wastewater Fund: | | | | |
| Capital projects | 1,000 | — | — | 1,000 |
| Customer deposits | 43,548 | 380,605 | 467 | 424,620 |
| Debt service reserve | 883,252 | 530,463 | 388 | 1,414,103 |
| Depreciation reserve | — | 266,784 | 308 | 267,092 |
| Maintenance and replacement reserve | — | 152,597 | — | 152,597 |
| Construction Fund | <u>87,247</u> | <u>—</u> | <u>—</u> | <u>87,247</u> |
| Total business-type activities | <u>1,015,047</u> | <u>1,330,449</u> | <u>1,163</u> | <u>2,346,659</u> |
| Total restricted assets | <u>\$ 5,725,779</u> | <u>\$ 1,330,449</u> | <u>\$ 1,163</u> | <u>\$ 7,057,391</u> |

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

| | Balance June 30, 2009 | Increases | Decreases | Balance June 30, 2010 |
|--|--------------------------|---------------------|---------------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 837,523 | \$ 4,455 | \$ — | \$ 841,978 |
| Streets and sidewalks | <u>10,479,411</u> | <u>1,106</u> | <u>—</u> | <u>10,480,517</u> |
| Total capital assets, not being depreciated | <u>11,316,934</u> | <u>5,561</u> | <u>—</u> | <u>11,322,495</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,093,660 | — | — | 2,093,660 |
| Vehicles | 1,705,617 | 114,291 | (96,163) | 1,723,745 |
| Furniture, fixtures and equipment | <u>1,318,653</u> | <u>41,420</u> | <u>(30,413)</u> | <u>1,329,660</u> |
| Total capital assets, being depreciated | <u>5,117,930</u> | <u>155,711</u> | <u>(126,576)</u> | <u>5,147,065</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (399,096) | (51,175) | — | (450,271) |
| Vehicles | (1,361,180) | (89,612) | 96,163 | (1,354,629) |
| Furniture, fixtures and equipment | <u>(905,291)</u> | <u>(103,939)</u> | <u>27,793</u> | <u>(981,437)</u> |
| Total accumulated depreciation | <u>(2,665,567)</u> | <u>(244,726)</u> | <u>123,956</u> | <u>(2,786,337)</u> |
| Total capital assets, being depreciated, net | <u>2,452,363</u> | <u>(89,015)</u> | <u>(2,620)</u> | <u>2,360,728</u> |
| Governmental activities capital assets, net | <u>\$13,769,297</u> | <u>(\$ 83,454)</u> | <u>(\$ 2,620)</u> | <u>\$13,683,223</u> |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 348,542 | \$ — | \$ — | \$ 348,542 |
| Construction in progress | <u>397,015</u> | <u>179,110</u> | <u>(144,129)</u> | <u>431,996</u> |
| Total capital assets, not being depreciated | <u>745,557</u> | <u>179,110</u> | <u>(144,129)</u> | <u>780,538</u> |
| Capital assets being depreciated: | | | | |
| Utility plant | 34,897,167 | 203,451 | — | 35,100,618 |
| Buildings | 94,371 | — | — | 94,371 |
| Furniture and equipment | 2,172,677 | 392,392 | — | 2,565,069 |
| Vehicles | <u>482,796</u> | <u>11,372</u> | <u>—</u> | <u>494,168</u> |
| Total capital assets being depreciated | <u>37,647,011</u> | <u>607,215</u> | <u>—</u> | <u>38,254,226</u> |
| Less accumulated depreciation: | | | | |
| Utility plant | (14,353,154) | (876,663) | — | (15,229,817) |
| Buildings | (81,703) | (3,413) | — | (85,116) |
| Furniture and equipment | (1,538,989) | (151,144) | — | (1,690,133) |
| Vehicles | <u>(467,683)</u> | <u>(12,279)</u> | <u>—</u> | <u>(479,962)</u> |
| Total accumulated depreciation | <u>(16,441,529)</u> | <u>(1,043,499)</u> | <u>—</u> | <u>(17,485,028)</u> |
| Total capital assets, being depreciated, net | <u>21,205,482</u> | <u>(436,284)</u> | <u>—</u> | <u>20,769,198</u> |
| Business-type activities capital assets, net | <u>\$21,951,039</u> | <u>(\$ 257,174)</u> | <u>(\$ 144,129)</u> | <u>\$21,549,736</u> |

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 5. CAPITAL ASSETS (Continued)

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

| | |
|--|---------------------|
| Governmental activities: | |
| General government | \$ 38,850 |
| Public safety | 140,890 |
| Public works | 62,748 |
| Community and cultural | <u>2,208</u> |
| Total depreciation expense - governmental activities | <u>\$ 244,696</u> |
| Business-type activities: | |
| Water and wastewater | <u>\$ 1,043,499</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, 2010 were as follows:

| | Balance <u>June 30, 2009</u> | <u>Increases</u> | <u>Decreases</u> | Balance <u>June 30, 2010</u> | Amounts Due <u>in One Year</u> |
|--|---------------------------------|---------------------|-----------------------|---------------------------------|-----------------------------------|
| Governmental activities: | | | | | |
| Bonds payable | \$ — | \$ 2,695,000 | \$ — | \$ 2,695,000 | \$ 220,000 |
| Less: unamortized discount | <u>—</u> | <u>(26,950)</u> | <u>1,288</u> | <u>(25,662)</u> | <u>—</u> |
| Bonds payable, net | — | 2,668,050 | 1,288 | 2,669,338 | 220,000 |
| Lease purchase agreements | 1,493,604 | — | (1,493,604) | — | — |
| Notes payable | <u>81,153</u> | <u>8,225,000</u> | <u>(4,306,153)</u> | <u>4,000,000</u> | <u>73,274</u> |
| Total governmental activities | <u>\$ 1,574,757</u> | <u>\$10,893,050</u> | <u>(\$ 5,798,469)</u> | <u>\$ 6,669,338</u> | <u>\$ 293,274</u> |
| Business-type activities: | | | | | |
| Revenue bonds | \$ 5,605,000 | \$ 1,545,000 | (\$ 680,000) | \$ 6,470,000 | \$ 740,000 |
| Less: unamortized discount and deferred amount | <u>(94,749)</u> | <u>(42,381)</u> | <u>14,298</u> | <u>(122,832)</u> | <u>—</u> |
| Bonds payable, net | 5,510,251 | 1,502,619 | (665,702) | 6,347,168 | 740,000 |
| Lease purchase agreements | 1,358,830 | — | (1,163,830) | 195,000 | 195,000 |
| Notes payable | <u>1,350,755</u> | <u>—</u> | <u>(204,612)</u> | <u>1,146,143</u> | <u>206,642</u> |
| Total business-type activities | <u>\$ 8,219,836</u> | <u>\$ 1,502,619</u> | <u>(\$ 2,034,144)</u> | <u>\$ 7,688,311</u> | <u>\$ 1,141,642</u> |
| Total governmental and business-type activities | <u>\$ 9,794,593</u> | <u>\$12,395,669</u> | <u>(\$ 7,832,613)</u> | <u>\$14,357,649</u> | <u>\$ 1,434,916</u> |

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 6. LONG-TERM LIABILITIES (Continued)

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, 2010:

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.

\$ 2,695,000

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

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 6. LONG-TERM LIABILITIES (Continued)

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. \$ 4,000,000

Business-type activities:

Lease purchase agreements:

Water and Wastewater Fund:

\$1,570,000 Kentucky Municipal Finance Corporation lease purchase agreement, dated October 10, 2000; principal payable in annual installments of \$125,000 to \$195,000 through 2010; interest at 4.75% to 4.80% payable semi-annually on June 1 and December 1; issued to finance replacement of system water meters and construction of system water lines; secured by water and sewer system revenues. \$ 195,000

Notes payable:

Water and Wastewater Fund:

\$669,950 Kentucky Infrastructure Authority assistance agreement note, dated May 3, 1989; principal and variable interest payable in monthly installments through June, 2011; current rate 4.34%; proceeds used to finance dam construction project. \$ 45,000

\$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. 126,778

\$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. 974,365

Total notes payable \$ 1,146,143

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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, 2010 were as follows:

| | <u>Interest Rates</u> | <u>Final Maturity Date</u> | <u>Principal at June 30, 2010</u> |
|--|-----------------------|--------------------------------|---------------------------------------|
| Revenue bonds, Series 2002 (A) | 1.25 - 3.25% | December 1, 2011 | \$ 970,000 |
| Revenue bonds, Series 2004 (B) | 2.00 - 4.75% | December 1, 2033 | 3,955,000 |
| Revenue bonds, Series 2009 (C) | 2.00 - 4.375% | December 1, 2024 | <u>1,545,000</u> |
| | | | 6,470,000 |
| Less: unamortized discounts | | | <u>(122,832)</u> |
| Total revenue bonds payable - business-type activities | | | <u>\$ 6,347,168</u> |

- (A) \$4,885,000 City of Franklin Water and Sewer Revenue Refunding Bonds, Series 2002, dated October 1, 2002; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on December 1 in annual installments of \$320,000 to \$585,000 through 2011; interest payable semi-annually on June 1 and December 1; issued to advance refund the City's outstanding Water and Sewer Revenue Bonds, Series 1993; secured by water and sewer system revenues.
- (B) \$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.

CITY OF FRANKLIN, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 6. LONG-TERM LIABILITIES (Continued)

(C) \$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.

Annual Debt Service Requirements

The annual requirements to amortize long-term debt outstanding as of June 30, 2010 are as follows:

| Year Ending June 30 | Governmental Activities | | Business-Type Activities | | Government-Wide | |
|------------------------|-------------------------|-------------------|--------------------------|---------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | \$ 293,274 | \$ 165,772 | \$ 1,141,642 | \$ 261,251 | \$ 1,434,916 | \$ 427,023 |
| 2012 | 374,233 | 186,325 | 848,698 | 230,658 | 1,222,931 | 416,983 |
| 2013 | 384,077 | 176,931 | 405,780 | 214,545 | 789,857 | 391,476 |
| 2014 | 3,853,416 | 141,717 | 417,888 | 205,164 | 4,271,304 | 346,881 |
| 2015 | 240,000 | 55,500 | 410,370 | 195,155 | 650,370 | 250,655 |
| 2016 - 2020 | 1,105,000 | 168,620 | 1,581,766 | 815,824 | 2,686,766 | 984,444 |
| 2021 - 2025 | 445,000 | 45,980 | 1,020,000 | 586,129 | 1,465,000 | 632,109 |
| 2026 - 2030 | — | — | 1,000,000 | 355,127 | 1,000,000 | 355,127 |
| 2031 - 2035 | — | — | 985,000 | 96,244 | 985,000 | 96,244 |
| | <u>\$ 6,695,000</u> | <u>\$ 940,845</u> | <u>\$ 7,811,144</u> | <u>\$ 2,960,097</u> | <u>\$14,506,144</u> | <u>\$ 3,900,942</u> |

Current Refunding

On October 13, 2009, the City issued \$2,695,000 General Obligation Public Project Refunding and Improvement Bonds, Series 2009 (“Bonds”), with interest rates ranging between 2% and 4%. The City issued the Bonds for the purpose of financing the costs of the acquisition, construction and installation of fiber optic lines and the acquisition and equipping of police cruisers and to finance the costs of refunding and retiring various obligations of the City previously issued to finance the acquisition, construction, installation and equipping of public facilities within the City. The portion of Bond issue proceeds associated with current refunding of prior obligations totaled \$1,512,702. Prior City obligations refunded consist of the following lease purchase agreements and note payable:

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 6. LONG-TERM LIABILITIES (Continued)

| | <u>Principal Refunded</u> | <u>Interest and Fees</u> | <u>Total Refunding</u> |
|---|-------------------------------|------------------------------|----------------------------|
| Kentucky League of Cities lease, dated October 10, 1989 | \$ 339,826 | \$ 1,150 | \$ 340,976 |
| Kentucky League of Cities lease, dated March 9, 1998 | 295,000 | 1,009 | 296,009 |
| Kentucky League of Cities lease, dated May 27, 1999 | 208,810 | 3,180 | 211,990 |
| Kentucky League of Cities lease, dated December 14, 2001 | 290,000 | 941 | 290,941 |
| Kentucky Municipal Finance Corporation lease, dated October 31, 2006 | 295,000 | 982 | 295,982 |
| Franklin Bank & Trust note, dated September 2, 2008 | <u>76,675</u> | <u>129</u> | <u>76,804</u> |
| | <u>\$ 1,505,311</u> | <u>\$ 7,391</u> | <u>\$ 1,512,702</u> |

The refunding was undertaken to replace variable rate lease purchase obligations with Bond fixed interest rates.

On October 13, 2009, the City also issued \$1,545,000 Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009 (“Bonds”), with interest rates ranging between 2% and 4.375%. The City issued the Bonds for the purpose of paying the costs of financing improvements to the City’s water and sewer system and currently refunding the outstanding principal amount (\$586,261) of a variable rate lease/purchase agreement between the City and Kentucky Municipal Finance Corporation, dated October 10, 1989 and the outstanding principal amount (\$380,000) of a lease/purchase agreement between the City and Kentucky Municipal Finance Corporation, dated May 1, 1999. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$26,931. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is deferred and amortized over the life of the Bonds. The refunding was undertaken to replace variable rate lease purchase obligations with Bond fixed interest rates.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 6. LONG-TERM LIABILITIES (Continued)

Prior Year Defeasance of Debt

In prior years, the City defeased certain water and sewer system revenue bonds by placing new debt proceeds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2010, \$1,045,000 of bonds outstanding are considered defeased.

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 agree to pledge, annually, all amounts necessary for project construction and annual debt service requirements. The Industrial Authority, owner of project real property, shall oversee project construction and shall enter into lease agreement with World Color for lease of project real property. The City has oversight authority and signature power over Refunding Note proceeds. All project expenditures are approved by City and Industrial Authority. As of June 30, 2010, City General Fund expenditures totaling \$505,849, including debt service expenditures for interest of \$37,500, have been recognized for the Industrial Authority World Color project. General Fund restricted assets at June 30, 2010 include \$3,617,015 held in JPMorgan Chase Bank "City of Franklin 2010 Construction Account."

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 6. LONG-TERM LIABILITIES (Continued)

On March 31, 2010, the Authority, as lessor, entered into a Long-Term Lease Agreement With Option To Purchase with World Color, lessee, for lease of project real property. The lease term is 20 years and provides for monthly rent of \$33,333 beginning on lease commencement date. Lease monthly rent is based upon a real property estimated capital cost of \$4,000,000 and is subject to revision based upon actual final capital cost as agreed by the parties. In addition, on March 31, 2010, the City (“holder”) and Authority (“maker”) entered into a Promissory Note in the principal amount of \$4,000,000. The Note provides for interest at 7.95% to accrue on the entire principal sum of \$4,000,000, representing capitalized interest from April 1, 2010 until October 31, 2010 - estimated project construction completion date. Thereafter, note principal and interest is payable to the City in 240 monthly installments of \$33,333 beginning December 1, 2010. The Note is secured by a real estate mortgage and assignment of rents and leases applicable to the Authority real property leased to World Color. The \$4,000,000 note principal amount represents the estimated real property capital cost at project inception ultimately payable to City pursuant to Industrial Authority Long-Term Lease Agreement with World Color. Governmental activities in the Government-wide Statement of Net Assets at June 30, 2010, include a note receivable of \$505,849 due from the Industrial Authority, representing actual total project construction expenditures recognized by City.

On June 30, 2010, as security for the Refunding Note, the City entered into collateral assignment agreements with JPMorgan Chase Bank assigning to Bank all of its right, title and interest in and to (i) the Interlocal Agreement, dated March 8, 2010 and (ii) the Assignment of Leases and Rents, dated March 31, 2010, from the Industrial Authority to City.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2010 are as follows:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|--|----------------------------------|-------------------------------|
| Governmental Funds: | | |
| General Fund | \$ 356,459 | \$ 50,993 |
| Special Revenue Funds: | | |
| Economic Development Revolving Loan Fund | 50,993 | — |
| Community Development Fund | <u>—</u> | <u>37,800</u> |
| Total governmental funds | <u>407,452</u> | <u>88,793</u> |
| Proprietary Funds: | | |
| Water and Wastewater Fund | — | 349,777 |
| Sanitation Fund | 301,221 | — |
| Fiber Optic Fund | <u>—</u> | <u>270,103</u> |
| Total proprietary funds | <u>301,221</u> | <u>619,880</u> |
| | <u>\$ 708,673</u> | <u>\$ 708,673</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, 2010 are summarized as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--|---------------------|----------------------|
| General Fund | \$ — | \$ 153,400 |
| Special Revenue Fund | | |
| Greenlawn-Shady Rest Cemetery Fund | 162,100 | — |
| Permanent Fund | | |
| Greenlawn-Shady Rest Cemetery Perpetual Fund | <u>—</u> | <u>8,700</u> |
| Total governmental funds | <u>\$ 162,100</u> | <u>\$ 162,100</u> |

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 with nonhazardous and hazardous duty positions were required to contribute 5% and 8%, respectively, of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per KRS Section 61.656(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, 2010, participating employers contributed 16.16% (nonhazardous) and 32.97% (hazardous) of each employee's creditable compensation. The actuarially determined rates set by the Board for the year ended June 30, 2010, were 20.91% and 43.36% 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, 2010

NOTE 9. RETIREMENT PLAN (Continued)

The City's employer contributions to CERS for the years ended June 30, 2010, 2009 and 2008, 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> |
|-----------------------------------|--|------------------------------------|--|------------------------------------|
| 2010 | \$ 275,925 | 16.16% | \$ 299,245 | 32.97% |
| 2009 | \$ 233,337 | 13.50% | \$ 264,025 | 29.50% |
| 2008 | \$ 271,228 | 16.17% | \$ 308,831 | 33.87% |

Other Post-Employment Benefits

In addition to the pension benefits described above, the City maintains an informal retirement plan authorized by the Mayor/Council whereby 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 \$100 per month. Twenty-one retired City employees are currently covered under the plan. Expenditures for retirement benefits are recognized on a pay as you go basis. Payments under the plan totaled \$25,200 for the year ended June 30, 2010.

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 recognized on a pay as you go basis. For the year ended June 30, 2010, payments under the plan totaled \$120,097.

NOTE 10. DEFERRED COMPENSATION PLAN

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

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or \$16,500 for 2010, whichever is less. During the fiscal year ending June 30, 2010, contributions made on behalf of employees totaled \$46,371.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 11. 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.

NOTE 12. 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.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 12. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

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.

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 \$186,796 annually, without the prior written agreement of the parties. City contributions shall be increased or decreased annually, based upon change in consumer price index or cost of living increases set by Governor's Office of Local Development or comparable governmental office, effective July 1st of year increase or decrease is adopted by applicable state office, or the percentage increase in Simpson County's fire department budget, whichever is lower.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 12. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

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

Term

The term of the agreement is for 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 13. RISK MANAGEMENT

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

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 14. CONTINGENCIES

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

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2010 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 15. SUBSEQUENT EVENTS

Industrial Development Project

Subsequent to June 30, 2010, the City completed construction of the World Color manufacturing facility addition (see Note 6 - Long-Term Liabilities). The Franklin-Simpson Industrial 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. Total project costs were approximately \$4,000,000. The Industrial Authority and Quad/Graphics, Inc. are finalizing lease agreement terms.

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

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2010

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|------------------|---|
| Revenues | | | | |
| Taxes | \$ 742,272 | \$ 754,801 | \$ 777,346 | \$ 22,545 |
| Occupational taxes | 1,747,948 | 1,827,065 | 1,855,376 | 28,311 |
| Insurance premium taxes | 1,124,235 | 1,076,846 | 1,070,240 | (6,606) |
| Business license taxes | 316,993 | 281,188 | 290,086 | 8,898 |
| Franchise taxes | 114,563 | 100,307 | 96,593 | (3,714) |
| Intergovernmental | 284,021 | 160,931 | 176,997 | 16,066 |
| Interfund charges | 803,409 | 816,977 | 831,984 | 15,007 |
| Fines and forfeitures | 27,750 | 33,324 | 38,408 | 5,084 |
| Miscellaneous | <u>87,052</u> | <u>99,515</u> | <u>122,682</u> | <u>23,167</u> |
| Total revenues | <u>5,248,243</u> | <u>5,150,954</u> | <u>5,259,712</u> | <u>108,758</u> |
| Expenditures | | | | |
| General government: | | | | |
| Legislative: | | | | |
| Personal services | 126,871 | 118,042 | 116,693 | 1,349 |
| Contractual services | 8,973 | 8,850 | 8,550 | 300 |
| Materials and supplies | 1,300 | 1,555 | 725 | 830 |
| Other | <u>10,000</u> | <u>10,026</u> | <u>8,969</u> | <u>1,057</u> |
| Total legislative | <u>147,144</u> | <u>138,473</u> | <u>134,937</u> | <u>3,536</u> |
| Administrative: | | | | |
| Personal services | 397,140 | 424,805 | 402,953 | 21,852 |
| Contractual services | 3,870 | 4,454 | 4,205 | 249 |
| Materials and supplies | 5,650 | 5,312 | 4,822 | 490 |
| Other | <u>3,750</u> | <u>2,635</u> | <u>2,475</u> | <u>160</u> |
| Total administrative | <u>410,410</u> | <u>437,206</u> | <u>414,455</u> | <u>22,751</u> |
| Finance and accounting: | | | | |
| Personal services | 542,040 | 536,473 | 533,072 | 3,401 |
| Contractual services | 125,426 | 120,177 | 116,599 | 3,578 |
| Materials and supplies | 36,650 | 41,779 | 41,859 | (80) |
| Other | <u>6,600</u> | <u>6,558</u> | <u>6,152</u> | <u>406</u> |
| Total finance and accounting | <u>710,716</u> | <u>704,987</u> | <u>697,682</u> | <u>7,305</u> |
| Risk management | <u>322,487</u> | <u>322,837</u> | <u>316,454</u> | <u>6,383</u> |
| Total general government | <u>1,590,757</u> | <u>1,603,503</u> | <u>1,563,528</u> | <u>39,975</u> |

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2010

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|--------------------------------|----------------------------|-------------------------|------------------|---|
| Public safety: | | | | |
| Police department: | | | | |
| Administration: | | | | |
| Personal services | \$ 267,290 | \$ 266,096 | \$ 266,836 | (\$ 740) |
| Contractual services | 24,010 | 24,163 | 20,669 | 3,494 |
| Materials and supplies | 10,494 | 12,379 | 13,705 | (1,326) |
| Other | <u>3,000</u> | <u>2,450</u> | <u>2,456</u> | <u>(6)</u> |
| Total administration | <u>304,794</u> | <u>305,088</u> | <u>303,666</u> | <u>1,422</u> |
| Patrol: | | | | |
| Personal services | 1,329,712 | 1,379,409 | 1,340,774 | 38,635 |
| Contractual services | 14,890 | 24,344 | 25,036 | (692) |
| Materials and supplies | 87,341 | 88,699 | 88,389 | 310 |
| Other | <u>6,975</u> | <u>4,225</u> | <u>4,072</u> | <u>153</u> |
| Total patrol | <u>1,438,918</u> | <u>1,496,677</u> | <u>1,458,271</u> | <u>38,406</u> |
| Non-sworn personnel: | | | | |
| Personal services | 61,226 | 60,900 | 60,797 | 103 |
| Contractual services | 42,980 | 42,060 | 40,940 | 1,120 |
| Materials and supplies | 500 | 130 | 130 | — |
| Other | <u>250</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total non-sworn personnel | <u>104,956</u> | <u>103,090</u> | <u>101,867</u> | <u>1,223</u> |
| Total police department | <u>1,848,668</u> | <u>1,904,855</u> | <u>1,863,804</u> | <u>41,051</u> |
| Fire department: | | | | |
| Inspection and administration: | | | | |
| Contractual services | <u>411</u> | <u>650</u> | <u>530</u> | <u>120</u> |

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2010**

| | <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 | \$ 161,796 | \$ 161,796 | \$ 161,796 | \$ — |
| Total fire department | <u>162,207</u> | <u>162,446</u> | <u>162,326</u> | <u>120</u> |
| Total public safety | <u>2,010,875</u> | <u>2,067,301</u> | <u>2,026,130</u> | <u>41,171</u> |
| Public works: | | | | |
| Personal services | 542,468 | 525,009 | 514,632 | 10,377 |
| Contractual services | 145,600 | 141,648 | 124,703 | 16,945 |
| Materials and supplies | 112,700 | 131,975 | 119,036 | 12,939 |
| Other | <u>2,650</u> | <u>1,716</u> | <u>1,361</u> | <u>355</u> |
| Total public works | <u>803,418</u> | <u>800,348</u> | <u>759,732</u> | <u>40,616</u> |
| Community services: | | | | |
| Economic development | 136,245 | 1,158,927 | 628,353 | 530,574 |
| Parks and recreation | <u>107,000</u> | <u>137,000</u> | <u>136,869</u> | <u>131</u> |
| Total community services | <u>243,245</u> | <u>1,295,927</u> | <u>765,222</u> | <u>530,705</u> |
| Capital outlay: | | | | |
| Vehicles | 110,000 | 114,291 | 114,291 | — |
| Equipment | — | 9,559 | 6,218 | 3,341 |
| Plant in service | 162,972 | 1,216 | 1,105 | 111 |
| Land and improvements | <u>—</u> | <u>4,455</u> | <u>4,455</u> | <u>—</u> |
| Total capital outlay | <u>272,972</u> | <u>129,521</u> | <u>126,069</u> | <u>3,452</u> |
| Debt service: | | | | |
| Principal | 214,534 | 294,687 | 294,445 | 242 |
| Interest | 52,575 | 136,640 | 136,751 | (111) |
| Administrative fees | 16,363 | 4,586 | 4,086 | 500 |
| Bond and note closing costs | <u>—</u> | <u>74,485</u> | <u>37,535</u> | <u>36,950</u> |
| Total debt service | <u>283,472</u> | <u>510,398</u> | <u>472,817</u> | <u>37,581</u> |
| Total expenditures | <u>5,204,739</u> | <u>6,406,998</u> | <u>5,713,498</u> | <u>693,500</u> |

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2010**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|--|----------------------------|-------------------------|---------------------|---|
| Excess (deficiency) of revenues over (under) expenditures | \$ 43,504 | (\$ 1,256,044) | (\$ 453,786) | \$ 802,258 |
| Other financing sources (uses): | | | | |
| Transfers out: | | | | |
| Greenlawn-Shady Rest Cemetery Fund | (153,400) | (153,400) | (153,400) | — |
| Fiber Optic Fund | — | (1,000,000) | — | 1,000,000 |
| Proceeds of general obligation notes | 110,000 | 4,225,000 | 4,225,000 | — |
| Proceeds of refunding notes | — | 4,000,000 | 4,000,000 | — |
| Proceeds of refunding bonds | — | 2,695,000 | 2,695,000 | — |
| Discount on refunding bonds | — | — | (26,950) | (26,950) |
| Bond refunding debt service - principal | — | (1,505,311) | (1,505,311) | — |
| Note refunding debt service - principal | — | (4,000,000) | (4,000,000) | — |
| Sale of capital assets | — | 5,174 | 5,174 | — |
| Total other financing sources (uses) | <u>(43,400)</u> | <u>4,266,463</u> | <u>5,239,513</u> | <u>973,050</u> |
| Net change in fund balance | 104 | 3,010,419 | 4,785,727 | 1,775,308 |
| Fund balances, beginning of year | <u>1,201,336</u> | <u>1,201,336</u> | <u>1,201,336</u> | <u>—</u> |
| Fund balances, end of year | <u>\$ 1,201,440</u> | <u>\$ 4,211,755</u> | <u>\$ 5,987,063</u> | <u>\$ 1,775,308</u> |

CITY OF FRANKLIN, KENTUCKY

**Infrastructure Condition and Maintenance Data
June 30, 2010**

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 | | | | | |
|----------------------|----------------------------|--------------------------|---------------|------------------|---------------|------------------|---------------|
| | | 2010 | | 2009 | | 2008 | |
| | | Square Feet | % | Square Feet | % | Square Feet | % |
| Acceptable | 75 - 100 | 3,708,404 | 74.50 | 3,986,126 | 80.54 | 3,874,018 | 78.00 |
| Marginally deficient | 50 - 74 | 1,101,271 | 22.12 | 862,861 | 17.43 | 862,861 | 17.37 |
| Moderately deficient | 25 - 49 | 164,140 | 3.30 | 100,258 | 2.03 | 230,186 | 4.63 |
| Severely deficient | 0 - 24 | 4,800 | .10 | — | — | — | — |
| Total | | <u>4,978,615</u> | <u>100.00</u> | <u>4,949,245</u> | <u>100.00</u> | <u>4,967,065</u> | <u>100.00</u> |

| | Comparison of Estimated-to-Actual Maintenance/Preservation | | | | |
|-------------------|--|------------|------------|------------|------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Original estimate | \$ 211,961 | \$ 199,661 | \$ 314,310 | \$ 256,852 | \$ 192,306 |
| Actual | \$ 202,470 | \$ 173,746 | \$ 248,637 | \$ 258,219 | \$ 193,489 |

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.

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, 2010**

| | Special Revenue | | | | |
|---|------------------|--------------------------|------------------|-------------------------|-------------------|
| | Cemetery | Community Development | Municipal Aid | Economic Development | Total |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 13,575 | \$ 84,934 | \$ 81,607 | \$ — | \$ 180,116 |
| Certificates of deposit | — | — | — | — | — |
| Receivables (net of allowance for uncollectibles): | | | | | |
| Accounts | 600 | — | — | — | 600 |
| Intergovernmental | — | — | 10,303 | — | 10,303 |
| Interest | — | — | — | — | — |
| Due from other funds | — | — | — | 50,993 | 50,993 |
| Prepaid items | 420 | — | — | — | 420 |
| Restricted assets: | | | | | |
| Cash and cash equivalents | <u>1,279</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>1,279</u> |
| Total assets | <u>\$ 15,874</u> | <u>\$ 84,934</u> | <u>\$ 91,910</u> | <u>\$ 50,993</u> | <u>\$ 243,711</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 172 | \$ 39,657 | \$ — | \$ — | \$ 39,829 |
| Due to other funds | <u>—</u> | <u>37,800</u> | <u>—</u> | <u>—</u> | <u>37,800</u> |
| Total liabilities | <u>172</u> | <u>77,457</u> | <u>—</u> | <u>—</u> | <u>77,629</u> |
| Fund balances: | | | | | |
| Reserved for prepaid items | 420 | — | — | — | 420 |
| Reserved for perpetual care | — | — | — | — | — |
| Unreserved, undesignated | <u>15,282</u> | <u>7,477</u> | <u>91,910</u> | <u>50,993</u> | <u>165,662</u> |
| Total fund balances | <u>15,702</u> | <u>7,477</u> | <u>91,910</u> | <u>50,993</u> | <u>166,082</u> |
| Total liabilities and fund balances | <u>\$ 15,874</u> | <u>\$ 84,934</u> | <u>\$ 91,910</u> | <u>\$ 50,993</u> | <u>\$ 243,711</u> |

| <u>Permanent Funds</u> | <u>Total Nonmajor Governmental Funds</u> |
|-------------------------------|--|
| <u>Cemetery Perpetual</u> | |
| \$ 26,154 | \$ 206,270 |
| 432,433 | 432,433 |
| — | 600 |
| — | 10,303 |
| 749 | 749 |
| — | 50,993 |
| — | 420 |
| <u>—</u> | <u>1,279</u> |
| <u>\$ 459,336</u> | <u>\$ 703,047</u> |
| \$ — | \$ 39,829 |
| <u>—</u> | <u>37,800</u> |
| <u>—</u> | <u>77,629</u> |
| — | 420 |
| 459,336 | 459,336 |
| <u>—</u> | <u>165,662</u> |
| <u>459,336</u> | <u>625,418</u> |
| <u>\$ 459,336</u> | <u>\$ 703,047</u> |

CITY OF FRANKLIN, KENTUCKY

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
June 30, 2010**

| | Francis Harris Cemetery <u>Perpetual</u> | Greenlawn- Shady Rest Cemetery <u>Perpetual</u> | Total Nonmajor Permanent <u>Funds</u> |
|-----------------------------------|--|--|--|
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,356 | \$ 22,798 | \$ 26,154 |
| Certificates of deposit | 50,000 | 382,433 | 432,433 |
| Accrued interest receivable | <u>—</u> | <u>749</u> | <u>749</u> |
| Total assets | <u>\$ 53,356</u> | <u>\$ 405,980</u> | <u>\$ 459,336</u> |
| FUND BALANCES | | | |
| Reserved for cemetery maintenance | \$ 53,356 | \$ — | \$ 53,356 |
| Reserved for perpetual care | <u>—</u> | <u>405,980</u> | <u>405,980</u> |
| Total fund balances | <u>\$ 53,356</u> | <u>\$ 405,980</u> | <u>\$ 459,336</u> |

CITY OF FRANKLIN, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2010**

| | Special Revenue | | | | |
|--|--------------------|--------------------------|--------------------|-------------------------|--------------------|
| | Cemetery | Community Development | Municipal Aid | Economic Development | Total |
| Revenues | | | | | |
| Intergovernmental | \$ — | \$ — | \$ 154,031 | \$ — | \$ 154,031 |
| Charges for sales and services | 78,005 | — | — | — | 78,005 |
| Contributions | — | — | — | — | — |
| Investment income | 85 | — | 582 | — | 667 |
| Miscellaneous | <u>855</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>855</u> |
| Total revenues | <u>78,945</u> | <u>—</u> | <u>154,613</u> | <u>—</u> | <u>233,558</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Public works | — | — | 239,518 | — | 239,518 |
| Community services | 239,000 | 45,251 | — | — | 284,251 |
| Capital outlay | <u>—</u> | <u>—</u> | <u>35,202</u> | <u>—</u> | <u>35,202</u> |
| Total expenditures | <u>239,000</u> | <u>45,251</u> | <u>274,720</u> | <u>—</u> | <u>558,971</u> |
| Excess (deficiency) of revenues over (under) expenditures | (<u>160,055</u>) | (<u>45,251</u>) | (<u>120,107</u>) | <u>—</u> | (<u>325,413</u>) |
| Other financing sources (uses): | | | | | |
| Transfers in | 162,100 | — | — | — | 162,100 |
| Transfers out | — | — | — | — | — |
| Sale of capital assets | <u>—</u> | <u>—</u> | <u>4,887</u> | <u>—</u> | <u>4,887</u> |
| Total other financing sources (uses) | <u>162,100</u> | <u>—</u> | <u>4,887</u> | <u>—</u> | <u>166,987</u> |
| Net change in fund balances | 2,045 | (45,251) | (115,220) | — | (158,426) |
| Fund balances, beginning of year | <u>13,657</u> | <u>52,728</u> | <u>207,130</u> | <u>50,993</u> | <u>324,508</u> |
| Fund balances, end of year | <u>\$ 15,702</u> | <u>\$ 7,477</u> | <u>\$ 91,910</u> | <u>\$ 50,993</u> | <u>\$ 166,082</u> |

| <u>Permanent Funds</u> | <u>Total Nonmajor Governmental Funds</u> |
|------------------------------|--|
| Cemetery <u>Perpetual</u> | |
| \$ — | \$ 154,031 |
| — | 78,005 |
| 6,000 | 6,000 |
| 10,898 | 11,565 |
| <u>—</u> | <u>855</u> |
| <u>16,898</u> | <u>250,456</u> |
| — | 239,518 |
| 2,077 | 286,328 |
| <u>—</u> | <u>35,202</u> |
| <u>2,077</u> | <u>561,048</u> |
| <u>14,821</u> | <u>(310,592)</u> |
| — | 162,100 |
| (8,700) | (8,700) |
| <u>—</u> | <u>4,887</u> |
| <u>(8,700)</u> | <u>158,287</u> |
| 6,121 | (152,305) |
| <u>453,215</u> | <u>777,723</u> |
| <u>\$ 459,336</u> | <u>\$ 625,418</u> |

CITY OF FRANKLIN, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
Year Ended June 30, 2010**

| | <u>Francis Harris Cemetery Perpetual</u> | <u>Greenlawn- Shady Rest Cemetery Perpetual</u> | <u>Total Nonmajor Permanent Funds</u> |
|---|--|---|---|
| Revenues | | | |
| Investment income | \$ 1,634 | \$ 9,264 | \$ 10,898 |
| Contributions | <u>—</u> | <u>6,000</u> | <u>6,000</u> |
| Total revenues | 1,634 | 15,264 | 16,898 |
| Expenditures | | | |
| Current: | | | |
| Community services | <u>2,077</u> | <u>—</u> | <u>2,077</u> |
| Excess (deficiency) of revenues over (under) expenditures | (443) | 15,264 | 14,821 |
| Other financing uses: | | | |
| Transfers out | <u>—</u> | <u>(8,700)</u> | <u>(8,700)</u> |
| Excess of revenues over(under) expenditures and other financing uses | (443) | 6,564 | 6,127 |
| Fund balance, beginning of year | <u>53,799</u> | <u>399,416</u> | <u>453,215</u> |
| Fund balance, end of year | <u>\$ 53,356</u> | <u>\$ 405,980</u> | <u>\$ 459,336</u> |

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Greenlawn - Shady Rest Cemetery Special Revenue Fund
Year Ended June 30, 2010**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|---|----------------------------|-------------------------|------------------|---|
| Revenues | | | | |
| Charges for sales and services | \$ 69,000 | \$ 78,650 | \$ 78,005 | (\$ 645) |
| Investment income | 144 | 83 | 85 | 2 |
| Miscellaneous | <u>300</u> | <u>855</u> | <u>855</u> | <u>—</u> |
| Total revenues | <u>69,444</u> | <u>79,588</u> | <u>78,945</u> | <u>(643)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Community services: | | | | |
| Personal services | 7,454 | 7,416 | 7,416 | — |
| Contractual services | 174,710 | 174,363 | 174,428 | (65) |
| Materials and supplies | 1,000 | 1,123 | 1,246 | (123) |
| Administrative overhead | 50,000 | 50,000 | 50,000 | — |
| Other | <u>5,000</u> | <u>5,610</u> | <u>5,910</u> | <u>(300)</u> |
| Total expenditures | <u>238,164</u> | <u>238,512</u> | <u>239,000</u> | <u>(488)</u> |
| Deficiency of revenues under expenditures | (168,720) | (158,924) | (160,055) | (1,131) |
| Other financing sources: | | | | |
| Transfers in | <u>162,100</u> | <u>162,100</u> | <u>162,100</u> | <u>—</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures | (6,620) | 3,176 | 2,045 | (1,131) |
| Fund balance, beginning of year | <u>13,657</u> | <u>13,657</u> | <u>13,657</u> | <u>—</u> |
| Fund balance, end of year | <u>\$ 7,037</u> | <u>\$ 16,833</u> | <u>\$ 15,702</u> | <u>(\$ 1,131)</u> |

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Municipal Aid Special Revenue Fund

Year Ended June 30, 2010

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|------------------|---|
| Revenues | | | | |
| Intergovernmental: | | | | |
| Liquid fuel tax | \$ 147,022 | \$ 147,022 | \$ 148,886 | \$ 1,864 |
| Mineral and coal severance tax | 13,894 | 5,403 | 5,145 | (258) |
| Investment income | <u>1,200</u> | <u>613</u> | <u>582</u> | <u>(31)</u> |
| Total revenues | <u>162,116</u> | <u>153,038</u> | <u>154,613</u> | <u>1,575</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public works | 162,000 | 245,366 | 239,518 | 5,848 |
| Capital outlay: | | | | |
| Public works | <u>—</u> | <u>—</u> | <u>35,202</u> | <u>(35,202)</u> |
| Total expenditures | <u>162,000</u> | <u>245,366</u> | <u>274,720</u> | <u>(29,354)</u> |
| Excess (deficiency) of revenues over(under) expenditures | 116 | (92,328) | (120,107) | (27,779) |
| Other financing sources: | | | | |
| Sale of capital assets | <u>—</u> | <u>—</u> | <u>4,887</u> | <u>4,887</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures | 116 | (92,328) | (115,220) | (22,892) |
| Fund balance, beginning of year | <u>207,130</u> | <u>207,130</u> | <u>207,130</u> | <u>—</u> |
| Fund balance, end of year | <u>\$ 207,246</u> | <u>\$ 114,802</u> | <u>\$ 91,910</u> | <u>(\$ 22,892)</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, 2010**

| | <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 | \$ 2,600,440 | \$ 2,493,405 | \$ 2,523,415 | \$ 30,010 |
| Wastewater division | <u>2,108,679</u> | <u>2,092,189</u> | <u>2,041,741</u> | <u>(50,448)</u> |
| Total operating revenues | <u>4,709,119</u> | <u>4,585,594</u> | <u>4,565,156</u> | <u>(20,438)</u> |
| Nonoperating revenues: | | | | |
| Investment income | 35,000 | 28,285 | 32,123 | 3,838 |
| Grant revenue | 510,100 | 510,100 | 119,150 | (390,950) |
| Miscellaneous | 8,446 | 27,315 | 46,352 | 19,037 |
| Bond proceeds | <u>546,000</u> | <u>1,545,000</u> | <u>1,545,000</u> | <u>—</u> |
| Total nonoperating revenues | <u>1,099,546</u> | <u>2,110,700</u> | <u>1,742,625</u> | <u>(368,075)</u> |
| Total revenues | <u>5,808,665</u> | <u>6,696,294</u> | <u>6,307,781</u> | <u>(388,513)</u> |
| Expenditures | | | | |
| Water division: | | | | |
| Production: | | | | |
| Personal services | 258,827 | 250,777 | 244,551 | 6,226 |
| Contractual services | 213,118 | 198,273 | 163,983 | 34,290 |
| Materials and supplies | 193,550 | 196,617 | 184,377 | 12,240 |
| Other | <u>4,225</u> | <u>4,225</u> | <u>3,309</u> | <u>916</u> |
| Total water production | <u>669,720</u> | <u>649,892</u> | <u>596,220</u> | <u>53,672</u> |
| Distribution: | | | | |
| Personal services | 383,907 | 362,723 | 352,482 | 10,241 |
| Contractual services | 42,770 | 56,770 | 52,342 | 4,428 |
| Materials and supplies | 155,450 | 167,455 | 166,174 | 1,281 |
| Other | <u>10,650</u> | <u>10,651</u> | <u>8,330</u> | <u>2,321</u> |
| Total water distribution | <u>592,777</u> | <u>597,599</u> | <u>579,328</u> | <u>18,271</u> |

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2010**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|------------------|---|
| Expenditures (continued) | | | | |
| Meter reading and maintenance: | | | | |
| Personal services | \$ 63,915 | \$ 59,730 | \$ 58,861 | \$ 869 |
| Contractual services | 4,799 | 5,725 | 7,890 | (2,165) |
| Materials and supplies | 57,450 | 60,603 | 60,046 | 557 |
| Other | <u>630</u> | <u>680</u> | <u>680</u> | <u>—</u> |
| Total water meter reading and maintenance | <u>126,794</u> | <u>126,738</u> | <u>127,477</u> | <u>(739)</u> |
| Total water division | <u>1,389,291</u> | <u>1,374,229</u> | <u>1,303,025</u> | <u>71,204</u> |
| Wastewater division: | | | | |
| Treatment: | | | | |
| Personal services | 288,192 | 293,178 | 292,180 | 998 |
| Contractual services | 216,310 | 225,080 | 215,312 | 9,768 |
| Materials and supplies | 87,350 | 92,940 | 89,588 | 3,352 |
| Other | <u>6,850</u> | <u>6,550</u> | <u>3,705</u> | <u>2,845</u> |
| Total wastewater treatment | <u>598,702</u> | <u>617,748</u> | <u>600,785</u> | <u>16,963</u> |
| Collection and rehabilitation: | | | | |
| Personal services | 201,171 | 197,945 | 192,369 | 5,576 |
| Contractual services | 73,800 | 67,007 | 62,903 | 4,104 |
| Materials and supplies | 88,263 | 75,776 | 69,293 | 6,483 |
| Other | <u>7,600</u> | <u>4,100</u> | <u>3,314</u> | <u>786</u> |
| Total wastewater collection and rehabilitation | <u>370,834</u> | <u>344,828</u> | <u>327,879</u> | <u>16,949</u> |
| Total wastewater division | <u>969,536</u> | <u>962,576</u> | <u>928,664</u> | <u>33,912</u> |
| Administrative overhead | <u>514,410</u> | <u>514,410</u> | <u>514,410</u> | <u>—</u> |
| Debt service: | | | | |
| Principal | 1,180,105 | 2,048,442 | 2,048,442 | — |
| Interest | 317,866 | 315,264 | 310,093 | 5,171 |
| Administrative fees | <u>45,318</u> | <u>16,500</u> | <u>16,521</u> | <u>(21)</u> |
| Total debt service | <u>1,543,289</u> | <u>2,380,206</u> | <u>2,375,056</u> | <u>5,150</u> |
| Capital outlays | <u>936,160</u> | <u>968,666</u> | <u>514,168</u> | <u>454,498</u> |
| Total expenditures | <u>5,352,686</u> | <u>6,200,087</u> | <u>5,635,323</u> | <u>564,764</u> |

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2010**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|--------------------------------------|----------------------------|-------------------------|----------------------|---|
| Excess of revenues over expenditures | \$ <u>455,979</u> | \$ <u>496,207</u> | \$ 672,458 | \$ <u>176,251</u> |
| Add: | | | | |
| Principal payments | | | 2,048,442 | |
| Capital outlays | | | 514,168 | |
| Less: | | | | |
| Bond proceeds | | | (1,545,000) | |
| Depreciation expense | | | (1,043,499) | |
| Amortization expense | | | <u>(30,194)</u> | |
| Change in net assets | | | 616,375 | |
| Net assets, beginning of year | | | <u>15,145,609</u> | |
| Net assets, end of year | | | \$ <u>15,761,984</u> | |

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Sanitation Fund
Year Ended June 30, 2010**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--------------------------------------|----------------------------|-------------------------|------------------|---|
| Operating revenues: | | | | |
| Charges for services: | | | | |
| Hand pick-up | \$ 588,000 | \$ 596,589 | \$ 613,774 | \$ 17,185 |
| Commercial dumpster | 314,400 | 320,388 | 322,674 | 2,286 |
| Collection fees | 27,072 | 27,571 | 28,137 | 566 |
| Fines and forfeitures | 4,800 | 4,017 | 4,118 | 101 |
| Franchise fee | <u>133,080</u> | <u>131,096</u> | <u>133,675</u> | <u>2,579</u> |
| Total operating revenues | 1,067,352 | 1,079,661 | 1,102,378 | 22,717 |
| Nonoperating revenues: | | | | |
| Investment income | <u>120</u> | <u>147</u> | <u>178</u> | <u>31</u> |
| Total revenues | <u>1,067,472</u> | <u>1,079,808</u> | <u>1,102,556</u> | <u>22,748</u> |
| Expenditures | | | | |
| Sanitation operations: | | | | |
| Personal services | 10,805 | 10,800 | 10,800 | — |
| Contractual services | 902,400 | 918,995 | 937,868 | (18,873) |
| Administrative overhead | <u>150,000</u> | <u>150,000</u> | <u>150,000</u> | <u>—</u> |
| Total expenditures | <u>1,063,205</u> | <u>1,079,795</u> | <u>1,098,668</u> | <u>(18,873)</u> |
| Excess of revenues over expenditures | <u>\$ 4,267</u> | <u>\$ 13</u> | 3,888 | <u>\$ 3,875</u> |
| Net assets, beginning of year | | | <u>52,087</u> | |
| Net assets, end of year | | | <u>\$ 55,975</u> | |

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Fiber Optic Fund

Year Ended June 30, 2010

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|------------------|---|
| Nonoperating revenues: | | | | |
| Grant revenue | \$ — | \$ — | \$ 77,417 | \$ 77,417 |
| Total revenues | <u>—</u> | <u>—</u> | <u>77,417</u> | <u>77,417</u> |
| Expenditures | | | | |
| Contractual services | — | 78 | 438 | (360) |
| Materials and supplies | — | — | 32 | (32) |
| Other | — | 422 | 210 | 212 |
| Administrative overhead | — | 13,568 | 13,574 | (6) |
| Capital outlay | <u>—</u> | <u>160,000</u> | <u>128,028</u> | <u>31,972</u> |
| Total expenditures | <u>—</u> | <u>174,068</u> | <u>142,282</u> | <u>31,786</u> |
| Excess (deficiency) of revenues over (under) expenditures | — | (174,068) | (64,865) | 109,203 |
| Transfers in | <u>—</u> | <u>1,000,000</u> | <u>—</u> | <u>(1,000,000)</u> |
| Excess (deficiency) of revenues over (under) expenditures and other financing sources | <u>\$ —</u> | <u>\$ 825,932</u> | (64,865) | <u>(\$ 890,797)</u> |
| Add: | | | | |
| Capital outlays | | | <u>128,028</u> | |
| Change in net assets | | | 63,163 | |
| Net assets, beginning of year | | | <u>(22,912)</u> | |
| Net assets, end of year | | | <u>\$ 40,251</u> | |