CITY OF FRANKLIN, KENTUCKY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2013

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TABLE OF CONTENTS

	Page No.
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 15
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	16
Statement of Activities	17
Balance Sheet - Governmental Funds	18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Fund Net Position - Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24 - 25
Notes to Financial Statements	26 - 58
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	59 - 62
Infrastructure Condition and Maintenance Data	63
Schedule of Funding Progress - OPEB	64
Schedule of Employer Contributions - OPEB	65
SUPPLEMENTARY INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet - Nonmajor Governmental Funds	66
Combining Balance Sheet - Nonmajor Permanent Funds	67
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Permanent Funds	69
Budgetary Comparison Schedule:	
Greenlawn-Shady Rest Cemetery Special Revenue Fund	70
Community Development Fund	71
Municipal Aid Special Revenue Fund	72
Proprietary Funds - Enterprise Funds	
Budgetary Comparison Schedule:	
Water and Wastewater Fund	73 - 75
Sanitation Fund	76
Fiber Optic Fund	77

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INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Franklin, Kentucky (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Franklin, Kentucky, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 15, General Fund budgetary comparison schedule on pages 59 - 62, infrastructure condition and maintenance data on page 63, and schedules of funding progress and employer contributions on pages 64 - 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual funds statements and schedules on pages 66 - 77 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Bowling Green, Kentucky
January 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Franklin, Kentucky

Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

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, 2013. 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 $35,096,401 and $33,321,372 for the prior fiscal year.

- As of the close of the current fiscal year, the City's governmental activities reported ending net position of $16,401,127 which includes unrestricted net position of $3,114,242. Respectively for the prior fiscal year $15,230,120 of net position and $1,968,902 of unrestricted net position.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $3,162,110 with $2,046,313 for the prior fiscal year.

- For the year ended June 30, 2013, total debt decreased by a net amount of $719,868 during the year. Included in this is a Refunding of the City's 2004 General Obligation Water and Sewer Bond. The City issued $3,860,000 in Water and Sewer Revenue Refunding Bonds to refund its outstanding Water and Sewer Revenue Bonds, Series 2004. This refunding reduced total debt service payments over the next 10 years by $562,000, resulting in an economic gain of $514,000. The remaining change in debt is due to scheduled debt reduction payments. For the prior fiscal year, total debt decreased by $1,210,775 during the year due to principal reductions.

- The City had total revenues of $13,244,205 for the year ended June 30, 2013 which includes: program revenues (charges for service) of $6,561,190, operating grants and contributions of $373,289, capital grants and contributions of $631,173 and general revenues of $5,678,553. The City had total expenses of $11,469,176 for the year ended June 30, 2013. Comparatively, City had total revenues of $13,832,745 for the year ended June 30, 2012 which includes: program revenues (charges for service) of $6,772,279, operating grants and contributions of $300,138, capital grants and contributions of $1,065,128 and general revenues of $5,695,200. The City had total expenses of $11,811,069 for the year ended June 30, 2012.

- The City's total capital outlays were $4,176,368 for the current fiscal year and $2,311,136 for the prior fiscal year. For the Governmental Funds, capital outlays were $747,080 for the current fiscal year and $173,127 for the prior fiscal year. For the Proprietary Funds, capital outlays for the current fiscal year were $3,429,288 and the prior fiscal year of $2,138,009.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

The government-wide financial statements can be found on pages 16 and 17 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 26 through 58 of this report.

Government-wide Analysis

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

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $35,096,401 for the current fiscal year and $33,321,372 at the close of the prior fiscal year.

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

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

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

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

	2013 Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	$ 1,057,663	$ 5,503,527	$ 6,561,190
Operating grants and contributions	373,289	—	373,289
Capital grants and contributions	178,000	453,173	631,173
General revenues			
Property taxes	851,520	—	851,520
Occupational fees	2,195,926	—	2,195,926
Insurance premium fees	1,426,743	—	1,426,743
Franchise fees	93,281	—	93,281
Business license fees	471,685	—	471,685
Interest income	5,991	10,847	16,838
Miscellaneous income	369,349	232,558	601,907
Gain on the sale of assets	5,771	14,882	20,653
Transfers	—	—	—
Total revenues and transfers	7,029,218	6,214,987	13,244,205
Expenses			
General government	1,706,532	—	1,706,532
Public safety	2,489,314	—	2,489,314
Public works	1,005,609	—	1,005,609
Community and cultural	478,386	—	478,386
Interest expense on long-term debt	178,370	165,673	344,043
Water and wastewater	—	3,870,752	3,870,752
Sanitation	—	1,192,651	1,192,651
Fiber Optic	—	381,889	381,889
Total expenses	5,858,211	5,610,965	11,469,176
Increase in net position	1,171,007	604,022	1,775,029
Net position, beginning of year	15,230,120	18,091,252	33,321,372
Net position – June 30, 2013	$ 16,401,127	$ 18,695,274	$ 35,096,401

	2012 Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	$ 1,061,286	$ 5,710,993	$ 6,772,279
Operating grants and contributions	300,138	—	300,138
Capital grants and contributions	507,000	558,128	1,065,128
General revenues			
Property taxes	798,981	—	798,981
Occupational fees	2,076,788	—	2,076,788
Insurance premium fees	1,895,800	—	1,895,800
Franchise fees	93,696	—	93,696
Business license fees	319,125	—	319,125
Interest income	8,140	16,022	24,162
Miscellaneous income	445,199	36,857	482,056
Gain on the sale of assets	4,233	359	4,592
Transfers	(155,000)	155,000	—
Total revenues and transfers	7,355,386	6,477,359	13,832,745
Expenses			
General government	1,657,018	—	1,657,018
Public safety	2,343,240	—	2,343,240
Public works	1,105,534	—	1,105,534
Community and cultural	1,371,424	—	1,371,424
Interest expense on long-term debt	188,389	228,722	438,014
Water and wastewater	—	3,618,257	3,597,354
Sanitation	—	1,190,904	1,190,904
Fiber Optic	—	107,581	107,581
Total expenses	6,665,605	5,145,464	11,811,069
Increase in net position	689,781	1,331,895	2,021,676
Net position, beginning of year	14,540,339	16,759,357	31,299,696
Net position – June 30, 2012	$ 15,230,120	$ 18,091,252	$ 33,321,372

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 $4,312,637 compared to $3,912,313 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 $402,029 increase in revenue and $766,008 increase in appropriations which can be briefly summarized as follows:

- The City received a $500,000 Community Development Block Grant and $175,000 of those monies were expended and transferred into the General Fund to reimburse for the purchase and cleanup of several parcels of land, resulting in an increase in budgeted revenue by this amount. Additionally, budgeted expenses were increased by $500,000 in anticipation of purchasing more land related to this Community Development Block Grant. Note that the expected Grant Revenue was not anticipated until Fiscal Year June 30, 2014.

- Insurance fees were much stronger than anticipated in the original budget. Insurance fees were budgeted to increase $91,000 in the revised budget. This relates in part to the increase in the City's ISO rating, resulting in an incremental increase in insurance premium costs.

- Increase in community services, of approximately $157,000, related to investment for economic development of approximately $97,000 and budgeted expenditures, of approximately $60,000, relating to the cleanup and other environmental preventative measures taken relating to this property (acquired by the city through the above mentioned Community Development Block Grant) that was severely damaged in a fire and posed a hazard to the community.

- Capital improvements were budgeted to increase by approximately $65,000 related to the replacement and improvement of portions of the City's existing storm water system.

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

Proprietary Funds

Operating revenues of the City's proprietary funds decreased 3.6% from the prior year to $5,503,527. The City kept rates static for the year. Operating revenues from Water and Wastewater decreased by 5.16% to $4,286,988 while operating revenues from Sanitation services increased .18% to $1,170,955. The Fiber Optic services began its second year of providing services with revenues of $45,584. Total operating expenses increased 11.09% to $5,416,055. Operating expenses for Water & Wastewater increased by 7.4% to $3,841,515 while operating expenses for Sanitation services increased by .15% to $1,192,651. Fiber Optic service expenditures were $381,889 compared to $107,581 from the prior year.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2013, the City's investment in capital assets net of related debt for its governmental and business-type activities was $29,940,557 and $29,132,061 as of June 30, 2012. This investment in capital assets includes land, buildings, improvements, machinery and equipment and streets.

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

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

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

- Capital expenditure of $1,229,329 for design, make ready and construction costs of Fiber Optic network.

- Capital expenditures of $567,293 for improvements and additions to the City's water and waste water system.

- Capital expenditures of $288,833 for equipment and vehicles for the City's water and waste water system.

- Equipment used by Street department of $79,970.

Long-term Debt

The City had $11,004,176 in revenue bonds and capital lease obligations outstanding as of June 30, 2013, which is a decrease of $719,868 from the previous year. The City made principal payments of $835,262 during fiscal year 2013. The City refunded its 2004 General Obligation Water and Sewer Bond in the amount of $3,755,000. The City issued $3,860,000 in Water and Sewer Revenue Refunding Bonds to refund its outstanding Water and Sewer Revenue Bonds, Series 2004. This refunding reduced total debt service payments over the next 10 years by $562,000, resulting in an economic gain of $514,000. In the previous year, the City had $11,724,044 in revenue bonds and capital lease obligations outstanding as of June 30, 2012, which is a decrease of $1,210,775 from the previous year. The City made principal payments of $1,222,783 during fiscal year 2012.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of $4,312,637 at June 30, 2013, excluding capital assets and long-term debt. Included in this year's total change in fund balance is an increase of $243,565 in the City's General Fund. For the previous year, the City's governmental funds reported a combined fund balance of $3,912,314 at June 30, 2012, excluding capital assets and long-term debt. Included in last year's total change in fund balance was an increase of $551,862 in the City's General Fund.

Modified Approach to Infrastructure

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

It is the City's policy to assess the condition of the roads annually for cracks, potholes, misalignment, drainage condition and number of specific safety hazards. There were no roads severely deficient in condition at June 30, 2013.

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

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

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

Economic Factors and Next Year's Budgets and Rates

In 2008 the City of Franklin was awarded a $1,000,000 grant from the U.S. Department of Commerce, Economic Development administration to aid in the costs of the construction of a fiber optic project. The purpose of the project is to enhance economic development and City services by providing a reliable, advanced telecommunication service. During fiscal year 2011-2012, the City contracted for the purchase and installation of equipment, the construction of the fiber cable and the splicing and testing of the system. As of June 30, 2013, the construction was complete, with total investment in capital assets, including infrastructure, buildings and equipment, of $2,456,092. The City began offering its Fiber Services in May 2013 and is now servicing 24 customers. The City is excited to begin kicking off its Fiber Program. The Fiber Administrator is currently working to bring on 4 additional commercial customers, with an expectation of service for these customers beginning within Fiscal Year 2014.

The City is really operating within a time of change and anticipated growth. The City's Leaders have spent a lot of time and effort focusing on the sustainability of the City's infrastructure, such as what capital investments are required to maintain and rehabilitate our current infrastructure as well as what areas of growth there are that the City needs to expand our existing water and sewer systems. In Fiscal Year 2014 the City kicked off an in-depth Utility Rate Study where we analyzed the pressing needs of each department within our Utility Division: Water Production, Water Distribution, & Waste Water Treatment. Within this study we identified all capital investments necessary to rehabilitate the City's current water and sewer lines, its treatment plants, and related equipment. Each Department Head identified areas of need and these capital improvements were incorporated into this study so the City could adequately identify the most pressing areas of intense need. The Utility Rate Study was incredibly valuable from many different perspectives, from infrastructure needs, to equipment needs, to a more detailed analysis of our revenue base and related operating expenditures. As the City continues with this study it will ultimately adopt a five year capital improvement plan, as well as identify annual financial resources to be allocated to each department for infrastructure rehabilitation and line replacements, which is a fairly new concept .It will also correlate our needs and the related financial impact and identify any utility rate increases, and by what incremental amount, that will be necessary in order to execute the investments identified.

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

- The City is currently engineering a project related to the expansion of our existing sewer lines. This project will provide service to an area that was recently annexed into the City south of Franklin, extending all the way to the KY/TN line, well past Exit 2 on Interstate 65. This project, including all engineering work, has an estimated project cost of $600,000.

- The City's Waste Water Treatment Department has identified a lift station and sub-basin that needs significant rehabilitation work. The expectation is that this investment and improvement will decrease some of the water's run off infiltration into the sewer systems as well as improve the overall systems operating capacity for the citizens using the sewer system within that sub-basin. This project, including all engineering work, has an estimated project cost of $600,000 to $700,000.

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

- The City's Water Distribution Department is working within its second year of a substantial water main replacement initiative. Currently, the City is working toward replacing all of its 2" galvanized water lines with new, sustainable water lines. The expectation is that the replacement of this old and corroded line will provide better water service to the City's customers as well as reduce some of the annual water loss that the City experiences. Additionally the City has begun replacing these lines in-house, rather than contracting the projects out. This allows the City to take advantage of its own synergy and cooperation among the City's departments, because what one department does always directly impacts another, therefore it provides for more timely reaction to any project related incidences. Additionally there is a major cost savings realized by completing the project in-house rather than paying a premium for contracted services. The replacement project that was completed at the beginning of Fiscal Year 2014, in the Highlands area, resulted in an estimated $300,000 savings. The City is currently budgeting approximately $300,000 annually for water line replacement and rehabilitation.

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

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

- The City began offering its Fiber Services in May 2013 and is now servicing 24 customers. The City is excited to begin kicking off its Fiber Program. The Fiber Administrator is currently working to bring on 4 additional commercial customers, with an expectation of service for these customers beginning within Fiscal Year 2014.

- In September 2012, the City passed an Alcoholic Beverage Control Ordinance expanding the types of licenses for sale of alcoholic beverages. To date, fourteen malt beverage licenses have been issued, seven restaurant licenses have been issued and one application has been filed for a distillery. The State of Kentucky has set the package liquor quota at three licenses. All three licenses have been issued and the packaged liquor stores are open and operational. With the changes in the City's Alcoholic Beverage Control Ordinance and our recent annexation south of Franklin, the City really expects to see future growth in the area, given its proximity to Interstate 65, in part relating to some high-end chain restaurants.

- During the past year, the City initiated a City-Wide Beautification Program. The program began last July with the hiring of a full time Code Enforcement Officer, and has since been extremely proactive in the effort to make noticeable improvements to the City with regards to blighted and dilapidated structures. To date, seventy six Code Enforcement liens have been filed with several of these liens being placed against bank owned properties, owners who are notoriously slow to act when notified of violations. Additionally, ten blighted and dilapidated properties have been condemned by the City with six of these properties having been subsequently demolished and the lots cleared of all material and debris. There are currently seven properties which have been condemned and are pending action, and another eleven properties which are currently in the condemnation process. These actions are the result of a combined effort by the City's Code Enforcement Officer and the City/County Planning and Zoning office. This calendar year to date, the City has collected approximately $16,979 in fines and liens with an additional $125,609 outstanding. The City has just recently finalized the remaining demolition and removal of the Old Carter Moore Hospital and adjoining structures from the devastating fire that occurred in 2012. Upon receiving grant approval and final state authorization, the city demolished, sorted, and removed all material and debris.

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

- There have been several industries within Franklin that have announced their plans for expansion with one industry locating in Sanders Industrial Park.

- Overall, all leaders within our community are excited for growth and expansion. The end result, primarily, is the desire for our community to have the capacity and availability to provide jobs to our citizens. We are excited to see our community's unemployment rates trend down – from 7.2% in December 2012 to 6.1% in December 2013.

Contacting the City's Financial Management

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

BASIC FINANCIAL STATEMENTS

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF NET POSITION
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,005,684	$ 1,318,312	$ 2,323,996
Certificates of deposit	437,160	—	437,160
Receivables (net of allowance for uncollectibles):			
Accounts	10,400	587,426	597,826
Taxes	906,115	—	906,115
Notes	3,774,707	—	3,774,707
Intergovernmental	213,258	312,701	525,959
Interest	177	—	177
Internal balances	1,532,203	(1,532,203)	—
Inventory	—	269,873	269,873
Prepaid items	126,932	3,800	130,732
Restricted assets:			
Cash and cash equivalents	373,843	676,221	1,050,064
Certificates of deposit	—	1,073,927	1,073,927
Interest receivable	—	274	274
Capital assets, net of accumulated depreciation:			
Nondepreciable	11,928,549	374,238	12,302,787
Depreciable capital assets	2,109,949	21,743,454	23,853,403
Construction in progress	—	488,434	488,434
Debt issuance costs	28,474	122,479	150,953
Total assets	22,447,451	25,438,936	47,886,387
LIABILITIES			
Accounts payable	126,302	473,592	599,894
Other accrued liabilities	165,015	364,909	529,924
Accrued interest payable	41,355	12,577	53,932
Accrued vacation	91,453	28,051	119,504
Deferred revenues	—	2,030	2,030
Deposits	1,820	—	1,820
Noncurrent liabilities:			
Customer deposits	—	414,327	414,327
OPEB liability	(2,330)	66,709	64,379
Due within one year	281,146	442,889	724,035
Due in more than one year	5,341,563	4,938,578	10,280,141
Total liabilities	6,046,324	6,743,662	12,789,986
NET POSITION			
Invested in capital assets, net of related debt	12,255,726	17,684,831	29,940,557
Restricted for:			
Expendable:			
Highways and streets	147,718	—	147,718
Debt service and capital activity	188,310	1,338,085	1,526,395
Economic development	156,740	—	156,740
Other purposes	47,590	—	47,590
Nonexpendable:			
Perpetual care	490,801	—	490,801
Unrestricted	3,114,242	(327,642)	2,786,600
Total net position	$ 16,401,127	$ 18,695,274	$ 35,096,401

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Function/Programs							
Primary Government							
Governmental activities:							
General government	$ 1,706,532	$ 828,020	$ –	$ –	($ 878,512)	$ –	($ 878,512)
Public safety	2,489,314	26,493	170,487	–	(2,292,334)	–	(2,292,334)
Public works	1,005,609	75,000	202,802	–	(727,807)	–	(727,807)
Community and cultural	478,386	128,150	–	178,000	(172,236)	–	(172,236)
Interest on long-term debt	178,370	–	–	–	(178,370)	–	(178,370)
Total governmental activities	5,858,211	1,057,663	373,289	178,000	(4,249,259)	–	(4,249,259)
Business-type activities:							
Water and wastewater	4,036,425	4,286,988	–	–	–	250,563	250,563
Sanitation	1,192,651	1,170,955	–	–	–	(21,696)	(21,696)
Fiber optic	381,889	45,584	–	453,173	–	116,868	116,868
Total business-type activities	5,610,965	5,503,527	–	453,173	–	345,735	345,735
Total primary government	$ 11,469,176	$ 6,561,190	$ 373,289	$ 631,173	(4,249,259)	345,735	(3,903,524)
General revenues:							
Property taxes					851,520	–	851,520
Occupational taxes					2,195,926	–	2,195,926
Insurance premium taxes					1,426,743	–	1,426,743
Franchise taxes					93,281	–	93,281
Business license taxes					471,685	–	471,685
Interest income					5,991	10,847	16,838
Miscellaneous					369,349	232,558	601,907
Gain on sale of assets					5,771	14,882	20,653
Transfers					–	–	–
Total general revenues and transfers					5,420,266	258,287	5,678,553
Change in net position					1,171,007	604,022	1,775,029
Net position, beginning of year					15,230,120	18,091,252	33,321,372
Net position, end of year					$ 16,401,127	$ 18,695,274	$ 35,096,401

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 800,474	$ 205,210	$ 1,005,684
Certificates of deposit	—	437,160	437,160
Receivables (net of allowance for uncollectibles):			
Accounts	9,400	1,000	10,400
Taxes	906,115	—	906,115
Notes	3,774,707	—	3,774,707
Intergovernmental	15,408	197,850	213,258
Interest	—	177	177
Due from other funds	1,769,274	51,259	1,820,533
Prepaid items	126,448	484	126,932
Restricted assets			
Cash and cash equivalents	235,900	137,943	373,843
Total assets	$ 7,637,726	$ 1,031,083	$ 8,668,809
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 122,487	$ 3,815	$ 126,302
Due to other funds	51,058	237,270	288,328
Accrued expenses	165,015	—	165,015
Deferred revenue	3,774,707	—	3,774,707
Deposits	—	1,820	1,820
Total liabilities	4,113,267	242,905	4,356,172
Fund balances:			
Nonspendable:			
Prepaid items	126,448	484	126,932
Perpetual care	—	490,800	490,800
Assigned to:			
Debt service	188,311	—	188,311
Retirement benefits	24,459	—	24,459
Drug enforcement	16,681	—	16,681
Other purposes	6,450	296,894	303,344
Unassigned	3,162,110	—	3,162,110
Total fund balances	3,524,459	788,178	4,312,637
Total liabilities and fund balances	$ 7,637,726	$ 1,031,083	$ 8,668,809

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2013

Total fund balances - governmental funds		$ 4,312,637
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		14,038,497
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable	($ 5,622,710)	
Compensated absences	(91,453)	
Accrued interest on long-term obligations	(41,355)	
OPEB liability	2,330	(5,753,188)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		3,774,707
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 Position and amortized over the life of the bonds.		28,474
Net position of governmental activities		$ 16,401,127

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes:			
Property	$ 851,520	$ —	$ 851,520
Occupational	2,195,926	—	2,195,926
Insurance premium	1,426,743	—	1,426,743
Franchise	93,281	—	93,281
Business license	471,685	—	471,685
Intergovernmental	193,157	390,197	583,354
Charges for sales and services	—	72,150	72,150
Interfund charges	872,221	—	872,221
Fines and forfeitures	43,228	—	43,228
Contributions and donations	—	6,000	6,000
Investment income	1,668	4,323	5,991
Miscellaneous	517,790	230	518,020
Total revenues	6,667,219	472,900	7,140,119
Expenditures			
Current:			
General government	$ 1,657,161	$ —	$ 1,657,161
Public safety	2,343,848	—	2,343,848
Public works	849,166	113,523	962,689
Community services	224,396	249,617	474,013
Capital outlay	747,080	—	747,080
Debt service:			
Principal	384,481	—	384,481
Interest	176,527	—	176,527
Total expenditures	6,382,659	363,140	6,745,799
Excess of revenues over expenditures	284,560	109,760	394,320
Other financing sources (uses):			
Transfers in	175,000	222,000	397,000
Transfers out	(222,000)	(175,000)	(397,000)
Sale of capital assets	6,003	—	6,003
Total other financing sources (uses)	(40,997)	47,000	6,003
Net change in fund balances	243,563	156,760	400,323
Fund balances, beginning of year	3,280,896	631,418	3,912,314
Fund balances, end of year	$ 3,524,459	$ 788,178	$ 4,312,637

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, 2013

		Total Governmental Funds
Net change in fund balances - total governmental funds		$ 400,323
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		513,816
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of 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.		380,387
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	$ 2,672	
OPEB expense	(11,535)	
Accrued interest on long-term debt	2,251	(6,612)
Principal collections on notes receivable are included in governmental funds. Principal collections reduce long-term notes receivable in the government-wide statement of net position.		(96,422)
In the statement of activities, only the gain on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the disposal increase financial resources. Thus the change in net position differs from the change in fund balance by the net book value of the assets disposed.		(20,485)
Change in net position of governmental activities		$ 1,171,007

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2013

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,025,304	$ 293,008	$ —	$ 1,318,312
Accounts receivable, net	487,856	96,863	2,707	587,426
Intergovernmental receivables	312,701	—	—	312,701
Due from other funds	—	9,244	—	9,244
Inventory	269,873	—	—	269,873
Prepaid items	3,078	700	22	3,800
Restricted assets:				
Cash and cash equivalents	676,221	—	—	676,221
Certificates of deposit	1,073,927	—	—	1,073,927
Interest receivable	274	—	—	274
Total current assets	3,849,234	399,815	2,729	4,251,778
Noncurrent assets:				
Capital assets:				
Land	332,924	40,114	1,200	374,238
Depreciable capital assets, net	19,371,976	—	2,371,478	21,743,454
Construction in progress	488,434	—	—	488,434
Net capital assets	20,193,334	40,114	2,372,678	22,606,126
Debt issue costs	122,479	—	—	122,479
Total noncurrent assets	20,315,813	40,114	2,372,678	22,728,605
Total assets	$ 24,165,047	$ 439,929	$ 2,375,407	$ 26,980,383

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2013

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 326,350	$ 94,988	$ 52,254	$ 473,592
Accrued liabilities	51,050	309,924	3,935	364,909
Accrued interest	12,577	—	—	12,577
Accrued vacation	28,051	—	—	28,051
Due to other funds	18,938	—	1,522,509	1,541,447
Deferred revenue	—	—	2,030	2,030
Current maturities of notes payable	167,889	—	—	167,889
Payable from restricted assets:				
Current maturities of revenue bonds payable	275,000	—	—	275,000
Customer deposits	414,327	—	—	414,327
Total current liabilities	1,294,182	404,912	1,580,728	3,279,822
Noncurrent liabilities:				
OPEB liability	35,022	31,687	—	66,709
Notes payable	442,135	—	—	442,135
Revenue bonds payable	4,496,443	—	—	4,496,443
Total noncurrent liabilities	4,973,600	31,687	—	5,005,287
Total liabilities	6,267,782	436,599	1,580,728	8,285,109
NET POSITION				
Invested in capital assets, net of related debt	15,272,039	40,114	2,372,678	17,684,831
Restricted for debt service and capital activity	1,338,085	—	—	1,338,085
Unrestricted	1,287,141	(36,784)	(1,577,999)	(327,642)
Total net position	$ 17,897,265	$ 3,330	$ 794,679	$ 18,695,274

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
Year Ended June 30, 2013

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Operating revenues				
Charges for services	$ 4,184,286	$ 1,138,368	$ 45,584	$ 5,368,238
Fines and forfeitures	102,702	32,587	—	135,289
Total operating revenues	4,286,988	1,170,955	45,584	5,503,527
Operating expenses				
Salaries, wages and benefits	1,235,835	21,925	137,704	1,395,464
Maintenance	193,390	961,226	99,499	1,254,115
Utilities	304,164	—	47,374	351,538
Administrative	537,721	209,500	—	747,221
Supplies	528,095	—	22,423	550,518
Other	27,467	—	4,175	31,642
Depreciation	1,014,843	—	70,714	1,085,557
Total operating expenses	3,841,515	1,192,651	381,889	5,416,055
Operating income (loss)	445,473	(21,696)	(336,305)	87,472
Nonoperating revenues (expenses):				
Investment income	10,213	635	—	10,848
Intergovernmental revenue	—	—	453,173	453,173
Miscellaneous revenue	232,557	—	—	232,557
Interest expense	(176,181)	—	—	(176,181)
Amortization expense	(17,260)	—	—	(17,260)
Administrative fees	(1,469)	—	—	(1,469)
Gain on disposal of assets	14,882	—	—	14,882
Total nonoperating revenues (expenses)	62,742	635	453,173	516,550
Change in net position	508,215	(21,061)	116,868	604,022
Net position, beginning of year	17,389,050	24,391	677,811	18,091,252
Net position, end of year	$ 17,897,265	$ 3,330	$ 794,679	$ 18,695,274

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2013

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Cash flows from operating activities				
Cash received from customers	$ 4,241,421	$ 1,162,363	$ 42,877	$ 5,446,661
Cash payments to employees and retirees	(1,235,203)	(11,802)	(135,972)	(1,382,977)
Cash payments to suppliers	(892,437)	(965,109)	(165,726)	(2,023,272)
Payments for administrative overhead	(587,721)	(209,500)	—	(747,221)
Net cash provided by (used in) operating activities	1,576,060	(24,048)	(258,821)	1,293,191
Cash flows from noncapital financing activities				
Borrowings from other funds	—	—	100,855	100,855
Proceeds from operating subsidies	—	—	100,000	100,000
Net cash provided by noncapital financing activities	—	—	200,855	200,855
Cash flows from capital and related financing activities				
Proceeds from capital grants	—	—	1,000,000	1,000,000
Proceeds from the sale of capital assets	15,337	—	—	15,337
Purchase of capital assets	(1,163,011)	—	(942,034)	(2,105,045)
Principal paid on bonds, notes and lease obligations	(4,205,780)	—	—	(4,205,780)
Interest paid on bonds, notes and lease obligations	(181,814)	—	—	(181,814)
Administrative fees paid	(1,469)	—	—	(1,469)
Proceeds from refunding bonds	3,959,745	—	—	3,959,745
Payments of call premium on refunded bonds	(75,100)	—	—	(75,100)
Debt issue costs paid	(96,177)	—	—	(96,177)
Net cash provided by (used in) capital and related financing activities	(1,748,269)	—	57,966	(1,690,303)
Cash flows from investing activities				
Proceeds from sale and maturities of certificates of deposit	78,403	—	—	78,403
Interest received	10,414	635	—	11,049
Net cash provided by investing activities	88,817	635	—	89,452
Net decrease in cash and cash equivalents	(83,392)	(23,413)	—	(106,805)
Cash and cash equivalents, beginning of year	1,784,917	316,421	—	2,101,338
Cash and cash equivalents, end of year	$ 1,701,525	$ 293,008	$ —	$ 1,994,533
Reflected in the Statement of Fund Net Position - Proprietary Funds as:				
Cash and cash equivalents	$ 1,025,304	$ 293,008	$ —	$ 1,318,312
Restricted cash and cash equivalents	676,221	—	—	676,221
Total	$ 1,701,525	$ 293,008	$ —	$ 1,994,533

See Notes to Financial Statements (Continued)

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2013

	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)	$ 445,473	($ 21,696)	($ 336,305)	$ 87,472
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,014,843	—	70,714	1,085,557
Nonoperating revenues	232,557	—	—	232,557
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	16,312	(8,592)	(2,707)	5,013
Decrease in due from other funds	55,693	2,069	—	57,762
(Increase) decrease in inventory and prepaid items	(218,496)	(33)	33	(218,496)
Increase (decrease) in accounts payable	92,130	(1,710)	7,712	98,132
Increase (decrease) in accrued liabilities	(8,233)	(4,209)	1,732	(10,710)
Decrease in accrued vacation	(1,370)	—	—	(1,370)
Decrease in customer deposits	(78,709)	—	—	(78,709)
Increase in due to other funds	15,625	—	—	15,625
Increase in OPEB liability	10,235	10,123	—	20,358
Net cash provided by (used in) operating activities	$ 1,576,060	($ 24,048)	($ 258,821)	$ 1,293,191

See Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

Related Organizations and Jointly Governed Organizations

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Joint Ventures

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

B. Government-wide and Fund Financial Statements

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

Government-wide Financial Statements

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

General Fund

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The City's 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sanitation Fund

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

Fiber Optic Fund

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

C. Measurement Focus and Basis of Accounting

Government-wide and Proprietary Funds

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental Fund Financial Statements

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

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

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

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, 2013, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

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

Investments and Investment Income

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

Unbilled Revenue

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

Capital Assets

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Compensated Absences

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

Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities, business-type activities or proprietary fund Statement of Net Position. Bond premiums and discounts, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deferred Revenue

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

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

Fund Balance Classification

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Net Position

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

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

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses

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

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.

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, 2013:

Community Development Fund	$ 3,000
Sanitation Fund	$ 25,480
Fiber Optic Fund	$ 1,272

Fund excess expenditures were funded by available net assets.

Fund Deficits

The Greenlawn-Shady Rest Cemetery Fund had a deficit fund balance at June 30, 2013 of $7,080. The deficit is a result of lower than anticipated revenues for support of cemetery operations.

NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

Deposits

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

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

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

At June 30, 2013, $2,778,631 of the City's bank balances of $4,457,274 were exposed to custodial credit risk as follows, while $1,678,642 was covered by the FDIC:

Uninsured and collateral held by pledging financial institution	$ 2,778,631

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, 2013, the City had the following investments and maturities:

Type	Fair Value	Maturities In Years Less than 1
U. S. obligations	$ 802,605	$ 802,605

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, 2013, investments in U. S. agency obligations not directly guaranteed by the U. S. government were rated AAA by Standard & Poor's.

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, 2013, 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	$ 4,082,543
Investments	802,604
	$ 4,885,147

Included in the following balance sheet captions:

Government-wide Statement of Net Assets	
Cash and cash equivalents	$ 2,323,996
Certificates of deposit	437,160
Restricted assets:	
Cash and cash equivalents	1,050,064
Certificates of deposit	1,073,927
Total	$ 4,885,147

Investment Income

Investment income for the year ended June 30, 2013 consisted of:	
Interest and dividend income	$ 16,838

NOTE 3. NOTES RECEIVABLE

Notes receivable at June 30, 2013 consists of the following:

General Fund:

African American Heritage Center, Inc. note receivable, dated April 28, 2009; receivable in annual installments of $5,000 beginning July 1, 2009; final installment of $4,000 due on July 1, 2013; non-interest bearing.	$ 9,000
Franklin-Simpson Industrial Authority promissory note receivable, dated December 3, 2010; receivable in 240 monthly installments of $33,333, including interest at 7.95%; secured by real estate mortgage.	3,765,707
	$ 3,774,707

NOTE 4. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2013:

	Cash	Certificates of Deposit	Interest Receivable	Total
Governmental activities:				
General Fund:				
Retiree Life fund	$ 24,458	$ –	$ –	$ 24,458
Police fund	16,681	–	–	16,681
City of Franklin 2009 Bond Fund	188,311	–	–	188,311
Ordinance Codification Fund	6,450	–	–	6,450
Total General Fund	235,900	–	–	235,900
Special Revenue Fund				
Cemetery Fund	(10)			(10)
Community Development	137,953	–	–	137,953
Total governmental activities	373,843	–	–	373,843
Business-type activities:				
Enterprise Fund				
Water and Wastewater Fund:				
Customer deposits	61,926	350,138	66	412,130
Debt service reserve	358,690	305,261	67	664,018
Depreciation reserve	–	276,244	141	276,385
Maintenance and replacement reserve	–	142,284	–	142,284
Construction Fund	255,605	–	–	255,605
Total business-type activities	676,221	1,073,927	274	1,750,422
Total restricted assets	$ 1,050,064	$ 1,073,927	$ 274	$ 2,124,265

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 801,978	$ 532,687	$ –	$ 1,334,665
Streets and sidewalks	10,530,912	62,972	–	10,593,884
Total capital assets, not being depreciated	11,332,890	595,659	–	11,928,549
Capital assets being depreciated:				
Buildings and improvements	2,093,660	–	–	2,093,660
Vehicles	1,807,486	142,183	(92,149)	1,857,520
Furniture, fixtures and equipment	1,341,078	9,238	(20,754)	1,329,562
Total capital assets, being depreciated	5,242,224	151,421	(112,903)	5,280,742
Less accumulated depreciation:				
Buildings and improvements	(552,954)	(51,342)	–	(604,296)
Vehicles	(1,487,001)	(94,231)	71,897	(1,509,335)
Furniture, fixtures and equipment	(989,993)	(87,691)	20,522	(1,057,162)
Total accumulated depreciation	(3,029,948)	(233,264)	92,419	(3,170,793)
Total capital assets, being depreciated, net	2,212,276	(81,843)	(20,484)	2,109,949
Governmental activities capital assets, net	$ 13,545,166	$ 513,816	($ 20,484)	$ 14,038,498
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 374,238	$ –	$ –	$ 374,238
Construction in progress	1,330,385	1,105,026	(1,946,977)	488,434
Total capital assets, not being depreciated	1,704,623	1,105,026	(1,946,977)	862,672
Capital assets being depreciated:				
Utility plant	36,011,064	1,567,201	(2,066)	37,576,199
Buildings	446,875	–	–	446,875
Furniture and equipment	2,873,831	685,353	–	3,559,184
Vehicles	522,670	55,342	–	578,012
Land improvements	–	16,366	–	16,366
Total capital assets being depreciated	39,854,440	2,324,262	(2,066)	42,176,636
Less accumulated depreciation:				
Utility plant	(16,847,570)	(842,049)	1,611	(17,688,008)
Buildings	(94,950)	(9,646)	–	(104,596)
Furniture and equipment	(2,012,550)	(198,215)	–	(2,210,765)
Vehicles	(394,166)	(35,101)	–	(429,267)
Land improvements	–	(546)	–	(546)
Total accumulated depreciation	(19,349,236)	(1,085,557)	1,611	(20,433,182)
Total capital assets, being depreciated, net	20,505,204	1,238,705	(455)	21,743,454
Business-type activities capital assets, net	$ 22,209,827	$ 2,343,731	($ 1,947,432)	$ 22,606,126

NOTE 5. CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	$ 49,174
Public safety	141,096
Public works	41,885
Community and cultural	1,108
Total depreciation expense - governmental activities	$ 233,263
Business-type activities:	
Water and wastewater	$ 1,014,843
Fiber Optic	70,714
Total depreciation expense - business-type activities	$ 1,085,557

NOTE 6. LONG-TERM LIABILITIES

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

Changes in long-term liabilities for the year ended June 30, 2013 were as follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due in One Year
Governmental activities:					
Bonds payable	$ 2,250,000	$ —	($ 230,000)	$ 2,020,000	$ 230,000
Less: unamortized discount	(22,155)	—	1,710	(20,445)	—
Bonds payable, net	2,227,845	—	(228,290)	1,999,555	230,000
Notes payable	3,777,635	—	(154,481)	3,623,154	51,146
Total governmental activities	$ 6,005,480	$ —	($ 382,771)	$ 5,622,709	$ 281,146

NOTE 6. LONG-TERM LIABILITIES (Continued)

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due in One Year
Business-type activities:					
Revenue bonds	$ 5,045,000	$ 3,860,000	($ 4,040,000)	$ 4,865,000	$ 275,000
Less: unamortized discount and deferred amount	(102,241)	(64,910)	73,594	(93,557)	–
Bonds payable, net	4,942,759	3,795,090	(3,966,406)	4,771,443	275,000
Notes payable	775,805	–	(165,781)	610,024	167,889
Total business-type activities	$ 5,718,564	$ 3,795,090	($ 4,132,187)	$ 5,381,467	$ 442,889
Total governmental and business-type activities	$11,724,044	$ 3,795,090	($ 4,514,958)	$11,004,176	$ 724,035

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, 2013:

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.	$ 2,020,000

NOTE 6. LONG-TERM LIABILITIES (Continued)

Notes payable:

$4,000,000 JPMorgan Chase Bank ("Chase Bank") General Obligation Refunding Note, Series 2010, dated June 30, 2010; principal payable in quarterly installments of $36,174 to $39,320 beginning January 5, 2011 through October 5, 2013; unpaid principal balance ($3,544,775) due on January 5, 2014 final maturity date; interest at 2.96% payable in quarterly installments commencing on October 5, 2010; issued to (i) refund the outstanding principal plus interest and prepayment penalty of the City of Franklin General Obligation Note, Series 2010 in the original principal amount of $4,000,000, dated April 1, 2010 ("Refunded Note") (ii) fund the construction by the Franklin-Simpson Industrial Authority of an addition to an existing manufacturing facility to be leased to World Color (USA), LLC, not already funded by Refunded Note, and (iii) pay Refunding Note costs of issuance; secured by the full faith, credit and taxing power of the City, assignment to Chase Bank of all of City's right, title and interest in and to (i) the Interlocal Agreement Regarding Industrial Development, dated March 8, 2010, by and among the County of Simpson, Kentucky, the City and the Franklin-Simpson Industrial Authority and (ii) the Assignment of Leases and Rents, dated March 31, 2010 from the Franklin-Simpson Industrial Authority to the City. See Note 17 Subsequent Events.	$ 3,623,154

Business-type activities:

Notes payable:

Water and Wastewater Fund:

$497,979 Kentucky Infrastructure Authority assistance agreement note, dated November 1, 1993; principal and interest at 1.6% payable semi-annually on June 1 and December 1 through December, 2014; proceeds used to finance improvements to wastewater treatment facility.	43,274
$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.	566,750
Total notes payable	$ 610,024

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, 2013 were as follows:

	Interest Rates	Final Maturity Date	Principal at June 30, 2013
Revenue bonds, Series 2009 (A)	2.00 - 4.375%	December 1, 2024	$ 1,155,000
Revenue bonds, Series 2012 (B)	2.00 - 3.75%	December 1, 2033	3,710,000
			4,865,000
Less: unamortized discounts			(93,557)
Total revenue bonds payable - business-type activities			$ 4,771,443

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

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

NOTE 6. LONG-TERM LIABILITIES (Continued)

Annual Debt Service Requirements

The annual requirements to amortize long-term debt outstanding as of June 30, 2013 are as follows:

Year Ending	Governmental Activities		Business-Type Activities		Government-Wide	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 281,146	$ 155,089	$ 442,889	$ 147,221	$ 724,035	$ 302,310
2015	240,000	135,872	435,370	138,555	675,370	274,427
2016	245,000	129,317	432,525	129,759	677,525	259,076
2017	3,822,008	81,706	444,240	120,556	4,266,248	202,262
2018	260,000	33,870	300,000	111,387	560,000	145,257
2019 - 2023	605,000	82,665	1,135,000	454,415	1,740,000	537,080
2024 - 2028	190,000	7,600	995,000	301,310	1,185,000	308,910
2029 - 2033	–	–	1,060,000	141,190	1,060,000	141,190
2034	–	–	230,000	4,312	230,000	4,312
	$ 5,643,154	$ 626,119	$ 5,475,024	$ 1,548,705	$11,118,178	$ 2,174,824

Current Refunding

In July, 2012, the City issued $3,860,000 in Water and Sewer Revenue Refunding Bonds with interest rates ranging between 2% and 3.75%. The City issued the bonds to refund (current refunding) $3,755,000 of the City's outstanding Water and Sewer Revenue Bonds, Series 2004, with interest rates on outstanding bonds ranging between 3.5% and 4.75%. The City used the bond net proceeds to redeem the outstanding Series 2004 bonds on August 9, 2012 at a redemption price equal to 102% of the outstanding principal amount plus accrued interest to date of redemption. The current refunding reduced total debt service payments over the next 10 years by $562,000, resulting in an economic gain of $514,000.

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.

NOTE 6. LONG-TERM LIABILITIES (Continued)

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

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

On December 3, 2010, the City ("holder") and Authority ("maker") entered into a Promissory Note in the principal amount of $4,000,000 (see Note 3). As of June 30, 2013, the City has recorded a note receivable from the Authority and deferred revenues of $3,765,706 in the General Fund.

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

Year Ending June 30	Principal	Interest	Total
2014	$ 104,374	$ 295,625	$ 399,999
2015	112,981	287,018	399,999
2016	122,297	277,702	399,999
2017	132,382	267,617	399,999
2018	143,299	256,700	399,999
2019-2023	914,478	1,085,516	1,999,994
2024-2028	1,359,051	640,943	1,999,994
2029-2031	876,844	89,820	966,664
	$ 3,765,706	$ 3,200,941	$ 6,966,647

NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2013 are as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	$ 1,769,274	$ 51,059
Special Revenue Funds:		
Economic Development Revolving Loan Fund	50,993	—
Community Development Fund	—	207,206
Cemetery Fund		
Permanent Fund	44	30,065
Greenlawn Shady Rest Cemetery Perpetual Fund	222	—
Total governmental funds	1,820,533	288,330
Proprietary Funds:		
Water and Wastewater Fund	—	18,938
Sanitation Fund	9,244	—
Fiber Optic Fund	—	1,522,509
Total proprietary funds	9,244	1,541,447
	$ 1,829,777	$ 1,829,777

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, 2013 are summarized as follows:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	$ 175,000	$ 222,000
Special Revenue Fund		
Greenlawn-Shady Rest Cemetery Fund	151,000	—
Community Development Fund	71,000	175,000
Total governmental funds	$ 397,000	$ 397,000

NOTE 8. INTERFUND TRANSFERS (Continued)

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

NOTE 9. RETIREMENT PLAN

Plan Descriptions and Funding Information

County Employees Retirement System

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

Plan members participating in CERS on or before August 31, 2008, with nonhazardous and hazardous duty positions, were required to contribute 5% and 8%, respectively, of their annual creditable compensation. For plan members who began participating in CERS on or after September 1, 2008, contribution rates are 6% and 9%, respectively. Participating employers were required to contribute at an actuarially determined rate. Per KRS Section 61.565(3), normal contributions and past service contribution rates shall be determined by the Board of Trustees on the basis of an annual valuation last proceeding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of the biennium, if it is determined on the basis of subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2013, participating employers contributed 19.55% (nonhazardous) and 37.60% (hazardous) of each employee's creditable compensation. The actuarially determined rates set by the Board for the year ended June 30, 2013, were 19.55% and 37.60% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

NOTE 9. RETIREMENT PLAN (Continued)

The City's employer contributions to CERS for the years ended June 30, 2013, 2012 and 2011, were equal to the required contributions for each year and are as follows:

Fiscal Year Ending	Non-hazardous Duty Positions Contribution	Percent of Compensation	Hazardous Duty Positions Contribution	Percent of Compensation
2013	$ 372,074	19.55%	$ 391,884	37.60%
2012	$ 341,564	18.96%	$ 357,416	35.76%
2011	$ 279,934	16.93%	$ 312,334	33.25%

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description and Contribution Information

In addition to the pension benefits described above in Note 9, the City maintains an informal retirement plan authorized by the Mayor/Commission. The City does not issue a separate, publicly available OPEB financial report. City employees who retired prior to May 1, 1988, plus employees/spouses who retired after May 1, 1988 but who elected not to participate in the CERS plan (above), are paid a $100 per month retirement benefit. Twenty retired City employees are currently covered under the plan. Retirement benefits are financed on a pay as you go basis. Payments under the plan totaled $23,900 for the year ended June 30, 2013.

In addition to providing retirement benefits, the City also provides certain health care and life insurance benefits for these retired employees and their spouses. The cost of the retiree health care and life insurance benefits is borne 100% by the City and is financed on a pay as you go basis. For the year ended June 30, 2013, payments under the plan totaled $90,156.

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution	$ 151,095
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB cost (expense)	151,095
Contributions made	(119,202)
Increase in net OPEB obligation	31,893
Net OPEB obligation—beginning of year	32,486
Net OPEB obligation—end of year	$ 64,379

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013 and 2012 were as follows:

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$151,095	78.9%	$64,379
2012	$120,610	106.79%	$32,486

Funded Status and Funding Progress

As of June 30, 2013, the actuarial accrued liability for benefits was $1,455,926, all of which was unfunded.

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

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

Methods and Assumptions

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

The following simplifying assumptions were made:

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

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

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

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

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

NOTE 11. DEFERRED COMPENSATION PLAN

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

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or $17,500 for 2013, whichever is less. During the fiscal year ending June 30, 2013, contributions made on behalf of employees totaled $57,639.

NOTE 12. SOLID WASTE COLLECTION FRANCHISE AGREEMENTS

Commercial and Residential

On September 30, 2008, the City entered into an exclusive commercial and residential franchise agreement with Waste Management of Kentucky, LLC (franchisee), for the collection of residential and commercial solid waste and wastewater treatment plant waste in the City. Pursuant to franchise agreement, the City shall withhold 10% of the monthly gross receipts (franchise fee) received by the City from utility bill payments attributable to operations conducted by franchisee. In addition, City shall withhold 3% of the monthly gross receipts as a collection fee for its billing and collection services provided. The franchise agreement is for a five year period beginning October 1, 2008 and ending September 30, 2013.

Industrial

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

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION

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

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

Fire Station and Equipment

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

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

Financial Contributions

City contributions to the County to the cost and expense of Franklin-Simpson Fire Rescue shall be at amounts per City's adopted budget payable monthly, however, not less than $204,316 annually, without the prior written agreement of the parties. City contributions shall be increased or decreased annually, based upon change in consumer price index or cost of living increases set by Governor's Office of Local Development or comparable governmental office, effective July 1st of year increase or decrease is adopted by applicable state office, or the percentage increase in Simpson County's fire department budget, whichever is lower.

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

Term

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

NOTE 14. RISK MANAGEMENT

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

NOTE 15. CONTINGENCIES

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

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2013 may be impaired. In the opinion of the City, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 16. CONDUIT DEBT OBLIGATIONS

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

As of June 30, 2013, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of $51,787,290.

NOTE 17. SUBSEQUENT EVENTS

On December 20, 2013, the City entered into a General Obligation Refunding Note, Series 2013, with Franklin Bank & Trust Company. Proceeds of the $3,572,008 promissory note were used to pay-off the City's original $4,000,000 JPMorgan Chase Bank General Obligation Refunding Note, Series 2010, dated June 30, 2010. The Chase Bank note pay-off ($3,572,008) included outstanding note principal ($3,544,908) and accrued interest ($27,100).

Interest at 2.250% is payable quarterly on the Franklin Bank promissory note beginning March 20, 2014. Outstanding principal and accrued interest is due on December 20, 2016 maturity date. The note is secured by collateral assignment of leases and rents, dated December 20, 2013, and collateral assignment of interlocal agreement regarding industrial development, dated December 20, 2013.

NOTE 18. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

In fiscal year 2013, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Under this guidance, the statement of net assets has been renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

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

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 795,477	$ 817,304	$ 851,520	$ 34,216
Occupational taxes	1,966,998	1,933,090	2,195,926	262,836
Insurance premium taxes	1,193,049	1,284,170	1,426,743	142,573
Business license taxes	290,880	404,963	471,685	66,722
Franchise taxes	94,669	87,433	93,281	5,848
Intergovernmental	189,830	368,512	193,157	(175,355)
Interfund charges	872,622	872,221	872,221	—
Fines and forfeitures	35,838	35,092	43,228	8,136
Miscellaneous	489,062	527,669	519,458	(8,211)
Total revenues	5,928,425	6,330,454	6,667,219	336,765
Expenditures				
General government:				
Legislative:				
Personal services	98,511	111,697	111,248	449
Contractual services	14,032	31,543	31,026	517
Materials and supplies	1,300	135	136	(1)
Other	12,750	16,010	16,587	(577)
Total legislative	126,593	159,385	158,997	388
Administrative:				
Personal services	423,277	427,922	426,857	1,065
Contractual services	13,425	12,052	12,032	20
Materials and supplies	4,200	3,999	3,822	177
Other	5,800	5,265	6,110	(845)
Total administrative	446,702	449,238	448,821	417
Finance and accounting:				
Personal services	518,392	512,977	489,320	23,657
Contractual services	126,237	158,854	159,994	(1,140)
Materials and supplies	39,700	43,795	49,172	(5,377)
Other	14,385	10,881	11,899	(1,018)
Total finance and accounting	698,714	726,507	710,385	16,122
Risk management	321,983	340,225	338,958	1,267
Total general government	1,593,992	1,675,355	1,657,161	18,194

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Public safety:				
Police department:				
Administration:				
Personal services	$ 385,810	$ 400,023	$ 395,497	$ 4,526
Contractual services	25,906	23,022	26,560	(3,538)
Materials and supplies	20,613	20,680	20,690	(10)
Other	2,750	4,145	4,810	(665)
Total administration	435,079	447,870	447,557	313
Patrol:				
Personal services	1,468,800	1,453,522	1,453,548	(26)
Contractual services	20,051	19,988	20,574	(586)
Materials and supplies	97,459	102,604	109,787	(7,183)
Other	6,900	4,470	5,315	(845)
Total patrol	1,593,210	1,580,584	1,589,224	(8,640)
Non-sworn personnel:				
Personal services	63,694	67,662	66,434	1,228
Contractual services	1,960	2,100	2,100	—
Other	200	10	10	—
Total non-sworn personnel	65,854	69,772	68,544	1,228
Code enforcement:				
Personal services	—	239	239	—
Contractual services	17,500	46,580	47,727	(1,147)
Materials and supplies	6,000	4,566	4,734	(168)
Other	—	288	1,000	(712)
Total code enforcement	23,500	51,673	53,700	(2,027)
Total police department	2,117,643	2,149,899	2,159,025	(9,126)
Fire department:				
Inspection and administration:				
Contractual services	1,250	887	894	(7)

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Fire department (continued)				
Firefighting:				
Contractual services	$ 200,650	$ 200,648	$ 183,929	$ 16,719
Total fire department	201,900	201,535	184,823	16,712
Total public safety	2,319,543	2,351,434	2,343,848	7,586
Public works:				
Personal services	615,335	600,496	590,891	9,605
Contractual services	153,104	145,765	143,793	1,972
Materials and supplies	103,509	110,532	111,008	(476)
Other	6,220	3,625	3,474	151
Total public works	878,168	860,418	849,166	11,252
Community services	69,800	226,624	224,396	2,228
Capital outlay:				
Vehicles	197,584	172,227	142,183	30,044
Equipment	25,000	9,238	9,238	—
Plant in service	—	62,972	62,972	—
Buildings	25,000	516,827	532,687	(15,860)
Total capital outlay	247,584	761,264	747,080	14,184
Debt service:				
Principal	384,077	384,085	384,481	(396)
Interest	176,931	176,923	176,527	396
Total debt service	561,008	561,008	561,008	—
Total expenditures	5,670,095	6,436,103	6,382,659	53,444

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures	$ 258,330	($ 105,649)	$ 284,560	$ 390,209
Other financing sources (uses):				
Transfers in	—	—	175,000	175,000
Transfers out	(150,000)	(168,200)	(222,000)	(53,800)
Sale of capital assets	—	6,006	6,003	(3)
Total other financing sources (uses)	(150,000)	(162,194)	(40,997)	121,197
Net change in fund balance	108,330	(267,843)	243,563	511,406
Fund balances, beginning of year	3,280,896	3,280,896	3,280,896	—
Fund balances, end of year	$ 3,389,226	$ 3,013,053	$ 3,524,459	$ 511,406

CITY OF FRANKLIN, KENTUCKY

Infrastructure Condition and Maintenance Data
June 30, 2013

Modified Approach to Infrastructure

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

		Square Feet of Road Area					
		2013		2012		2011	
	OCI Condition Rating	Square Feet	%	Square Feet	%	Square Feet	%
Acceptable	75 - 100	3,456,830	68.74	3,686,758	74.05	3,713,204	74.58
Marginally deficient	50 - 74	1,270,488	25.27	1,067,209	21.44	1,101,271	22.12
Moderately deficient	25 - 49	268,508	5.34	224,712	4.51	164,140	3.30
Severely deficient	0 - 24	32,445	.65	–	–	–	–
Total		5,028,271	100.00	4,978,679	100.00	4,978,615	100.00

	Comparison of Estimated-to-Actual Maintenance/Preservation				
	2013	2012	2011	2010	2009
Original estimate	$ 126,344	$ 164,260	$ 113,590	$ 211,961	$ 199,661
Actual	$ 120,453	$ 225,025	$ 113,168	$ 202,470	$ 173,746

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

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

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

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

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF FUNDING PROGRESS - OPEB
June 30, 2013

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

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
June 30, 2013

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	$ 158,818	74.4%
2012	$ 120,610	106.79%
2013	$ 120,610	94.6%

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, 2013

	Special Revenue				
	Cemetery	Community Development	Municipal Aid	Economic Development	Total
ASSETS					
Cash and cash equivalents	$ 23,296	$ —	$ 128,673	$ —	$ 151,969
Certificates of deposit	—	—	—	—	—
Receivables (net of allowance for uncollectibles):					
Accounts	1,000	—	—	—	1,000
Intergovernmental	—	178,000	19,850	—	197,850
Interest	—	—	—	—	—
Due from other funds	44	—	—	50,993	51,037
Prepaid items	484	—	—	—	484
Restricted assets:					
Cash and cash equivalents	(10)	137,953	—	—	137,943
Total assets	$ 24,814	$ 315,953	$ 148,523	$ 50,993	$ 540,283
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 10	$ 3,000	$ 805	$ —	$ 3,815
Due to other funds	30,064	207,206	—	—	237,270
Deposits	1,820	—	—	—	1,820
Total liabilities	31,894	210,206	805	—	242,905
Fund balances:					
Nonspendable:					
Prepaid items	484	—	—	—	484
Perpetual care	—	—	—	—	—
Assigned to:					
Other purposes	(7,564)	105,747	147,718	50,993	296,894
Total fund balances (deficit)	(7,080)	105,747	147,718	50,993	297,378
Total liabilities and fund balances	$ 24,814	$ 315,953	$ 148,523	$ 50,993	$ 540,283

Permanent Funds	
Cemetery Perpetual	Total Nonmajor Governmental Funds
$ 53,241	$ 205,210
437,160	437,160
—	1,000
—	197,850
177	177
222	51,259
—	484
—	137,943
$ 490,800	$ 1,031,083
$ —	$ 3,815
—	237,270
—	1,820
—	242,905
—	484
490,800	490,800
—	296,894
490,800	788,178
$ 490,800	$ 1,031,083

CITY OF FRANKLIN, KENTUCKY

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
June 30, 2013

	Francis Harris Cemetery Perpetual	Greenlawn-Shady Rest Cemetery Perpetual	Total Nonmajor Permanent Funds
ASSETS			
Cash and cash equivalents	$ 2,238	$ 51,003	$ 53,241
Certificates of deposit	50,000	387,160	437,160
Accrued interest receivable	—	177	177
Due from other funds	—	222	222
Total assets	$ 52,238	$ 438,562	$ 490,800
FUND BALANCES			
Nonspendable:			
Cemetery maintenance	$ 52,238	$ —	$ 52,238
Perpetual care	—	438,562	438,562
Total fund balances	$ 52,238	$ 438,562	$ 490,800

CITY OF FRANKLIN, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS Year Ended June 30, 2013

	Special Revenue				
	Cemetery	Community Development	Municipal Aid	Economic Development	Total
Revenues					
Intergovernmental	$ —	$ 187,395	$ 202,802	$ —	$ 390,197
Charges for sales and services	72,150	—	—	—	72,150
Contributions	—	—	—	—	—
Investment income	42	—	283	—	325
Miscellaneous	230	—	—	—	230
Total revenues	72,422	187,395	203,085	—	462,902
Expenditures					
Current:					
Public works	—	—	113,523	—	113,523
Community services	244,863	3,000	—	—	247,863
Total expenditures	244,863	3,000	113,523	—	361,386
Excess (deficiency) of revenues over (under) expenditures	(172,441)	184,395	89,562	—	101,516
Other financing sources (uses):					
Transfers in	151,000	71,000	—	—	222,000
Transfers out	—	(175,000)	—	—	(175,000)
Total other financing sources (uses)	151,000	(104,000)	—	—	47,000
Net change in fund balances	(21,441)	80,395	89,562	—	148,516
Fund balances, beginning of year	14,361	25,352	58,156	50,993	148,862
Fund balances (deficit),end of year	($ 7,080)	$ 105,747	$ 147,718	$ 50,993	$ 297,378

Permanent Funds	
Cemetery Perpetual	Total Nonmajor Governmental Funds
$ —	$ 390,197
—	72,150
6,000	6,000
3,998	4,323
—	230
9,998	472,900
—	113,523
1,754	249,617
1,754	363,140
8,244	109,760
—	222,000
—	(175,000)
—	47,000
8,244	156,760
482,556	631,418
$ 490,800	$ 788,178

CITY OF FRANKLIN, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
Year Ended June 30, 2013

	Francis Harris Cemetery Perpetual	Greenlawn-Shady Rest Cemetery Perpetual	Total Nonmajor Permanent Funds
Revenues			
Investment income	$ 783	$ 3,215	$ 3,998
Contributions	–	6,000	6,000
Total revenues	783	9,215	9,998
Expenditures			
Current:			
Community services	1,754	–	1,754
Excess (deficiency) of revenues over (under) expenditures	(971)	9,215	8,244
Fund balance, beginning of year	53,209	429,347	482,556
Fund balance, end of year	$ 52,238	$ 438,562	$ 490,800

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Greenlawn - Shady Rest Cemetery Special Revenue Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Charges for sales and services	$ 94,300	$ 74,590	$ 72,150	($ 2,440)
Investment income	90	39	42	3
Miscellaneous	350	285	230	(55)
Total revenues	94,740	74,914	72,422	(2,492)
Expenditures				
Current:				
Community services:				
Personal services	6,996	6,864	6,864	—
Contractual services	181,100	180,870	181,237	(367)
Materials and supplies	1,000	887	732	155
Administrative overhead	50,000	50,000	50,000	—
Other	8,952	7,384	6,030	1,354
Total expenditures	248,048	246,005	244,863	1,142
Deficiency of revenues under expenditures	(153,308)	(171,091)	(172,441)	(1,350)
Other financing sources:				
Transfers in	154,000	171,200	151,000	(20,200)
Net change in fund balance	692	109	(21,441)	(21,550)
Fund balance, beginning of year	14,361	14,361	14,361	—
Fund balance(deficit), end of year	$ 15,053	$ 14,470	($ 7,080)	($ 21,550)

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Community Development Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental	$ —	$ —	$ 187,395	$ 187,395
Expenditures				
Current:				
Economic development	—	—	3,000	(3,000)
Excess of revenues over expenditures	—	—	184,395	184,395
Other financing sources (uses):				
Transfers in	—	—	71,000	71,000
Transfers out	—	—	(175,000)	(175,000)
Total other financing sources (uses)	—	—	(104,000)	(104,000)
Net change in fund balance	—	—	80,395	80,395
Fund balance, beginning of year	25,352	25,352	25,352	—
Fund balance, end of year	$ 25,352	$ 25,352	$ 105,747	$ 80,395

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Municipal Aid Special Revenue Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental:				
Liquid fuel tax	$ 197,010	$ 197,010	$ 195,490	($ 1,520)
Mineral and coal severance tax	8,856	6,742	7,312	570
Investment income	351	286	283	(3)
Total revenues	206,217	204,038	203,085	(953)
Expenditures				
Current:				
Public works	186,500	119,558	113,523	6,035
Excess of revenues over expenditures	19,717	84,480	89,562	5,082
Fund balance, beginning of year	58,156	58,156	58,156	—
Fund balance, end of year	$ 77,873	$ 142,636	$ 147,718	$ 5,082

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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for sales and services:				
Water division	$ 2,440,965	$ 2,363,739	$ 2,312,884	($ 50,855)
Wastewater division	2,035,380	1,952,613	1,974,104	21,491
Total operating revenues	4,476,345	4,316,352	4,286,988	(29,364)
Nonoperating revenues:				
Investment income	10,542	10,500	10,213	(287)
Sales of assets	—	6,032	14,882	8,850
Miscellaneous	9,800	337,507	232,557	(104,950)
Bond proceeds	—	3,959,745	3,959,745	—
Total nonoperating revenues	20,342	4,313,784	4,217,397	(96,387)
Total revenues	4,496,687	8,630,136	8,504,385	(125,751)
Expenditures				
Water division:				
Production:				
Personal services	327,615	337,558	335,465	2,093
Contractual services	220,830	209,268	192,705	16,563
Materials and supplies	168,350	166,223	165,648	575
Other	4,600	4,545	4,728	(183)
Total water production	721,395	717,594	698,546	19,048
Distribution:				
Personal services	364,486	367,027	310,717	56,310
Contractual services	79,801	38,800	37,079	1,721
Materials and supplies	308,347	129,256	129,298	(42)
Other	10,400	14,591	14,480	111
Total water distribution	763,034	549,674	491,574	58,100

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Meter reading and maintenance:				
Personal services	$ 67,058	$ 66,842	$ 67,426	($ 584)
Contractual services	10,990	7,904	6,918	986
Materials and supplies	110,500	113,159	108,821	4,338
Other	900	900	86	814
Total water meter reading and maintenance	189,448	188,805	183,251	5,554
Total water division	1,673,877	1,456,073	1,373,371	82,702
Wastewater division:				
Treatment:				
Personal services	274,248	264,809	269,375	(4,566)
Contractual services	203,330	206,177	224,215	(18,038)
Materials and supplies	81,448	80,917	76,686	4,231
Other	4,515	3,994	3,773	221
Total wastewater treatment	563,541	555,897	574,049	(18,152)
Collection and rehabilitation:				
Personal services	249,093	251,576	252,851	(1,275)
Contractual services	76,780	46,873	38,597	8,276
Materials and supplies	84,011	60,304	46,222	14,082
Other	5,450	3,338	3,861	(523)
Total wastewater collection and rehabilitation	415,334	362,091	341,531	20,560
Total wastewater division	978,875	917,988	915,580	2,408
Administrative overhead	538,122	537,720	537,721	(1)
Debt service:				
Principal	405,780	4,205,780	4,205,780	—
Interest	235,545	221,855	176,181	45,674
Administrative fees	2,003	76,569	1,469	75,100
Total debt service	643,328	4,504,204	4,383,430	120,774
Capital outlays	617,019	778,263	612,611	165,652
Total expenditures	4,451,221	8,194,248	7,822,713	371,535

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Excess of revenues over expenditures	$ 45,466	$ 435,888	$ 681,672	$ 245,784
Add:				
Principal payments			4,205,780	
Capital outlays			612,611	
Less:				
Bond proceeds			(3,959,745)	
Depreciation expense			(1,014,843)	
Amortization expense			(17,260)	
Change in net position			508,215	
Net position, beginning of year			17,389,050	
Net position, end of year			$ 17,897,265	

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Sanitation Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for services:				
Hand pick-up	$ 612,844	$ 626,491	$ 626,034	($ 457)
Commercial dumpster	341,809	338,658	335,034	(3,624)
Collection fees	28,160	28,489	28,836	347
Fines and forfeitures	33,387	32,494	32,587	93
Franchise fee	143,406	145,790	148,464	2,674
Total operating revenues	1,159,606	1,171,922	1,170,955	(967)
Nonoperating revenues:				
Investment income	855	687	635	(52)
Total revenues	1,160,461	1,172,609	1,171,590	(1,019)
Expenditures				
Sanitation operations:				
Personal services	12,004	11,802	21,925	(10,123)
Contractual services	938,668	945,869	961,226	(15,357)
Administrative overhead	209,500	209,500	209,500	—
Total expenditures	1,160,172	1,167,171	1,192,651	(25,480)
Excess (deficiency) of revenues over expenditures	($ 566)	$ 5,438	(21,061)	($ 26,499)
Net position, beginning of year			24,391	
Net position, end of year			$ 3,330	

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Fiber Optic Fund
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for services	$ 57,162	$ 39,658	$ 45,409	$ 5,751
Fines and forfeitures	—	175	175	—
Total operating revenues	57,162	39,833	45,584	5,751
Nonoperating revenues:				
Grant revenue	—	502,633	353,173	(149,460)
Intergovernmental	133,333	100,000	100,000	—
General Fund appropriation	—	1,550	—	(1,550)
Total nonoperating revenues	133,333	604,183	453,173	(151,010)
Total revenues	190,495	644,016	498,757	(145,259)
Expenditures				
Personal services	128,798	137,741	137,704	37
Contractual services	204,521	147,399	146,873	526
Materials and supplies	8,250	20,201	22,423	(2,222)
Other	4,900	4,382	4,175	207
Capital outlay	—	869,881	869,701	180
Total expenditures	346,469	1,179,604	1,180,876	(1,272)
Excess (deficiency) of revenues over (under) expenditures	($ 155,974)	($ 535,588)	(682,119)	($ 146,531)
Add:				
Capital outlays			869,701	
Less:				
Depreciation expense			(70,714)	
Change in net position			116,868	
Net position, beginning of year			677,811	
Net position, end of year			$ 794,679	