CITY OF FRANKLIN, KENTUCKY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2021

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Franklin, Kentucky (City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Franklin, Kentucky, as of June 30, 2021, 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 - 18, General Fund budgetary comparison schedule on pages 73 - 76, infrastructure condition and maintenance data on page 77, and pension and OPEB schedules on pages 78 - 81 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 84 - 94 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 February 1, 2022, 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.

Kiley & Moore, LLP

Bowling Green, Kentucky
February 1, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Franklin, Kentucky

Management's Discussion and Analysis
Years Ended June 30, 2021, and 2020

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, 2021. The information contained in this MD&A should be considered in conjunction with the information contained in the Accountants' Reports and Financial Statements and Supplementary information.

Financial Highlights

- Total assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $40,406,174 and $37,882,977 for the prior fiscal year.

- As of the close of the current fiscal year, the City's governmental activities reported ending net position of $18,766,456 which includes unrestricted net position of $2,900,229. For the year ended June 30, 2020, the City's governmental activities net position was $16,782,090, including unrestricted net position of $1,263,878.

- At the end of the current fiscal year, the unassigned fund balance for the general fund was $12,328,325 with $9,670,471 for the prior fiscal year.

- For the year ended June 30, 2021, total debt decreased by a net amount of $215,255 during the year. For the prior fiscal year, total debt decreased by $984,927 during the year, due to the City repaying the 2009 Refunding and Improvement Bonds.

- The City had total revenues of $16,577,172 for the year ended June 30, 2021 which includes: program revenues (charges for service) of $7,610,397, operating grants and contributions of $1,200,748, and general revenues of $7,766,027. The City had total expenses of $14,053,975 for the year ended June 30, 2021. Comparatively, the City had total revenues of $14,862,774 for the year ended June 30, 2020 which included: program revenues (charges for service) of $7,504,020, operating grants and contributions of $479,523, and general revenues of $6,879,231. The City had total expenses of $13,790,047 for the year ended June 30, 2020.

- The City's total capital outlays were $1,567,076 for the current fiscal year and $1,005,158 for the prior fiscal year. For the Governmental Funds, capital outlays were $676,658 for the current fiscal year and $574,001 for the prior fiscal year. For the Proprietary Funds, capital outlays for the current fiscal year were $890,418 and the prior fiscal year of $431,167.

Overview of the Financial Statements

The discussion and analysis are 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 like a private-sector business. The statement of net position presents information on all 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 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 19 and 20 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 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 31 through 72 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 $40,406,174 for the current fiscal year and $37,882,977 at the close of the prior fiscal year.

By far the largest portion of the City's net position (57%) 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.

	2021 Net Position		
	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 14,921,201	$ 10,791,321	$ 25,712,522
Capital assets	15,145,494	18,856,638	34,002,132
Total assets	30,066,695	29,647,959	59,714,654
Deferred amount on refunding bonds	—	81,736	81,736
Outflows for pensions	2,138,221	695,915	2,834,136
Outflows for OPEB	1,299,935	463,383	1,763,318
Total deferred outflows	3,438,156	1,241,034	4,679,190
Long-term liabilities outstanding	—	3,385,064	3,385,064
Net pension liability	9,901,204	3,099,458	13,000,662
OPEB liability	3,149,165	1,189,091	4,338,256
Other liabilities	762,948	1,324,742	2,087,690
Total liabilities	13,813,317	8,998,355	22,811,672
Inflows for pensions	337,198	69,729	406,927
Inflows for OPEB	587,880	181,191	769,071
Total deferred inflows	925,078	250,920	1,175,998
Net position			
Net investment in capital assets	15,145,494	15,609,394	30,754,888
Restricted			
Expendable - Highways & Streets	134,411	—	134,411
Expendable - Debt service & capital activity	—	1,177,752	1,177,752
Nonexpendable - Perpetual Care	586,322	—	586,322
Unrestricted	2,900,229	4,852,572	7,752,801
Total net position	$ 18,766,456	$ 21,639,718	$ 40,406,174

	2020 Net Position		
	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 11,728,015	$ 9,927,789	$ 21,655,804
Capital assets	14,849,779	19,186,740	34,036,519
Total assets	26,577,794	29,114,529	55,692,323
Deferred amount on refunding bonds	—	88,023	88,023
Outflows for pensions	1,854,258	557,525	2,411,783
Outflows for OPEB	801,531	250,491	1,052,022
Total deferred outflows	2,655,789	896,039	3,551,828
Long-term liabilities outstanding	—	3,600,319	3,600,319
Net pension liability	8,422,263	2,484,494	10,906,757
OPEB liability	2,216,590	805,428	3,022,018
Other liabilities	492,137	1,604,096	2,096,233
Total liabilities	11,130,990	8,494,337	19,625,327
Inflows for pensions	567,049	165,303	732,352
Inflows for OPEB	753,459	250,041	1,003,500
Total deferred inflows	1,320,508	415,344	1,735,852
Net position			
Net investment in capital assets	14,849,779	15,716,198	30,565,977
Restricted			
Expendable - Highways & Streets	96,362	—	96,362
Expendable - Debt service & capital activity	—	1,178,607	1,178,607
Nonexpendable - Perpetual Care	572,071	—	572,071
Unrestricted	1,263,878	4,206,082	5,469,960
Total net position	$ 16,782,090	$ 21,100,887	$ 37,882,977

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

	2021 Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	$ 1,098,768	$ 6,511,629	$ 7,610,397
Operating grants and contributions	1,200,748	–	1,200,748
Capital grants and contributions	–	–	–
General revenues			
Property taxes	1,328,237	–	1,328,237
Occupational fees	2,555,290	–	2,555,290
Insurance premium fees	2,106,467	–	2,106,467
Franchise fees	98,301	–	98,301
Business license fees	982,278	–	982,278
Interest income	124,873	77,163	202,036
Miscellaneous income	91,144	61,498	152,642
Gain (loss) on the sale of assets	22,712	22,451	45,163
Extinguishment of landfill obligation	–	295,613	295,613
Total revenues and transfers	9,608,818	6,968,354	16,577,172
Expenses			
General government	1,600,862	–	1,600,862
Public safety	3,581,599	–	3,581,599
Public services	1,625,582	–	1,625,582
Community and cultural	816,409	–	816,409
Interest expense on long-term debt	–	120,943	120,943
Water and wastewater	–	5,324,422	5,324,422
Sanitation	–	984,158	984,158
Total expenses	7,624,452	6,429,523	14,053,975
Change in net position	1,984,366	538,831	2,523,197
Net position, beginning of year	16,782,090	21,100,887	37,882,977
Net position, end of year	$ 18,766,456	$ 21,639,718	$ 40,406,174

	2020 Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	$ 1,038,961	$ 6,465,059	$ 7,504,020
Operating grants and contributions	479,523	–	479,523
Capital grants and contributions	–	–	–
General revenues			
Property taxes	1,199,263	–	1,199,263
Occupational fees	2,301,645	–	2,301,645
Insurance premium fees	1,932,134	–	1,932,134
Franchise fees	103,477	–	103,477
Business license fees	930,043	–	930,043
Interest income	142,922	111,110	254,032
Miscellaneous income	104,646	42,311	146,957
Gain (loss) on the sale of assets	30,299	(18,619)	11,680
Transfers	–	–	–
Total revenues and transfers	8,262,913	6,599,861	14,862,774
Expenses			
General government	1,609,051	–	1,609,051
Public safety	3,618,714	–	3,618,714
Public services	1,694,316	–	1,694,316
Community and cultural	789,850	–	789,850
Interest expense on long-term debt	18,236	142,391	160,627
Water and wastewater	–	4,949,002	4,949,002
Sanitation	–	968,487	968,487
Total expenses	7,730,167	6,059,880	13,790,047
Change in net position	532,746	539,981	1,072,727
Net position, beginning of year	16,249,344	20,560,906	36,810,250
Net position, end of year	$ 16,782,090	$ 21,100,887	$ 37,882,977

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. 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 $14,296,080 compared to $11,378,841 for the prior fiscal year. The City's major sources of revenues are insurance premium fees, payroll occupational fees and property taxes. The fund balances primarily represent the accumulation of revenues in excess of expenditures not reimbursed by funding sources.

General Fund & Proprietary Fund Budgetary Highlights

Total general fund revenues for the year were 10.7% higher than budget. As a point of reference, a 5% budget to actual variance is the overall goal. This revenue variance was due to the City's uncertainty regarding the recovery of local businesses resulting in a conservative approach for projecting tax revenues. Budgeted expenses were slightly less than final budgetary estimates (by 5.2%). Although a little above our 5% or less budget variance goal, the variance was within an acceptable range. Most of the budget expenditure variances were due to excess in the capital reserve budget. Due to the continued uncertainty of the pandemic, several projects were postponed at the beginning of fiscal year 2021 and could not be complete by the end of the fiscal year.

Total proprietary fund revenues for the year were within 2.7% of final budgetary estimates, while expenses were within acceptable parameters (<1% of budget).

Proprietary Funds

Operating revenues of the City's proprietary funds increased < 1% from the prior year to $6,511,629. The City rates for water, sewer and sanitation did not change in FY2021. Operating revenues from Water and Wastewater increased by 0.2% to $5,471,542 while operating revenues from Sanitation services increased 3.3% to $1,040,087. Operating expenses for Water & Wastewater increased by 7.7% to $5,324,422, primarily due to inflationary increases for supplies and maintenance. Operating expenses for Sanitation services increased by 1.6% to $984,158.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2021, the City's investment in capital assets net of related debt for its governmental and business-type activities was $30,754,878 and $30,565,977 as of June 30, 2020. This investment in capital assets includes land, buildings, improvements, machinery and equipment and streets.

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

- General Fund
  - Capital expenditures of $281,000 to acquire property on West Madison and to clean up the acquired property. The City purchased this property to as part of the new police department campus.
  - The City expended approximately $157,000 in facility plan and design fees for the new Police Department facility.
  - The City expended approximately $192,000 in capital needs for the Police Department. This included the purchase of 6 KYOPS approved/certified mobile dispatching tablets; 18 non-lethal pepper ball rifles; and the purchase of four new, fully equipped, patrol units. The City continues to utilize a Capital Replacement Plan, along with a corresponding Capital Sinking Fund, to adequately budget the replacement of significant capital items.
  - The City purchased a brush cutter, a gas heater and a new mower for the public works department for a total of $22,000.
  - The City expended approximately $7,000 for new property tax software which allows the public to access their property tax bills online.
  - The City spent approximately $13,000 to replace an air conditioning unit at City Hall.
  - The City spent over $161,000 in street paving and repairs.
- Franklin Municipal Utilities
  - Capital expenditures of $526,000 for improvements and additions to the City's wastewater system, specifically related to the following:
    - Rehabilitation of Cardinal Drive sewer line, $371,000
    - Rehabilitation of Franklin Ave. sewer line, $14,000
    - Rehabilitation of 31W sewer line, $89,000
    - Repair of McGoodwin Ave sewer line, $38,000
    - Transfer station for Caudill Hill Lift Station, $8,000
    - Emergency manhole replacement $6,000

- Capital Expenditures of $121,000 at the Wastewater Treatment Plant (WWTP). This included rehabilitation to one of the plants aeration basins, electrical upgrade, rehabilitation to clarifier, portable sampler, trailer and a vehicle.

- Capital Expenditures of $30,000 within the Water Distribution Department. This included installation of insertion valves and a utility ATV.

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

- General Fund

  - Capital expenditures of $248,000 to acquire property on Witt Road and East Madison Street and to clean up the acquired property. The City purchased this property with plans to clean up the property and build a Police Department within the next 3 to 5 years.

  - The City expended approximately $14,000 in facility plan and design fees for the new Police Department.

  - The City expended approximately $16,000 in software and equipment to update the security and protection system in place at City Hall and to also update video equipment for commission meetings.

  - The City expended approximately $16,000 in software and equipment to update the security and protection system in place at City Hall and to also update video equipment for commission meetings.

  - The City expended approximately $228,000 in capital needs for the Police Department. This included the purchase of 25 body cameras; 6 KYOPS approved/certified mobile dispatching tablets; 1 drone; and the purchase of six new, fully equipped, patrol units. One patrol unit was a replacement of totaled unit. In 2019 the City implemented a Capital Replacement Plan, along with a corresponding Capital Sinking Fund, to adequately budget the replacement of significant capital items.

  - The City purchased two new salt spreading attachments for a total of $13,000.

  - The City expended approximately $47,000 for a new public works service truck.

  - The City spent over $305,000 in street paving and repairs.

- Franklin Municipal Utilities

    - Capital expenditures of $176,000 for improvements and additions to the City's wastewater system, specifically related to the following:

        - Rehabilitation of Cardinal Drive sewer line, $92,000
        - Rehabilitation of East Kentucky Street sewer line, $40,000
        - Rehabilitation of Filter Plant Road sewer line, $28,000
        - Hwy 100 generator rehabilitation and new pump, $16,000

    - Capital expenditures of $48,000 for the Water Treatment Plant (WTP). This included the replacement of outside pole lights, the purchase of various equipment, such as replacement of drive chains and drag chains, rebuilding of flash mixer gear box, and the replacement of all bleach & coagulant tank valves.

    - Capital expenditures of $107,000 at the Wastewater Treatment Plant (WWTP). This included rehabilitation to one of the plants aeriation basins and electrical upgrade.

    - Capital expenditures of $33,000 within the Water Distribution Department. The purchases include a forklift, DLD listening device and a vehicle.

    - Capital expenditures of $14,000 to replace the garage doors at the Public Works/Water Distribution building on newer, more energy efficient doors.

    - Capital expenditures of $4,500 for GPS receivers to capture detailed, real time data to integrate into our GIS program.

Long-term Debt

The City had $3,595,064 in revenue bonds and capital lease obligations outstanding as of June 30, 2021, which is a decrease of $215,255 from the previous year. In the previous year, the City had $3,810,000 in revenue bonds and capital lease obligations outstanding as of June 30, 2020, which was a decrease of $985,000 from the previous year.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of $14,296,080 at June 30, 2021, excluding capital assets and long-term debt. Included in this year's total change in fund balance is an increase of $2,677,926 in the City's General Fund. For the previous year, the City's governmental funds reported a combined fund balance of $11,378,841 at June 30, 2020, excluding capital assets and long-term debt. Included in last year's total change in fund balance was an increase of $488,106 in the City's General Fund.

Modified Approach to Infrastructure

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

It is the City's policy to assess the condition of the roads every three years for cracks, potholes, misalignment, drainage condition and number of specific safety hazards. There were no roads severely deficient in condition as of June 30, 2021.

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

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

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

Economic Factors and Next Year's Budgets and Rates

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

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

- In the FY2019 year Moody's Investors Service issued an Annual Issue Comment Report for the City's Franklin Municipal Utilities. Some of the comments were as follows:

  - **Franklin Municipal Utilities**

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

Credit Overview

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

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

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

- In the FY2020 year Moody's Investors Service issued an Annual Issue Comment Report for the City's Franklin Municipal Utilities. Some of the comments were as follows:

  - **Franklin Municipal Utilities**

Franklin Water & Sewer provides water and wastewater service to City of Franklin as well as limited sewer system services outside the city limits to residents in Simpson County, Kentucky. Simpson County has a population of 18,063 and a low population density of 76 people per square mile. The county's median family income is $58,547 (3rd quartile) and the August 2020 unemployment rate was 7% (2nd quartile) 2. The water system sources its water from the West Fork Drakes Creek and gets its supply of treated water from White House Utility District and City of Franklin. The treatment is done at its own facility. The wastewater system has its secondary treatment done in its own facility.

Credit Overview

Franklin Water & Sewer has a sound credit position. Its A1 rating is slightly beneath the US water and wastewater systems median of Aa3. Notable credit factors include a low debt profile, robust liquidity, healthy debt service coverage and a low-income service area and small system size.

System Characteristics: *The system profile of Franklin Water & Sewer is weak and is very unfavorable in relation to the assigned rating of A1. Median family income equates to a mere 65.4% of the US level. The system size, measured as operating and maintenance expenses ($3.6 million), is similar to the US median.*

__Financial Strength:__ The financial position of Franklin Water & Sewer is superlative and is very strong with respect to its A1 rating. Debt to operating revenues (0.61x) is excellent and lower than the US median. Both days cash on hand (583 days) and coverage of annual debt service by net revenues (4.2x) are excellent and greatly exceed other Moody's-rated water and wastewater systems nationwide.

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

Sector Trends - Kentucky Water and Sewer

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

Industrial Expansion & Economic Development

- For the past several years, Franklin has enjoyed positive industrial growth and low unemployment and FY2021 is no exception. Despite the COVID-19 crisis, Franklin had several new industries and businesses either locate a new facility or expand at their existing facility during the past year. During FY2021, the City contributed approximately $687,000 to the Industrial Authority. Here is a summary of activity, related to the Franklin-Simpson Industrial Authority, and 2021's new and Expanding Industry:

  - **Matalco -** A Canadian company producing aluminum products for the extrusion and forging manufacturing industries is renovating the former QuadGraphics building. Production is expected to begin in mid-2022, creating 60 new jobs and investing $50,000,000.

  - **Kentucky Downs Expansion** - Kentucky Downs is constructing a new hotel to serve their property, projected to add over 100 employees and invest $15,000,000.

  - **Lewis Manor Expansion** - This assisted living facility is expanding to accommodate an additional sixteen residents. The addition will be an investment of $2,500,000 is expected to be completed in early 2022.

  - **ACE Hardware** - This retail store opened a 10,500 square foot store in early 2021. The store will employ ten people and represents a $2,000,000 investment by Houchens Industries.

- **<u>Alliance Distribution Partners</u>** - This supply chain resource for retailers, wholesalers and integrated supply resellers started operations in the Henderson Industrial Park in 2021. Employment is expected to be 25 people with a total investment of $5,000,000.

- **<u>Worldwide Technologies Expansion</u>** - Founded in 2006, Worldwide Technologies is completing a second expansion to be completed by the summer of 2022. This $4,000,000 investment will bring their facility to 91,000 square feet and expand employment by 20.

- **<u>PlastiCycle</u>** - This New York plastic recycling company purchased a manufacturing building on Washington Way. The company will invest $6,000,000 and expects to hire 25 employees.

- **<u>Three Springs Distribution</u>** - This distributor of Kentucky bourbon and seltzer beer has located its operations in Henderson Industrial Park. The new distribution company represents a $12,000,000 investment and will create ten new jobs.

- **<u>Traughber Mechanical</u>** - This welding and fabrication company with thirty years history in Franklin, has expanded by acquiring an additional facility. This $800,000 investment will create ten new jobs.

- **<u>Bluegrass Supply Chain Services</u>** - This distribution company serving automotive, consumer products and food companies, expanded its distribution center in Franklin to meet customer needs. This addition represents an investment of $2,500,000 and will create ten additional positions.

- **<u>Stone-Givens Industrial Park</u>** - In June 2021, 187 acres were purchased on Highway 100 near Interstate 65 for this new industrial park. The site is zoned for industries and distribution facilities. Up to ten new industries or distribution companies could occupy the new park once it is fully developed.

- This represents a total investment in our community of $100,000,000 and the addition of 260 new jobs.

- Overall, all leaders within our community are excited for growth and expansion. The result, primarily, is the desire for our community to have the capacity and availability to provide jobs to our citizens. Our community's unemployment rates are at a very low level, decreasing from 4.4% in December 2020 to 2.8% in December 2021, lower than the state rate of 3.9% and the national rate of 4.0%.

Communications Initiative:

City leaders continue to communicate city activities and spending with constituents through the frankLINKentucky publication, mailing out over 6,000 copies annually. This publication is put together by City staff with the goal of providing information and highlights of projects, work and information about where City tax dollars are spent. A copy of the 2022 publication is included with this report and available on our website at www.franklinky.org. The City also posts all City Commission meetings on Facebook, as well as the local cable channel.

Contacting the City's Financial Management

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

frankLINKentucky

linking you to city government

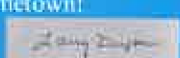
Volume 5 2022

From the Mayor

Hometown....I'm proud to call Franklin, Kentucky my hometown! I've seen many changes in our community during my lifetime. The last year we have experienced a lot of growth and change. Having managed a business in Downtown Franklin for 40 years, I've seen lots of changes in our Downtown as well. Our Downtown is the heart of our community. It's exciting to see the by-product of the growth we are experiencing contribute to the growth of Downtown businesses.

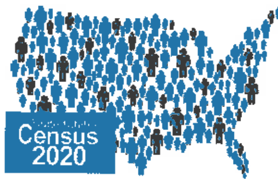
I am honored to serve you as your Mayor. I'm also honored to serve as a member of the Historic Preservation Committee. The Committee recently expanded the historic district to encompass several blocks beyond the square in an effort to preserve the historic homes, businesses and the elements that make us unique.

Going in to the fourth year as your Mayor, I have had the opportunity to work alongside a great City Commission and staff of the City of Franklin. They work hard each day to make Franklin a better place to live, work and raise a family. Thank you for choosing Franklin as your hometown!



Our City....Growing....Changing

If you drive through Franklin, you will probably see construction taking place. The City of Franklin is growing! What does this mean for our community?



According to the 2020 US Census, the City of Franklin has grown to a population of 10,176 with the total county population of 19,594. Franklin is currently growing at a rate of 0.81% annually and is attracting more Millennials and Generation Zers. With multiple generations moving to our community, the need for different types of housing is increasing. The current trend is that Baby Boomers are looking to downsize while Millennials want smaller homes with less maintenance and functional outdoor spaces or access to public green areas. The Generation Xers are looking for bigger homes at a higher price point to accommodate their family and lifestyle needs. Whatever the need, developers are planning to build to accommodate the growth. Planning & Zoning has approved development plans for 580 multi-family units and 793 single family houses to be constructed within the next 3 to 8 years.

	City	County
2020 Population	10,176	19,594
2010 Population	8,408	17,327

Developer Funded Construction in 2021

10,825 linear feet of new water lines
11,700 linear feet of new sewer lines
6,565 feet of new streets

The increased population and projected increase have raised questions concerning the City's infrastructure. The Franklin Municipal Water Plant currently treats 1.56 million gallons of water each day. It has the capacity to treat 5 million gallons each day. The Plant is permitted to pull and treat 4 million gallons of water from Drakes Creek each day.

The Franklin Wastewater Plant treats approximately 2.2 million gallons of waste each day with a capacity to treat 14 million gallons daily.

When a new subdivision or development is constructed, the developer is required to build the water and sewer lines. They are also required to build streets and sidewalks that meet city requirements, give a one year warranty and be inspected prior to the city adopting them and taking them over as a city street.

The staff of the City of Franklin and the elected officials want to grow smart. The City Commission has contracted with EHI Consultants to do an analysis of current zoning regulations, codes, and comprehensive plan. EHI will work toward putting together a new comprehensive plan and growth plan that can serve as a guide as our community continues to grow.

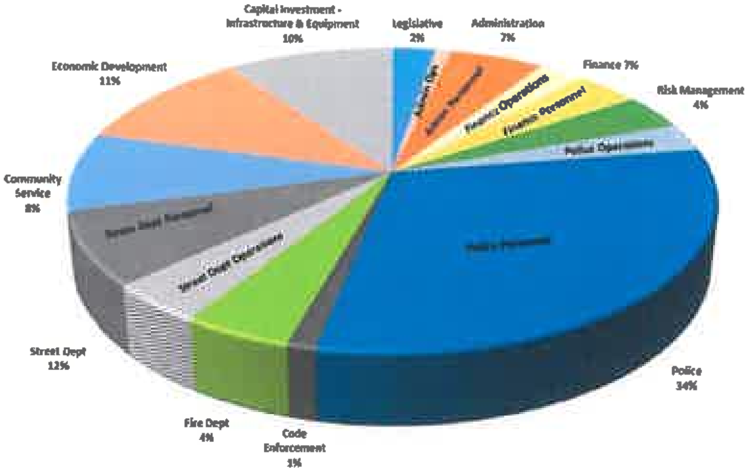
7.3%	21.4%	19.7%	23.8%	21.6%	6.3%
Greatest Gen: Born 1945/Earlier	Baby Boomer: Born 1946 to 1964	Generation X: Born 1965 to 1980	Millennial: Born 1981 to 1998	Generation Z: Born 1999 to 2016	Alpha: Born 2017 to Present

Changing Demographics

Over half of the population in Simpson County is under the age of 41. We must change to meet their needs & wants.

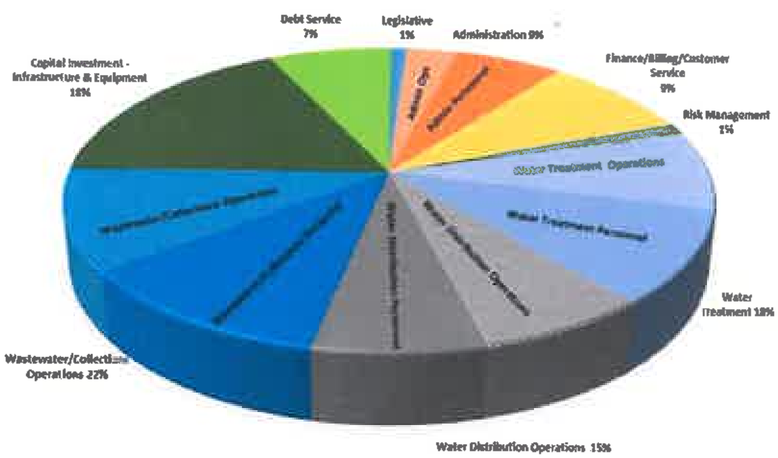
General Fund Expenditures – Fiscal Year 2020/2021

Tax dollars at work



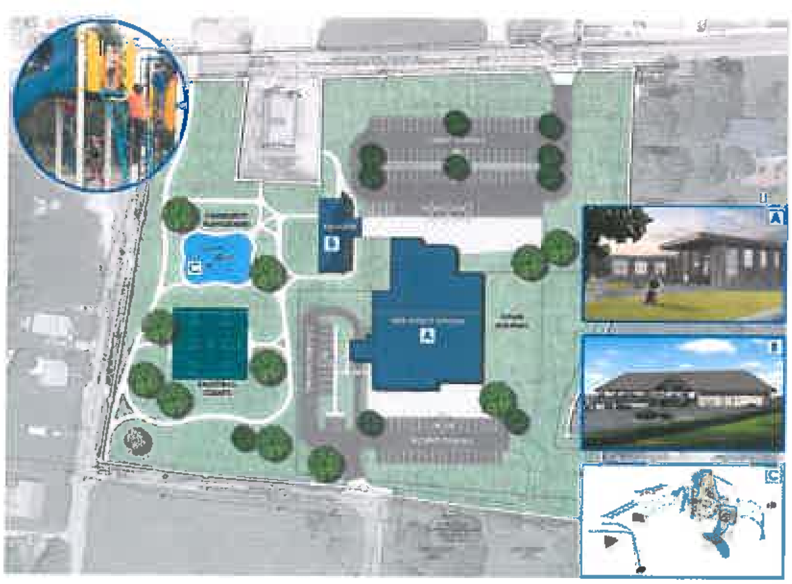
Franklin Municipal Utility Fund – Fiscal Year 2020/2021

Funding water treatment/distribution & sewer collection/treatment



Coming Soon

Construction on the new police department building is set to begin in the summer of 2022. Watch the progress at 501 West Madison Street.



Upgrading the Emergency Communication System

9-1-1 what's your emergency? Calling for help in a time of need is a convenience we rely on and expect to be available. Emergency responders expect to be able to communicate when they are in situations where a citizen's life or their life could be in jeopardy.

Unfortunately, the radio communication system currently being used has been experiencing failures. The initial projected lifespan of the current radio equipment was 10 years and it is currently at year 15. After many temporary fixes to the system, there are no more options other than a complete overhaul.

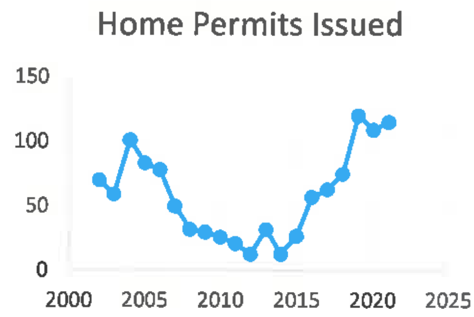
The Franklin Police and Simpson County Emergency Management have been working with Kentucky State Police as KSP makes massive overhauls to their communication systems. KSP plans to construct a three way tower in Warren, Logan and Simpson counties for everyone to be able to tie in to KSP's system with the latest infrastructure, including cellular coverage and NEXT coverage which drastically reduces any coverage breaches.

The upgrade is planned to begin in 2022 and will take approximately eighteen months to complete the entire project, which includes a 250-300 foot radio tower located in Simpson County. The cost would be 2.9 million overall but at no cost to the citizens of Simpson County. The cost of the project will be covered through the Coronavirus State and Local Recovery Funds.

"This radio communications overhaul shows that the Franklin City Commission and the Simpson County Fiscal Court put public safety as a their top priority", said Franklin Police Chief Roger Solomon. "You can't put a price tag on people's lives and this shows that they back that statement up with decisive action".

Advanced Officer S. Varyvoda U/930 answers a call and communicates with dispatch.

Total Issued in City & County	2020	2021
Building Permits Issued	250	285
Inspections Performed		1101
Renovations	9	12
New Home Permits	109	115
New Home Avg Sq Ft	2,186	2,220
Number of Rezones	29	32
Minor Sub Plats Reviewed	238	416
Development Plan Reviewed	18	22
Addresses Designated	93	127



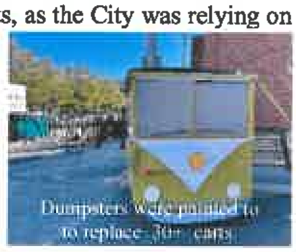
City of Franklin Land Area
16.04 square miles
Ranks 15th out of 524 KY cities

Simpson County Land Area
234.20 square miles
Ranks 91st out of 120 KY counties

Partnering to Revitalize Downtown

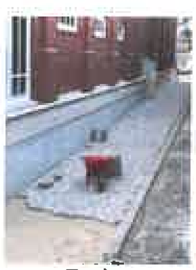
Revitalize (verb): to give new life or vigor to.
New life has been given to an alley that had once been a forgotten and dreary place. The alley between East Cedar Street and East Kentucky Avenue behind the shops on Main Street was once a run down, neglected space often filled with trash and debris.

The alley began the process of coming back to life in February 2020 when the pavement was milled to prepare for a new walk way. The pandemic halted the efforts, as the City was relying on assistance of inmates from the Simpson County Detention Center to assist with the laying of a brick walk way. In the spring of 2021, inmates were allowed to leave the facility and work again. Over 12,600 brick pavers were laid by hand creating a beautiful path.


Dumpsters were painted to replace 30+ cans

The City teamed up with Franklin Simpson Renaissance, the Franklin Simpson Community Arts Council and the Gallery on the Square to create a vision and a plan for the alley. The City had budgeted to repave the alley but used the funds allocated for the paving to purchase the brick pavers. The City oversaw the construction of the walk way. Franklin Simpson Renaissance has purchased benches, trash cans and decorative flags that will be installed on utility poles. They also have plans to set planters filled with flowers, and hang outdoor string lights. The Arts Council and Gallery on the Square are working on plans to incorporate art installations in the alley.


Before


During


After

Divers Clean Intake at Water Plant

Drakes Creek is a beautiful part of our community where you'll often see boaters, kayakers, people fishing and families enjoying the water. Drakes Creek is also the source for the drinking water for the residents and businesses in the City of Franklin.

In an effort to keep equipment running efficiently in the water treatment facilities, all areas of the facility must be cleaned regularly. This includes the raw water intake facility (pump house) where water is pulled from the creek and taken to the plant for treatment.

In September, three divers from SE Diving Services spent six days to clean the built-up mud, sand, silt, rocks, shells, and other creek derived debris from inside the pump house. There are three levels beneath the pump house descending to a depth of 30' where the raw water pumps are housed. The diver removed the sediment with a suction hose and inspected the structure's walls, floor, ceiling of each level and the ladders, screens, and hatches.


Divers remove trees & mud from water intake

The intake screen located on the outside of the structure is the first preventative measure for debris entering the pumps. During inspection it was found to be buried several feet in mud. Additional cleaning was done which involved the use of underwater chainsaws so the divers could remove several trees that had stacked upon each other. The trees formed a mud bank underwater and limited the flow of water into the pump house.

The thorough cleaning has improved the overall treatment of the water and saves the amount of oxidizing, coagulating, and disinfecting chemicals used to make drinking water safe and desirable. The inspection of the structure is to ensure its integrity is not compromised and the underwater components of the pumps are in good working order.

Utility Assistance Granted

The effects of COVID have been felt in our community. Lives have been lost. The health of community members has been affected. Jobs have been impacted. In an effort to assist residents with financial struggles related to COVID, the City of Franklin applied for and was awarded grant funding to help city residents with utility bills. The $200,000 Community Development Block Grant from the Kentucky Department for Local Government is being used to assist households who are delinquent on utility payments due to an impact from COVID and are at-risk of having one or more of their utilities disconnected for non-payment. For information on assistance, contact Community Action Agency at (270) 586-3238.

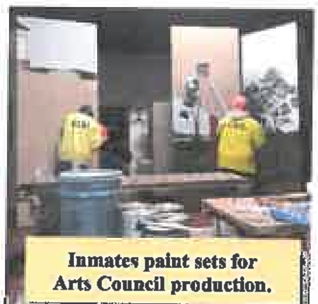
Working with a New Normal

Prior to March 2020, the City of Franklin utilized the labor of inmates in the Simpson County Detention Center. In a normal year, city employees would work with inmates as they provided over 24,300 hours of service to complete tasks and projects such as mowing, brush pick-up, leaf pick-up, cleaning, trash removal and more. When the pandemic began, inmates were not allowed to leave the facility. The lack of inmate labor caused many City services to suffer and became challenging for city employees to keep up with the day-to-day demands.

In January 2021, City Manager Kenton Powell began conversations about partnering with the Jail to once again utilize inmate labor. In July, the City Commission authorized the contribution of funds equal to the salary of one full time deputy of the jail. The deputy would oversee the work of 5 to 8 inmates for 40 hours a week.

Inmates lay brick pavers in alley.

The new structure for using inmate labor proved to be successful. City employees that once served as a "supervisor" over inmates were able to focus on skilled tasks while the Deputy would oversee the work of the inmates as assigned by the City.



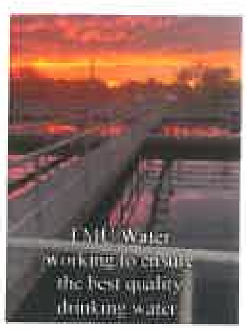
Inmates paint sets for Arts Council production.

Franklin-Simpson Chamber of Commerce Executive Director, Steve Thurmond said, "The Chamber has utilized inmates in various capacities during the fifteen years I have served as Executive Director. The current structure the city has developed has taken the program to a new level. In the past, inmates were assigned to a specific non-profit like the Chamber. That meant getting the inmates and supervising them every day. There were days with very little for the inmates to do and days when we had to ask for additional help because there was so much work. Under the new program we work through the city to schedule help as we need it. We do not have the constant responsibility of supervising inmates during down time and, at the same time, have the luxury of getting the perfect amount of help on an "as needed" basis. The city has taken a program that was outstanding and very beneficial to the community and made it a hundred times better."

The utilization of inmate labor has saved taxpayers thousands of dollars while allowing inmates to be outside the jail and learn new skills. Because of the success of the program, the City Commission plans to continue the funding to the Jail for a deputy to oversee inmates doing tasks for the City.

Evaluating Risks, Planning for Emergencies

We prepare for emergencies and hope the plans are never needed. In 2021, the Franklin Water Plant conducted a comprehensive evaluation of the water treatment plant and several departments within the City that pertain to water production and distribution. Extensive research of natural disaster threats and historical events for our area, local commercial and industrial chemical storage at various businesses that could impact our source water, and meetings with Simpson County Emergency Management took place as part of the evaluation.

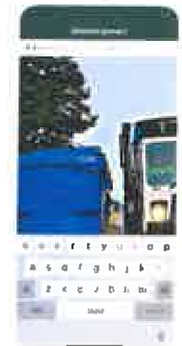


Water Treatment Plant Superintendent Johnie Skipworth said, "By evaluating our risks and resiliency, we become cognizant of our needs for improvement. The Emergency Response Plan is a living document constantly evolving as the City addresses these needs, exercises the procedures, makes infrastructure and treatment improvements, gains hands-on experience, and becomes more equipped to sustain itself in the event of an incident, regardless of the level of impact."

Scott Waste

Stay up to date with garbage and recycling schedules and reminders for Scott Waste through their app.

The WasteConnect app allows users to report a problem with their collection service, such as a missed pickup, or look at the collection schedule.



Large and bulk items can be picked up, but must be scheduled because they must be picked up with a different truck than the carts. To schedule a large item pick-up, call (270) 783-4016.

★★★★★★★★★★★

Leading Our City

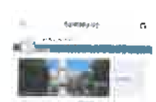
Pictured (left to right):
Commissioner Jamie Powell,
Commissioner Herbert Williams,
Mayor Larry Dixon,
Commissioner Brownie Bennett and
Commissioner Wendell Stewart

★★★★★★★★★★★

Alert System

Sign Up for Emergency Alerts, Street Closures, Boil Water Advisories & more. Go to www.simpsoncountyoem.com and click on REGISTER FOR ALERTS under the MORE Tab.

Stay Informed on City Activities, Meetings, & More



Facebook: @thecityoffranklin
Website: www.franklinky.org
Comcast Cable: Channel 3

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF NET POSITION
June 30, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 12,879,508	$ 8,045,949	$ 20,925,457
Certificates of deposit	255,609	—	255,609
Receivables (net of allowance for uncollectibles):			
Accounts	83,085	758,303	841,388
Taxes	1,186,125	—	1,186,125
Intergovernmental	32,643	—	32,643
Internal balances	40,841	(40,841)	—
Inventory	—	126,892	126,892
Prepaid items	128,791	68,280	197,071
Restricted assets:			
Cash and cash equivalents	91,520	840,737	932,257
Certificates of deposit	223,079	992,001	1,215,080
Capital assets, net of accumulated depreciation:			
Nondepreciable	13,127,413	380,530	13,507,943
Depreciable capital assets	1,839,826	18,187,545	20,027,371
Construction in progress	178,255	288,563	466,818
Total assets	30,066,695	29,647,959	59,714,654
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding bonds	—	81,736	81,736
Outflows for pensions	2,138,221	695,915	2,834,136
Outflows for OPEB	1,299,935	463,383	1,763,318
Total deferred outflows	3,438,156	1,241,034	4,679,190
LIABILITIES			
Accounts payable	602,544	320,286	922,830
Other accrued liabilities	22,578	24,902	47,480
Accrued interest payable	—	20,344	20,344
Accrued vacation	137,826	61,981	199,807
Noncurrent liabilities:			
Customer deposits	—	687,229	687,229
OPEB liability	3,149,165	1,189,091	4,338,256
Net pension liability	9,901,204	3,099,458	13,000,662
Due within one year	—	210,000	210,000
Due in more than one year	—	3,385,064	3,385,064
Total liabilities	13,813,317	8,998,355	22,811,672
DEFERRED INFLOWS OF RESOURCES			
Inflows for pensions	337,198	69,729	406,927
Inflows for OPEB	587,880	181,191	769,071
Total deferred inflows	925,078	250,920	1,175,998
NET POSITION			
Net investment in capital assets	15,145,494	15,609,394	30,754,888
Restricted for:			
Expendable:			
Highways and streets	134,411	—	134,411
Debt service and capital activity	—	1,177,752	1,177,752
Nonexpendable:			
Perpetual care	586,322	—	586,322
Unrestricted	2,900,229	4,852,572	7,752,801
Total net position	$ 18,766,456	$ 21,639,718	$ 40,406,174

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					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	$ 1,600,862	$ 605,078	$ 858,315	$ –	($ 137,469)	$ –	($ 137,469)
Public safety	3,581,599	10,198	149,585	–	(3,421,816)	–	(3,421,816)
Public services	1,625,582	356,297	184,148	–	(1,085,137)	–	(1,085,137)
Community and cultural	816,409	127,195	8,700	–	(680,514)	–	(680,514)
Total governmental activities	7,624,452	1,098,768	1,200,748	–	(5,324,936)	–	(5,324,936)
Business-type activities:							
Water and wastewater	5,445,365	5,471,542	–	–	–	26,177	26,177
Sanitation	984,158	1,040,087	–	–	–	55,929	55,929
Total business-type activities	6,429,523	6,511,629	–	–	–	82,106	82,106
Total primary government	$ 14,053,975	$ 7,610,397	$ 1,200,748	$ –	(5,324,936)	82,106	(5,242,830)
		General revenues:					
		Property taxes			1,328,237	–	1,328,237
		Occupational taxes			2,555,290	–	2,555,290
		Insurance premium taxes			2,106,467	–	2,106,467
		Franchise taxes			98,301	–	98,301
		Business license taxes			982,278	–	982,278
		Interest income			124,873	77,163	202,036
		Miscellaneous			91,144	61,498	152,642
		Gain (loss) on sale of capital assets			22,712	22,451	45,163
		Extinguishment of landfill obligation			–	295,613	295,613
		Total general revenues and transfers			7,309,302	456,725	7,766,027
		Change in net position			1,984,366	538,831	2,523,197
		Net position, beginning of year			16,782,090	21,100,887	37,882,977
		Net position, end of year			$ 18,766,456	$ 21,639,718	$ 40,406,174

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2021

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 11,437,935	$ 1,441,571	$ 12,879,506
Certificates of deposit	—	255,609	255,609
Receivables (net of allowance for uncollectibles):			
Accounts	26,502	32,188	58,690
Taxes	1,186,125	—	1,186,125
Intergovernmental	32,643	24,398	57,041
Due from other funds	79,332	51,572	130,904
Prepaid items	122,500	6,291	128,791
Restricted assets			
Cash and cash equivalents	314,599	—	314,599
Total assets	$ 13,199,636	$ 1,811,629	$ 15,011,265
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 590,475	$ 12,069	$ 602,544
Due to other funds	55,002	35,061	90,063
Accrued expenses	22,578	—	22,578
Total liabilities	668,055	47,130	715,185
Fund balances:			
Nonspendable:			
Prepaid items	122,500	6,291	128,791
Perpetual care	—	586,320	586,320
Restricted:			
Highways and streets	—	134,409	134,409
Committed:			
Stormwater	—	909,656	909,656
Assigned to:			
Retirement benefits	35,466	—	35,466
Drug enforcement	45,290	—	45,290
Other purposes	—	160,029	160,029
Unassigned	12,328,325	(32,206)	12,296,119
Total fund balances	12,531,581	1,764,499	14,296,080
Total liabilities and fund balances	$ 13,199,636	$ 1,811,629	$ 15,011,265

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, 2021

Total fund balances - governmental funds		$ 14,296,080
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.		15,145,493
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Compensated absences	($ 137,826)	
Net pension and OPEB liabilities	(13,050,369)	(13,188,195)
Net deferred inflows and outflows related to pensions and OPEB		2,513,078
Net position of governmental activities		$ 18,766,456

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2021

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes:			
Property	$ 1,328,237	$ —	$ 1,328,237
Occupational	2,555,290	—	2,555,290
Insurance premium	2,106,467	—	2,106,467
Franchise	98,301	—	98,301
Business license	982,278	—	982,278
Intergovernmental	1,017,465	189,880	1,207,345
Charges for sales and services	—	339,992	339,992
Interfund charges	634,183	—	634,183
Fines and forfeitures	81,883	—	81,883
Contributions and donations	—	8,700	8,700
Investment income	105,227	19,714	124,941
Miscellaneous	118,488	—	118,488
Total revenues	9,027,819	558,286	9,586,105
Expenditures			
Current:			
General government	1,294,811	—	1,294,811
Public safety	2,581,816	—	2,581,816
Public services	890,198	471,532	1,361,730
Community services	558,034	253,793	811,827
Capital outlay	672,356	—	672,356
Total expenditures	5,997,215	725,325	6,722,540
Excess (deficiency) of revenues over (under) expenditures	3,030,604	(167,039)	2,863,565
Other financing sources (uses):			
Transfers in	—	405,000	405,000
Transfers out	(402,000)	(3,000)	(405,000)
Sale of capital assets	49,323	4,351	53,674
Total other financing sources (uses)	(352,677)	406,351	53,674
Net change in fund balances	2,677,927	239,312	2,917,239
Fund balances, beginning of year	9,853,654	1,525,187	11,378,841
Fund balances, end of year	$ 12,531,581	$ 1,764,499	$ 14,296,080

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, 2021

		Total Governmental Funds
Net change in fund balances - total governmental funds		$ 2,917,239
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.		326,675
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(30,961)
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	$ 5,133	
OPEB expense	(268,592)	
Pension expense	(965,128)	
		(1,228,587)
Change in net position of governmental activities		$ 1,984,366

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2021

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 7,498,685	$ 547,264	$ 8,045,949
Accounts receivable, net	646,533	111,770	758,303
Due from other funds	4,010	9,350	13,360
Inventory	126,892	—	126,892
Prepaid items	68,280	—	68,280
Restricted assets:			
Cash and cash equivalents	840,737	—	840,737
Certificates of deposit	992,001	—	992,001
Total current assets	10,177,138	668,384	10,845,522
Noncurrent assets:			
Capital assets:			
Land	340,416	40,114	380,530
Depreciable capital assets, net	18,187,545	—	18,187,545
Construction in progress	288,563	—	288,563
Total noncurrent assets	18,816,524	40,114	18,856,638
Total assets	28,993,662	708,498	29,702,160
DEFERRED OUTFLOWS			
Deferred amount on refunding bonds	81,736	—	81,736
Outflows for pensions	695,915	—	695,915
Outflows for OPEB	463,383	—	463,383
Total deferred outflows	1,241,034	—	1,241,034

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2021

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
LIABILITIES			
Current liabilities:			
Accounts payable	$ 163,152	$ 157,134	$ 320,286
Accrued liabilities	24,902	—	24,902
Accrued interest	20,344	—	20,344
Accrued vacation	61,981	—	61,981
Due to other funds	54,210	(9)	54,201
Payable from restricted assets:			
Current maturities of revenue bonds payable	210,000	—	210,000
Customer deposits	687,229	—	687,229
Total current liabilities	1,221,818	157,125	1,378,943
Noncurrent liabilities:			
OPEB liability	1,122,571	66,520	1,189,091
Net pension liability	3,099,458	—	3,099,458
Revenue bonds payable	3,385,064	—	3,385,064
Total noncurrent liabilities	7,607,093	66,520	7,673,613
Total liabilities	8,828,911	223,645	9,052,556
DEFERRED INFLOWS			
Inflows for pensions	69,729	—	69,729
Inflows for OPEB	181,191	—	181,191
Total deferred inflows	250,920	—	250,920
NET POSITION			
Net investment in capital assets	15,569,280	40,114	15,609,394
Restricted for debt service and capital activity	1,177,752	—	1,177,752
Unrestricted	4,407,833	444,739	4,852,572
Total net position	$ 21,154,865	$ 484,853	$ 21,639,718

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
Year Ended June 30, 2021

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
Operating revenues			
Charges for services	$ 5,379,246	$ 1,030,634	$ 6,409,880
Fines and forfeitures	92,296	9,453	101,749
Total operating revenues	5,471,542	1,040,087	6,511,629
Operating expenses			
Salaries, wages and benefits	2,399,268	–	2,399,268
Maintenance	352,632	774,658	1,127,290
Utilities	341,367	–	341,367
Administrative	284,683	209,500	494,183
Supplies	611,842	–	611,842
Other	205,870	–	205,870
Depreciation	1,128,760	–	1,128,760
Total operating expenses	5,324,422	984,158	6,308,580
Operating income	147,120	55,929	203,049
Nonoperating revenues (expenses):			
Investment income	73,586	3,577	77,163
Miscellaneous revenue	61,498	–	61,498
Interest and fiscal charges expense	(119,911)	–	(119,911)
Amortization expense	(1,032)	–	(1,032)
Gain (loss) on disposal of assets	22,451	–	22,451
Extinguishment of landfill obligation	–	295,613	295,613
Total nonoperating revenues (expenses)	36,592	299,190	335,782
Change in net position	183,712	355,119	538,831
Net position, beginning of year	20,971,153	129,734	21,100,887
Net position, end of year	$ 21,154,865	$ 484,853	$ 21,639,718

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2021

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
Cash flows from operating activities			
Cash received from customers	$ 5,576,106	$ 1,044,399	$ 6,620,505
Cash payments to employees and retirees	(1,912,818)	–	(1,912,818)
Cash payments to suppliers	(1,679,699)	(765,456)	(2,445,155)
Payments for administrative overhead	(284,683)	(209,500)	(494,183)
Net cash provided by operating activities	1,698,906	69,443	1,768,349
Cash flows from capital and related financing activities			
Purchase of capital assets	(798,658)	–	(798,658)
Principal paid on bonds, notes and lease obligations	(210,000)	–	(210,000)
Interest paid on bonds, notes and lease obligations	(120,870)	–	(120,870)
Proceeds from sale of capital assets	22,451	–	22,451
Net cash used in capital and related financing activities	(1,107,077)	–	(1,107,077)
Cash flows from investing activities			
Interest received	73,586	3,577	77,163
Net cash provided by investing activities	73,586	3,577	77,163
Net increase in cash and cash equivalents	665,415	73,020	738,435
Cash and cash equivalents, beginning of year	7,674,007	474,244	8,148,251
Cash and cash equivalents, end of year	$ 8,339,422	$ 547,264	$ 8,886,686
Reflected in the Statement of Fund Net Position - Proprietary Funds as:			
Cash and cash equivalents	$ 7,498,685	$ 547,264	$ 8,045,949
Restricted cash and cash equivalents	840,737	–	840,737
Total	$ 8,339,422	$ 547,264	$ 8,886,686

See Notes to Financial Statements (continued)

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2021

	Enterprise Funds		
	Water and Wastewater	Sanitation	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 147,120	$ 55,929	$ 203,049
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,128,760	—	1,128,760
Nonoperating revenues	61,498	—	61,498
Increase in deferred outflows of resources	(351,282)	—	(351,282)
Decrease in deferred inflow of resources	(164,424)	—	(164,424)
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(2,902)	4,312	1,410
(Increase) decrease in due from other funds	(2,230)	83,239	81,009
Decrease in inventory and prepaid items	76,634	—	76,634
Increase (decrease) in accounts payable	(44,817)	12,538	(32,279)
Decrease in accrued liabilities	(3,367)	—	(3,367)
Increase in accrued vacation	6,895	—	6,895
Increase in customer deposits	45,968	—	45,968
Decrease in due to other funds	(197,575)	(86,575)	(284,150)
Increase in OPEB liability	383,664	—	383,664
Increase in pension liability	614,964	—	614,964
Net cash provided by operating activities	$ 1,698,906	$ 69,443	$ 1,768,349

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2021

	Custodial Fund
ASSETS	
Cash and cash equivalents	$ 18,418
LIABILITIES	
Due to other governmental units	18,418
NET POSITION	
Restricted for other governments	$ –

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2021

	Custodial Fund
ADDITIONS	
County 911 fee collections	$ 130,050
DEDUCTIONS	
Payments of 911 fees to County	(130,050)
Changes in net position	–
Net position, beginning of year	–
Net position, end of year	$ –

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 cannot be specifically identified to a particular function are charged to funds based on time spent for that function and are included in the functional categories. Program revenues

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

Permanent Funds

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

Proprietary Funds

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

Enterprise Funds

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

Water and Wastewater Fund

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sanitation Fund

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

Fiduciary Funds

Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments. Trust funds account for assets held by the City under the terms of a formal trust agreement. The City does not report any trust funds. Custodial funds generally are used to account for assets that the City holds on behalf of others as their agent and are custodial in nature. The funds could report net position. The City reports the following custodial fund:

911 Fund

The 911 Fund accounts for the collection of a County assessed 911 fee on water meters located within the City's water service territory pursuant to billing services agreement between the City and County dated August 26, 2019. The 911 fees are billed and collected by the City's Water and Wastewater Fund and transferred to the 911 Fund for monthly remittance to the County.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2021, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as expenses in the period incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Unearned Revenue

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources

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

<u>Deferred Outflows</u> - include the differences between reacquisition price and the net carrying amount of refunded debt obligations that is recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. In addition, it includes differences between expected and actual experience, changes of assumptions, changes in proportionate share, and differences between projected and actual earnings on investments in both pension plans and other paid employee benefit plans, and contributions to pension plans and other paid employee benefit plans made subsequent to the City's measurement date of June 30, 2019.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

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

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

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

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses

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

Interfund Activity

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Estimates

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

G. Budgetary Information

Budget Policy

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

Legal Compliance

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

Before June 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.

NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

Deposits

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

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

At June 30, 2021, $1,619,474 of the City's bank balances of $17,988,691 was exposed to custodial credit risk as follows, while $16,369,217 was covered by the FDIC:

Uninsured and collateral held by pledging financial institution	$ 1,491,390
Uninsured and uncollaterized	128,084
	$ 1,619,474

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, 2021, the City had the following investments and maturities:

Type	Fair Value	Maturities In Years Less than 1
U. S. obligations	$ 388,647	$ 388,647

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

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to limit its investments in securities issued by a state or local government or any U. S. agency or instrumentality to the top three ratings issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2021, investments in U. S. agency obligations not directly guaranteed by the U. S. government were rated AAA by Standard & Poor's.

Concentration of Credit Risk - The City's funds must be diversified by security type and institution with the exception of fully insured or fully collateralized investments and except for authorized investment pools, no more than 30% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution. At June 30, 2021, 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	$ 22,939,756
Investments	388,647
	$ 23,328,403

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

Included in the following balance sheet captions:

Government-wide Statement of Net Position	
Cash and cash equivalents	$ 20,925,457
Certificates of deposit	255,609
Restricted assets:	
Cash and cash equivalents	932,257
Certificates of deposit	1,215,080
Total	$ 23,328,403

Investment Income

Investment income for the year ended June 30, 2021 consisted of:	
Interest and dividend income	$ 202,036

NOTE 3. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2021:

	Cash	Certificates of Deposit	Total
Governmental activities:			
General Fund:			
Retiree Life fund	$ 35,466	$ –	$ 35,466
Police fund	45,290	–	45,290
Taeyang pledge	–	223,079	223,079
HRA/FSA fund	10,764	–	10,764
Total governmental activities	91,520	223,079	314,599
Business-type activities:			
Enterprise Fund			
Water and Wastewater Fund:			
Customer deposits	414,879	240,107	654,986
Debt service reserve	425,858	303,460	729,318
Depreciation reserve	–	291,166	291,166
Maintenance and replacement reserve	–	157,268	157,268
Total business-type activities	840,737	992,001	1,832,738
Total restricted assets	$ 932,257	$ 1,215,080	$ 2,147,337

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 was as follows:

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,247,172	$ 282,300	$ —	$ 1,529,472
Streets and sidewalks	11,597,941	—	—	11,597,941
Construction in progress	25,930	156,625	(4,300)	178,255
Total capital assets, not being depreciated	12,871,043	438,925	(4,300)	13,305,668
Capital assets being depreciated:				
Buildings and improvements	2,047,910	12,787	—	2,060,697
Land improvements	19,440	3,016	—	22,456
Vehicles	1,531,420	130,797	(157,709)	1,504,508
Furniture, fixtures and equipment	1,158,048	91,133	—	1,249,181
Total capital assets, being depreciated	4,756,818	237,733	(157,709)	4,836,842
Less accumulated depreciation:				
Buildings and improvements	(920,298)	(54,481)	—	(974,779)
Land improvements	(4,536)	(1,397)	—	(5,933)
Vehicles	(1,073,300)	(172,856)	126,748	(1,119,408)
Furniture, fixtures and equipment	(779,948)	(116,948)	—	(896,896)
Total accumulated depreciation	(2,778,082)	(345,682)	126,748	(2,997,016)
Total capital assets, being depreciated, net	1,978,736	(107,949)	(30,961)	1,839,826
Governmental activities capital assets, net	$ 14,849,779	$ 330,976	($ 35,261)	$ 15,145,494
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 380,530	$ —	$ —	$ 380,530
Construction in progress	220,843	159,480	(91,760)	288,563
Total capital assets, not being depreciated	601,373	159,480	(91,760)	669,093
Capital assets being depreciated:				
Utility plant	40,045,839	526,012	—	40,571,851
Buildings	86,738	—	—	86,738
Furniture and equipment	2,571,919	162,600	(67,457)	2,667,062
Vehicles	637,252	42,326	(19,472)	660,106
Land improvements	50,519	—	—	50,519
Total capital assets being depreciated	43,392,267	730,938	(86,929)	44,036,276
Less accumulated depreciation:				
Utility plant	(22,327,793)	(955,548)	—	(23,283,341)
Buildings	(70,031)	(1,244)	—	(71,275)
Furniture and equipment	(1,872,033)	(115,182)	67,457	(1,919,758)
Vehicles	(520,308)	(53,418)	19,472	(554,254)
Land improvements	(16,735)	(3,368)	—	(20,103)
Total accumulated depreciation	(24,806,900)	(1,128,760)	86,929	(25,848,731)
Total capital assets, being depreciated, net	18,585,367	(397,822)	—	18,187,545
Business-type activities capital assets, net	$ 19,186,740	($ 238,342)	($ 91,760)	$ 18,856,638

NOTE 4. CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	$ 70,069
Public safety	191,679
Public works	81,435
Community and cultural	2,499
Total depreciation expense - governmental activities	$ 345,682
Business-type activities:	
Water and wastewater	$ 1,128,760

NOTE 5. LONG-TERM LIABILITIES

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

Changes in long-term liabilities for the year ended June 30, 2021 were as follows:

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Amounts Due in One Year
Business-type activities:					
Revenue bonds	$ 3,735,000	$ –	($ 210,000)	$ 3,525,000	$ 210,000
Unamortized discounts, premiums, net	75,319	–	(5,255)	70,064	–
Total business-type activities	$ 3,810,319	$ –	($ 215,255)	$ 3,595,064	$ 210,000
Total governmental and business-type activities	$ 3,810,319	$ –	($ 215,255)	$ 3,595,064	$ 210,000

NOTE 5. LONG-TERM LIABILITIES (Continued)

Governmental activities:

The City enters into general obligation bonds, lease purchase agreements and notes payable to finance the acquisition and construction of various public projects. These long-term liabilities pledge the full faith and credit of the City. The City did not have any general obligation long-term debt outstanding as of June 30, 2021.

Business-type activities:

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, 2021 were as follows:

	Interest Rates	Final Maturity Date	Principal at June 30, 2021
Revenue bonds, Series 2012 (A)	2.00 - 3.75%	December 1, 2033	$ 2,520,000
Revenue bonds, Series 2016 (B)	3.00 – 3.60%	February 1, 2037	1,005,000
			3,525,000
Unamortized discounts, premiums, net			70,064
Total revenue bonds payable - business-type activities			$ 3,595,064

(A) $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.

(B) $1,190,000 Kentucky Bond Corporation Revenue Lease, dated November 30, 2016; City of Franklin, Kentucky portion of Kentucky Bond Corporation Financing Program Revenue Bonds, Series 2016D; maturing on February 1 in annual installments of $45,000 to $80,000 through 2037; interest at 3% to 3.5% payable semi-annually on February 1 and August 1; issued to finance water and sewer system improvements; secured by water and sewer system revenues.

NOTE 5. LONG-TERM LIABILITIES (Continued)

Annual Debt Service Requirements

The annual requirements to amortize long-term debt outstanding as of June 30, 2021 are as follows:

Year Ending	Governmental Activities		Business-Type Activities		Government-Wide	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2022	$ —	$ —	$ 210,000	$ 110,981	$ 210,000	$ 110,981
2023	—	—	220,000	105,356	220,000	105,356
2024	—	—	225,000	99,394	225,000	99,394
2025	—	—	230,000	93,000	230,000	93,000
2026	—	—	235,000	86,244	235,000	86,244
2027 - 2031	—	—	1,295,000	315,703	1,295,000	315,703
2032 - 2036	—	—	1,030,000	90,331	1,030,000	90,331
2037 – 2038	—	—	80,000	2,800	80,000	2,800
	$ —	$ —	$ 3,525,000	$ 903,809	$ 3,525,000	$ 903,809

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2021 are as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	$ 79,332	$ 55,003
Special Revenue Funds:		
Economic Development Revolving Loan Fund	50,993	—
Greenlawn Shady Rest Cemetery Fund	50	2,695
Community Development Fund	—	32,206
Stormwater Fund	529	—
Permanent Fund		
Greenlawn Shady Rest Perpetual Fund	—	143
Francis M. Harris Trust	—	16
Total governmental funds	130,904	90,063
Proprietary Funds:		
Water and Wastewater Fund	4,010	54,210
Sanitation Fund	9,350	(9)
Total proprietary funds	13,360	54,201
	$ 144,264	$ 144,264

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

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

NOTE 7. INTERFUND TRANSFERS

Interfund transfers for the year ending June 30, 2021 are summarized as follows:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	$ –	$ 402,000
Special Revenue Fund		
Municipal Aid Fund	119,000	–
Greenlawn Shady Rest Cemetery Fund	186,000	–
Stormwater Fund	100,000	–
Permanent Fund		
Greenlawn-Shady Rest Cemetery Perpetual Fund	–	3,000
Total governmental funds	$ 405,000	$ 405,000

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

NOTE 8. RETIREMENT PLAN

County Employees Retirement System

Plan Description

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

NOTE 8. RETIREMENT PLAN (Continued)

Benefits Provided

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

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

NOTE 8. RETIREMENT PLAN (Continued)

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

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

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

NOTE 8. RETIREMENT PLAN (Continued)

Contributions

Employee contribution rates are set by statutes governing the KRS and may only be changed by the Kentucky General Assembly. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statutes Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board of Trustees on the basis of the last annual valuation preceding July 1 of a new biennium. The Board may amend contribution rates as of July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

Administrative costs of CERS are financed through employer contributions and investment earnings.

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

For the year ended June 30, 2021, the City contributed 24.06% (nonhazardous – 19.30% pension; 4.76% insurance) and 39.58% (hazardous – 30.06% pension; 9.52% insurance) of each employee's creditable compensation to CERS, in accordance with its actuarially determined contribution rate. The City's employer's contributions to CERS for pension benefits for the year ended June 30, 2021 were $741,410.

NOTE 8. RETIREMENT PLAN (Continued)

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

At June 30, 2021, the City reported a liability of $13,000,662 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and rolled-forward using generally accepted actuarial principles. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the City's proportion was 0.086896% (non-hazardous), an increase of 0.000842% from its proportion measured as of June 30, 2019, and 0.210141% (hazardous), an increase of .034398% from its proportion as of June 30, 2019.

For the year ended June 30, 2021, the City recognized pension expense of $2,121,773. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 528,829	$ 219,318
Difference between expected and actual experience	362,698	—
Change of assumptions	500,541	—
Change in proportion and differences between employer contributions and proportionate share of contributions	700,658	187,609
Contributions subsequent to the measurement date of June 30, 2020	741,410	—
Total	$ 2,834,136	$ 406,927

The amount shown above for "contributions subsequent to the measurement date of June 30, 2020," will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

NOTE 8. RETIREMENT PLAN (Continued)

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

Year Ended June 30:	
2022	$ 607,486
2023	493,262
2024	373,085
2025	211,967
	$ 1,685,800

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

Actuarial assumptions. The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement System 2018 Actuarial Experience Study for the period ending June 30, 2018". The total pension liability, as of June 30, 2020, was determined using these updated actuarial assumptions. The assumptions are:

Inflation	2.30 %
Payroll Growth Rate	2.00%
Salary increases	3.30% to 10.30% for CERS non-hazardous; 3.55% to 19.05% for CERS hazardous
Investment rate of return	6.25 %

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

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy

NOTE 8. RETIREMENT PLAN (Continued)

retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	**62.50%**	
US equity	18.75%	4.50%
Non-US equity	18.75%	5.25%
Private equity	10.00%	6.65%
Specialty credit/high yield	15.00%	3.90%
Liquidity	**14.50%**	
Core bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	**23.00%**	
Real estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real return	15.00%	3.95%
Total	100.00%	3.96%

Discount rate. The projection of cash flows used to determine the discount rate of 6.25% for CERS hazardous and nonhazardous, assumes that local employers would contribute with required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the KRS plan's CAFR.

NOTE 8. RETIREMENT PLAN (Continued)

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City of Franklin's net pension liability			
Hazardous	$ 7,830,160	$ 6,335,811	$ 5,116,027
Nonhazardous	8,219,212	6,664,851	5,377,782
Total	$ 16,049,372	$ 13,000,662	$ 10,493,809

Pension Plan Fiduciary Net Position

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

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

Kentucky Retirement Systems' Insurance Fund

Plan Description

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

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

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

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

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2021 was 4.76% (non-hazardous) and 9.52% (hazardous) of covered payroll. Contributions to the Insurance Fund from the City were $206,228 for the year ended June 30, 2021. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2020. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2021, the City's proportion was 0.086871% (non-hazardous) and 0.210074% (hazardous).

Net OPEB Liability

At June 30, 2021, the City reported a liability of $4,038,976 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an

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

actuarial valuation as of June 30, 2019 and rolled-forward using generally accepted actuarial principles. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the Insurance Fund relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the City's proportion was 0.086871% (non-hazardous), an increase of .000839% from its proportion measured as of June 30, 2019, and 0.210074% (hazardous), an increase of .034366% from its proportion as of June 30, 2019.

Actuarial assumptions. The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actual assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service for CERS non-hazardous; 3.55% to 19.05%, varies by service for CERS hazardous
Investment rate of return	6.25%
Healthcare cost trend rates (Pre-65)	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to ultimate trend rate of 4.05% over a period of 14 years.
Healthcare cost trend rates (Post-65)	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to ultimate trend rate of 4.05% over a period of 14 years.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee," which occurred in December of 2019 are reflected in the June 30, 2020, GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

NOTE 7. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	**62.50%**	
US equity	18.75%	4.50%
Non-US equity	18.75%	5.25%
Private equity	10.00%	6.65%
Specialty credit/high yield	15.00%	3.90%
Liquidity	**14.50%**	
Core bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	**23.00%**	
Real estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real return	15.00%	3.95%
Total	100.00%	3.96%

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

Discount rate. The discount rate used to measure the total OPEB liability was 5.34% for non-hazardous and 5.30% for hazardous employees. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. Future contributions are projected in accordance with the Board's current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 legislative session. This includes the phase-in provisions, as well as the provisions from Senate Bill 249 (passed in 2020) which kept CERS contributions level for fiscal year ending 2021.

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

Changes in the Net OPEB Liability

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the City's proportionate share of the collective net OPEB liabilities, calculated using discount rates of 5.30% (hazardous) and 5.34% (nonhazardous), as well as what the City's proportionate share of the collective net OPEB liabilities would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (4.34%)	Current Discount (5.34%)	1% Increase (6.34%)
City of Franklin's net OPEB liability			
Hazardous	$ 2,635,272	$ 1,941,306	$ 1,382,110
Nonhazardous	2,694,891	2,097,670	1,607,154
Total	$ 5,330,163	$ 4,038,976	$ 2,989,264

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

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

	1% Decrease	Current Health-care Cost Trend Rates	1% Increase
City of Franklin's net OPEB liability			
Hazardous	$ 1,387,314	$ 1,941,306	$ 2,622,391
Nonhazardous	1,624,121	2,097,670	2,672,334
Total	$ 3,011,435	$ 4,038,976	$ 5,294,725

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

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

For the year ended June 30, 2021, the City recognized OPEB expense of $610,092. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	$ 417,095	$ 544,610
Changes of assumptions	681,572	4,008
Net difference between projected and actual earnings on OPEB plan investments	256,273	100,377
Changes in proportion and difference between employer contributions and proportionate share of contributions	202,150	120,076
Contributions subsequent to the measurement date of June 30, 2020	206,228	-
Total	$ 1,763,318	$ 769,071

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

The amount shown above for "contributions subsequent to the measurement date of June 30, 2020," will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2021, related to OPEB, are recognized in OPEB expense as follows:

Year ended June 30,	
2022	$ 194,388
2023	168,051
2024	179,998
2025	188,003
2026	57,577
	$ 788,017

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

In addition to the other post-employment benefits provided by the City through the Kentucky Retirement Systems' Insurance Fund, described above, the City also maintains an informal retirement plan authorized by the Mayor/Commission. The City does not issue a separate, publicly available OPEB financial report. City employees who retired prior to May 1, 1988, plus employees/spouses who retired after May 1, 1988 but who elected not to participate in the CERS plan (above), are paid a $100 per month retirement benefit. Eleven 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 $20,190 for the year ended June 30, 2021.

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, 2021, payments under the plan totaled $40,812.

At June 30, 2021, the City reported a total OPEB liability of $249,708. The City's total OPEB liability was measured as of June 30, 2021 and was calculated by the City using the alternative measurement method permitted by GASB Statement 75 for employers in OPEB plans with fewer than 100 employees as of the beginning of the measurement period.

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

The following simplifying assumptions were made:

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

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

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services' long-term healthcare trends analysis model. A rate of 5.70% per year initially, decreased to an ultimate rate of 5.60% per year.

Discount rate – The discount rate used to measure the total OPEB liability was 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. No assets have been accumulated in an irrevocable trust, so the municipal rate has been applied to all periods. The discount rate was 2.45% for the June 30, 2020 measurement date.

Changes in the Total OPEB Liability

Sensitivity of the City's total OPEB liability to changes in the discount rate. The following presents the City's total OPEB liability as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (0.92%) or 1 percentage point higher (2.92%) than the current discount rate:

	1% Decrease (0.92%)	Discount Rate (1.92%)	1% Increase (2.92%)
City of Franklin's total OPEB liability	$ 256,944	$ 249,708	$ 242,860

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

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

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
City of Franklin's total OPEB liability	$ 244,585	$ 249,708	$ 255,014

NOTE 11. DEFERRED COMPENSATION PLAN

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

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or $19,500 for 2021, whichever is less. During the fiscal year ending June 30, 2021, contributions made on behalf of employees totaled $68,192.

NOTE 12. SOLID WASTE COLLECTION FRANCHISE AGREEMENTS

Commercial and Residential

On September 30, 2013, the City entered into an exclusive commercial and residential franchise agreement with Scott Waste Services, LLC (franchisee), for the collection of residential and commercial solid waste and wastewater treatment plant waste in the City. Pursuant to franchise agreement for residential services, the City shall withhold 10% of the monthly gross receipts (franchise fee) received by the City from utility bill payments attributable to operations conducted by franchisee. In addition, City shall withhold 3%

NOTE 12. SOLID WASTE COLLECTION FRANCHISE AGREEMENTS (Continued)

of the monthly gross receipts as a collection fee for its billing and collection services provided. For commercial services, the franchisee shall bill all commercial and industrial customers and pay to the City a fee of 10% of collected gross receipts for commercial and industrial services. The franchise agreement was for a five-year period beginning October 1, 2013 and ending September 30, 2018.

Industrial

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

Amended and Restated Franchise Agreement

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

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

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

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

Personnel

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

Financial Contributions

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

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.

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

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 collectability of any related receivable at June 30, 2021 may be impaired. In the opinion of the City, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 15. CONTINGENCIES (Continued)

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

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, 2021, was one Industrial Revenue Bond outstanding, with an aggregate approximate principal amount payable of $59,324,392.

NOTE 17. TAX ABATEMENTS

The City participates, along with the Commonwealth of Kentucky, in the Kentucky Business Investment Program ("KBI"). KBI provides a wage incentive of up to 1% of the gross wages of each employee for qualified businesses in the City. An eligible company must be engaged in one of the following activities: manufacturing, agribusiness, regional or national headquarters operations, or certain nonretail service or technology activities. The minimum requirements for an eligible project are: create a minimum of 10 new, full-time jobs for Kentucky residents, incur at least $100,000 in eligible costs, and meet a minimum level of wages and benefits. The tax incentives involved with this program are available for up to 10 years. The authority for this program is established in KRS 154.32. For the year ended June 30, 2021, City tax abatements were approximately $104,944 relating to the City's participation in the KBI program.

NOTE 18. RECENT PRONOUNCEMENTS

In January, 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The provisions of this statement were initially effective for fiscal years beginning after December 15, 2018, but was postponed by one year as a result of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria ae included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

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

The City implemented GASB Statement No. 84, *Fiduciary Activities,* in the fiscal year ending June 30, 2021. Agency funds were replaced with custodial funds by GASB Statement No. 84. For the fiduciary fund custodial activities, beginning net position was $-0- with no prior period restatement necessary.

In June, 2017, the GASB issued Statement No. 87, *Leases*. The provisions of this statement were initially effective for fiscal years beginning after December 15, 2018, but was postponed by eighteen months as a result of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

NOTE 18. RECENT PRONOUNCEMENTS (Continued)

The City is evaluating the impact that will result from adopting GASB Statement No. 87 and is currently unable to disclose the impact of the adoption of this standard upon the City's financial position and results of operations.

NOTE 19. COVID-19

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen, which may negatively affect the financial position, changes in financial position, and cash flows of the City. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

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

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 1,225,796	$ 1,251,988	$ 1,328,237	$ 76,249
Occupational taxes	1,743,886	2,241,314	2,555,290	313,976
Insurance premium taxes	1,838,070	1,838,070	2,106,467	268,397
Business license taxes	640,407	838,000	982,278	144,278
Franchise taxes	91,187	91,187	98,301	7,114
Intergovernmental	376,684	1,001,537	1,017,465	15,928
Interfund charges	634,183	634,183	634,183	-
Fines and forfeitures	57,500	55,600	81,883	26,283
Miscellaneous	187,299	206,829	223,715	16,886
Total revenues	6,795,012	8,158,708	9,027,819	869,111
Expenditures				
General government:				
Legislative:				
Personal services	135,516	134,528	124,496	10,032
Contractual services	19,665	28,165	27,382	783
Materials and supplies	750	750	1,060	(310)
Other	23,250	19,750	17,874	1,876
Total legislative	179,181	183,193	170,812	12,381
Administrative:				
Personal services	398,170	394,705	390,496	4,209
Contractual services	36,932	37,432	26,099	11,333
Materials and supplies	12,224	13,224	12,074	1,150
Other	9,000	4,500	5,600	(1,100)
Total administrative	456,326	449,861	434,269	15,592
Finance and accounting:				
Personal services	274,584	243,816	246,980	(3,164)
Contractual services	133,387	128,096	117,471	10,625
Materials and supplies	85,050	76,350	63,446	12,904
Other	9,800	6,000	5,295	705
Total finance and accounting	502,821	454,262	433,192	21,070

See Independent Auditor's Report

(continued)

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Risk management:				
Personal services	$ 214,175	$ 214,197	$ 201,409	$ 12,788
Contractual services	14,500	15,500	18,305	(2,805)
Materials and supplies	3,500	2,000	2,173	(173)
Other	62,320	65,820	34,651	31,169
Total risk management	294,495	297,517	256,538	40,979
Total general government	1,432,823	1,384,833	1,294,811	90,022
Public safety:				
Police department:				
Administration:				
Personal services	255,135	255,159	258,100	(2,941)
Contractual services	5,020	5,220	2,905	2,315
Materials and supplies	3,825	3,825	1,971	1,854
Other	2,685	1,400	238	1,162
Total administration	266,665	265,604	263,214	2,390
Patrol:				
Personal services	1,865,273	1,868,654	1,729,262	139,392
Contractual services	48,800	51,400	48,261	3,139
Materials and supplies	77,305	89,605	79,680	9,925
Other	5,850	13,550	7,363	6,187
Total patrol	1,997,228	2,023,209	1,864,566	158,643
Non-sworn personnel:				
Personal services	91,544	91,554	88,342	3,212
Contractual services	52,006	58,471	52,491	5,980
Materials and supplies	10,800	11,300	7,026	4,274
Other	881	881	609	272
Total non-sworn personnel	155,231	162,206	148,468	13,738
Total police department	2,419,124	2,451,019	2,276,248	174,771
Fire department:				
Inspection and administration:				
Contractual services	775	775	570	205

See Independent Auditor's Report (continued)

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Firefighting:				
Contractual services	$ 284,653	$ 304,998	$ 304,998	$ –
Total fire department	285,428	305,773	305,568	205
Total public safety	2,704,552	2,756,792	2,581,816	174,976
Public services:				
Public works:				
Personal services	525,515	525,565	523,102	2,463
Contractual services	190,548	213,648	222,570	(8,922)
Materials and supplies	86,521	79,200	61,468	17,732
Other	1,100	1,200	–	1,200
Total public works	803,684	819,613	807,140	12,473
Code enforcement:				
Personal services	81,305	81,314	78,855	2,459
Contractual services	3,024	3,024	1,982	1,042
Materials and supplies	2,300	2,300	1,628	672
Other	2,560	2,560	593	1,967
Total code enforcement	89,189	89,198	83,058	6,140
Total public services	892,873	908,811	890,198	18,613
Community services:				
Economic development	385,827	470,829	333,034	137,795
Parks and recreation	225,000	225,000	225,000	–
Total community services	610,827	695,829	558,034	137,795
Capital outlay:				
Vehicles	98,664	131,148	130,797	351
Equipment	60,850	93,177	91,133	2,044
Land and improvements	430,730	330,389	281,016	49,373
Buildings	22,625	27,410	169,410	(142,000)
Reserve for capital improvement	156,336	–	–	–
Total capital outlay	769,205	582,124	672,356	(90,232)
Total expenditures	6,410,280	6,328,389	5,997,215	331,174

See Independent Auditor's Report (continued)

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
General Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Excess of revenues over expenditures	$ 384,732	$ 1,830,319	$ 3,030,604	$ 1,200,285
Other financing sources (uses):				
Sale of capital assets	10,000	(8,261)	49,323	57,584
Transfers out	(369,000)	(402,000)	(402,000)	–
Total other financing sources (uses)	(359,000)	(410,261)	(352,677)	57,584
Net change in fund balance	25,732	1,420,058	2,677,927	1,257,869
Fund balances, beginning of year	9,853,654	9,853,654	9,853,654	–
Fund balances, end of year	$ 9,879,386	$ 11,273,712	$ 12,531,581	$ 1,257,869

See Independent Auditor's Report

Infrastructure Condition and Maintenance Data
June 30, 2021

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					
		2020		2019		2017	
	OCI Condition Rating	Square Feet	%	Square Feet	%	Square Feet	%
Acceptable	75 - 100	4,991,178	87.21	4,162,508	79.66	4,215,587	84.09
Marginally deficient	50 - 74	580,504	10.14	770,049	14.74	643,425	12.83
Moderately deficient	25 - 49	146,604	2.56	292,922	5.60	154,144	3.08
Severely deficient	0 - 24	5,104	.09	–	–	–	–
Total		5,723,390	100.00	5,225,479	100.00	5,013,156	100.00

	Comparison of Estimated-to-Actual Maintenance/Preservation				
	2020	2019	2018	2017	2016
Original estimate	$ 878,014	$ 396,607	$ 183,465	$ 152,901	$ 272,226
Actual	$ 785,175	$ 336,616	$ 143,844	$ 105,261	$ 250,387

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

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

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

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

CITY OF FRANKLIN, KENTUCKY

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

	2021	2020	2019	2018	2017	2016	2015
Total net pension liability for County Employees Retirement Systems	$ 10,684,945,613	$ 9,795,340,000	$ 8,508,762,000	$ 8,090,585,976	$ 6,639,559,678	$ 5,834,631,445	$ 4,446,199,755
City's proportion of the net pension liability	.12167%	.11346%	1175%	.1188%	.1156%	.1150%	.1166%
City's proportionate share of the net pension liability	$ 13,000,662	$ 10,906,757	$ 9,999,688	$ 9,614,320	$ 7,677,024	$ 6,708,131	$ 5,186,001
City's covered payroll	$ 3,468,463	$ 3,683,281	$ 3,480,555	$ 3,378,134	$ 3,253,039	$ 3,205,636	$ 3,162,531
City's proportionate share of the net pension liability as a percentage of its covered payroll	374.82%	296.12%	287.30%	284.60%	236.00%	209,26%	163.98%
Plan fiduciary net position as a percentage of the total pension liability	46.82%	49.43%	52.40%	52.40%	59.11%	59.35%	65.96%

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

Note: The County Employees Retirement System measurement date is 12 months prior to the City's Financial Statements, the 2021 measurement date is 06/30/20.

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

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

	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 741,410	$ 764,404	$ 614,767	$ 537,426	$ 511,350	$ 452,495	$ 450,450
Contributions in relation to the actuarially determined contribution	($ 741,410)	(764,404)	614,767	537,426	511,350	452,495	450,450
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –	$ –	$ –
City's covered payroll	$ 3,468,463	$ 3,683,281	$ 3,480,555	$ 3,378,134	$ 3,253,039	$ 3,205,636	$ 3,162,531
Contributions as a percentage of covered payroll	21.38%	20.75%	17.66%	15.91%	15.72%	14.12%	14.24%

Notes to Schedule:

Valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, closed
Remaining amortization period	25 years, closed
Payroll growth rate	2.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increase	3.05 to 18.55%, varies by service
Investment rate of return	6.25%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Seale BB (set back 1 year for females)

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

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY COUNTY EMPLOYEES RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

Last Ten Fiscal Years

	2021	2020	2019	2018
Total net OPEB liability for County Employees' Retirement Systems	$ 3,338,801,439	$ 2,421,815,000	$ 2,488,439,000	$ 2,837,013,635
City's proportion of the net OPEB liability (asset)	.1210%	.1134%	.1178%	.1204%
City's proportionate share of the net OPEB liability (asset)	$ 4,038,976	$ 2,747,013	$ 2,930,581	$ 3,414,788
City's covered payroll	$ 3,468,463	$ 3,683,281	$ 3,480,555	$ 3,378,134
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	116.45%	74.58%	84.20%	101.09%
Total pension plan's fiduciary net position	$ 3,902,730,000	$ 3,910,225,000	$ 3,695,108,000	$ 3,401,537,049
Total pension plan's OPEB liability	$ 7,241,531,000	$ 6,332,040,000	$ 6,183,547,000	$ 6,288,550,680
Total pension plan's fiduciary net position as a percentage of the total OPEB liability	53.89%	61.75%	59.76%	54.52%

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

Additional years will be reported as incurred.

Note: The County Employer's Retirement System measurement date is 12 months prior to the City's Financial Statements, the 2021 measurement date is 06/30/20.

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

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

	2021	2020	2019	2018	2017
Actuarially determined OPEB contribution	$ 206,228	$ 212,569	$ 223,998	$ 212,332	$ 200,741
Contributions in relation to the actuarially determined OPEB contribution	206,228	212,569	223,998	212,332	200,741
OPEB contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –
City's covered payroll	$ 3,468,463	$ 3,683,281	$ 3,480,555	$ 3,378,134	$ 3,253,039
OPEB contributions as a percentage of covered payroll	5.95%	5.77%	6.43%	6.26%	6.17%

Notes to Schedule:

Valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Payroll growth rate	2.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary increase	3.05% to 18.55%, varies by service
Investment rate of return	6.25%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates:	
Pre-65	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Post-65	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

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

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF TOTAL OPEB LIABILITY
CITY RETIREMENT PLAN
Last Ten Fiscal Years

	2021	2020	2019	2018	2017
Total OPEB liability	$ 249,708	$ 275,005	$ 330,124	$ 427,987	$ 515,756

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

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

SCHEDULE OF CITY OPEB CONTRIBUTIONS
CITY RETIREMENT PLAN
Last Ten Fiscal Years

	2021	2020	2019	2018	2017
City OPEB contributions	$ 61,002	$ 71,207	$ 85,242	$ 102,886	$ 122,400

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

See Independent Auditor's Report

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

Permanent Funds

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

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

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

CITY OF FRANKLIN, KENTUCKY

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2021

	Special Revenue					
	Cemetery	Community Development	Municipal Aid	Economic Development	Stormwater	Total
ASSETS						
Cash and cash equivalents	$ 101,831	$ —	$ 116,211	$ —	$ 892,549	$ 1,110,591
Certificates of deposit	—	—	—	—	—	—
Receivables (net of allowance for uncollectibles):						
Accounts	7,385	—	—	—	24,803	32,188
Intergovernmental	—	—	24,398	—	—	24,398
Due from other funds	50	—	—	50,993	529	51,572
Prepaid items	362	—	—	—	5,929	6,291
Total assets	$ 109,628	$ —	$ 140,609	$ 50,993	$ 923,810	$ 1,225,040
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 230	$ —	$ 6,200	$ —	$ 5,530	$ 11,960
Due to other funds	—	32,206	—	—	2,695	34,901
Total liabilities	230	32,206	6,200	—	8,225	46,861
Fund balances:						
Nonspendable:						
Prepaid items	362	—	—	—	5,929	6,291
Perpetual care	—	—	—	—	—	—
Restricted						
Highway and streets	—	—	134,409	—	—	134,409
Committed						
Stormwater	—	—	—	—	909,656	909,656
Assigned to:						
Other purposes	109,036	—	—	50,993	—	160,029
Unassigned	—	(32,206)	—	—	—	(32,206)
Total fund balances	109,398	(32,206)	134,409	50,993	915,585	1,178,179
Total liabilities and fund balances	$ 109,628	$ —	$ 140,609	$ 50,993	$ 923,810	$ 1,225,040

See Independent Auditor's Report

Permanent Funds	
Cemetery Perpetual	Total Nonmajor Governmental Funds
$ 330,980	$ 1,441,571
255,609	255,609
—	32,188
—	24,398
—	51,572
—	6,291
$ 586,589	$ 1,811,629
$ 109	$ 12,069
160	35,061
269	47,130
—	6,291
586,320	586,320
—	134,409
—	909,656
—	160,029
—	(32,206)
586,320	1,764,499
$ 586,589	$ 1,811,629

CITY OF FRANKLIN, KENTUCKY

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
June 30, 2021

	Francis Harris Cemetery Perpetual	Greenlawn-Shady Rest Cemetery Perpetual	Total Nonmajor Permanent Funds
ASSETS			
Cash and cash equivalents	$ 3,506	$ 327,474	$ 330,980
Certificates of deposit	50,000	205,609	255,609
Accounts receivable	–	–	–
Total assets	$ 53,506	$ 533,083	$ 586,589
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 16	$ 93	$ 109
Due to other funds	16	144	160
Total liabilities	32	237	269
Fund balances			
Nonspendable:			
Cemetery maintenance	53,474	–	53,474
Perpetual care	–	532,846	532,846
Total fund balances	53,474	532,846	586,320
Total liabilities and fund balances	$ 53,506	$ 533,082	$ 586,589

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS Year Ended June 30, 2021

	Special Revenue					
	Cemetery	Community Development	Municipal Aid	Economic Development	Stormwater	Total
Revenues						
Intergovernmental	$ —	$ —	$ 189,880	$ —	$ —	$ 189,880
Charges for sales and services	82,195	—	—	—	257,797	339,992
Contributions	—	—	—	—	—	—
Investment income	202	—	2	—	10,935	11,139
Total revenues	82,397	—	189,882	—	268,732	541,011
Expenditures						
Current:						
Public works	—	—	275,185	—	196,347	471,532
Community services	253,768	—	—	—	—	253,768
Total expenditures	253,768	—	275,185	—	196,347	725,300
Excess (deficiency) of revenues over (under) expenditures	(171,371)	—	(85,303)	—	72,385	(184,289)
Other financing sources (uses):						
Transfers in	186,000	—	119,000	—	100,000	405,000
Transfers out	—	—	—	—	—	—
Sale of capital assets	—	—	4,351	—	—	4,351
Total other financing sources (uses)	186,000	—	123,351	—	100,000	409,351
Net change in fund balances	14,629	—	38,048	—	172,385	225,062
Fund balances, beginning of year	94,769	(32,206)	96,361	50,993	743,200	953,117
Fund balances, end of year	$ 109,398	($ 32,206)	$ 134,409	$ 50,993	$ 915,585	$ 1,178,179

See Independent Auditor's Report

Permanent Funds	
Cemetery Perpetual	Total Nonmajor Governmental Funds
$ —	$ 189,880
—	339,992
8,700	8,700
8,575	19,714
17,275	558,286
—	471,532
25	253,793
25	725,325
17,250	(167,039)
—	405,000
(3,000)	(3,000)
—	4,351
(3,000)	406,351
14,250	239,312
572,070	1,525,187
$ 586,320	$ 1,764,499

CITY OF FRANKLIN, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
Year Ended June 30, 2021

	Francis Harris Cemetery Perpetual	Greenlawn-Shady Rest Cemetery Perpetual	Total Nonmajor Permanent Funds
Revenues			
Investment income	$ 407	$ 8,168	$ 8,575
Contributions	–	8,700	8,700
Total revenues	407	16,868	17,275
Expenditures			
Current:			
Community services	25	–	25
Excess of revenues over expenditures	382	16,868	17,250
Other financing uses			
Transfers out	–	(3,000)	(3,000)
Net change in fund balance	382	13,868	14,250
Fund balance, beginning of year	53,092	518,978	572,070
Fund balance, end of year	$ 53,474	$ 532,846	$ 586,320

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Greenlawn - Shady Rest Cemetery Special Revenue Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Charges for sales and services	$ 67,000	$ 68,000	$ 82,195	$ 14,195
Investment income	312	312	132	(180)
Miscellaneous	450	100	70	(30)
Total revenues	67,762	68,412	82,397	13,985
Expenditures				
Current:				
Community services:				
Personal services	9,244	9,244	4,600	4,644
Contractual services	195,104	196,604	194,079	2,525
Materials and supplies	1,426	1,426	388	1,038
Administrative overhead	45,000	45,000	45,000	–
Other	8,267	8,267	9,701	(1,434)
Total community services	259,041	260,541	253,768	6,773
Capital outlay	5,000	–	–	–
Total expenditures	264,041	260,541	253,768	6,773
Deficiency of revenues under expenditures	(196,279)	(192,129)	(171,371)	20,758
Other financing sources:				
Transfers in	186,000	186,000	186,000	–
Net change in fund balance	(10,279)	(6,129)	14,629	20,758
Fund balance, beginning of year	94,769	94,769	94,769	–
Fund balance, end of year	$ 84,490	$ 88,640	$ 109,398	$ 20,758

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Municipal Aid Special Revenue Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental:				
Liquid fuel tax	$ 148,250	$ 148,250	$ 160,970	$ 12,720
Mineral and coal severance tax	5,000	18,000	28,910	10,910
Investment income	963	963	2	(961)
Total revenues	154,213	167,213	189,882	22,669
Expenditures				
Current:				
Public works	240,000	290,000	275,185	14,815
Excess (deficiency) of revenues over (under) expenditures	(85,787)	(122,787)	(85,303)	37,484
Other financing sources (uses)				
Transfers in	86,000	119,000	119,000	–
Proceeds from sale of assets	–	4,351	4,351	–
Total other financing sources	86,000	123,351	123,351	–
Net change in fund balance	213	564	38,048	37,484
Fund balance, beginning of year	96,361	96,361	96,361	–
Fund balance, end of year	$ 96,574	$ 96,925	$ 134,409	$ 37,484

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Stormwater Special Revenue Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Charges for sales and services	$ 250,000	$ 250,000	$ 255,538	$ 5,538
Fines and forfeitures	4,000	2,000	2,259	259
Investment income	5,609	5,609	10,935	5,326
Total revenues	259,609	257,609	268,732	11,123
Expenditures				
Current:				
Public works:				
Personal services	144,280	144,294	137,223	7,071
Contractual services	49,450	64,650	45,274	19,376
Materials and supplies	25,450	18,950	13,655	5,295
Other	296	296	195	101
Total expenditures	219,476	228,190	196,347	31,843
Excess of revenues over expenditures	40,133	29,419	72,385	42,966
Other financing sources:				
Transfers in	100,000	100,000	100,000	—
Net change in fund balance	140,133	129,419	172,385	42,966
Fund balance, beginning of year	743,200	743,200	743,200	—
Fund balance, end of year	$ 883,333	$ 872,619	$ 915,585	$ 42,966

See Independent Auditor's Report

PROPRIETARY FUNDS

Enterprise Funds

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

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

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

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for sales and services:				
Water division	$ 2,908,000	$ 2,851,500	$ 2,920,325	$ 68,825
Wastewater division	2,571,500	2,505,910	2,551,217	45,307
Total operating revenues	5,479,500	5,357,410	5,471,542	114,132
Nonoperating revenues:				
Investment income	69,456	69,456	73,586	4,130
Sales of assets	12,500	22,451	22,451	–
Miscellaneous	38,500	31,755	61,498	29,743
Total nonoperating revenues	120,456	123,662	157,535	33,873
Total revenues	5,599,956	5,481,072	5,629,077	148,005
Expenditures				
Administration division:				
Administrative:				
Personal services	624,999	644,115	794,563	(150,448)
Contractual services	59,147	82,407	70,500	11,907
Materials and supplies	28,050	32,260	28,894	3,366
Other	160,187	190,111	196,009	(5,898)
Total administration division	872,383	948,893	1,089,966	(141,073)
Water division:				
Production:				
Personal services	448,129	448,173	566,753	(118,580)
Contractual services	237,329	240,679	230,821	9,858
Materials and supplies	184,862	173,695	150,695	23,000
Other	2,750	2,850	3,101	(251)
Total water production	873,070	865,397	951,370	(85,973)

See Independent Auditor's Report

(continued)

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Distribution:				
Personal services	$ 296,321	$ 296,347	$ 332,850	($ 36,503)
Contractual services	74,518	77,798	39,604	38,194
Materials and supplies	86,400	76,400	124,224	(47,824)
Other	6,850	5,850	1,981	3,869
Total water distribution	464,089	456,395	498,659	(42,264)
Meter reading and maintenance:				
Personal services	74,425	74,432	81,209	(6,777)
Contractual services	10,150	12,500	6,234	6,266
Materials and supplies	223,550	194,550	157,900	36,650
Other	1,100	1,100	–	1,100
Total water meter reading and maintenance	309,225	282,582	245,343	37,239
Total water division	1,646,384	1,604,374	1,695,372	(90,998)
Wastewater division:				
Treatment:				
Personal services	293,884	287,238	382,215	(94,977)
Contractual services	279,073	272,647	268,362	4,285
Materials and supplies	98,150	96,950	71,460	25,490
Other	7,450	3,200	1,688	1,512
Total wastewater treatment	678,557	660,035	723,725	(63,690)
Collection and rehabilitation:				
Personal services	273,484	233,667	227,118	6,549
Contractual services	120,831	109,369	95,628	13,741
Materials and supplies	90,200	83,150	76,766	6,384
Other	4,700	3,300	2,404	896
Total wastewater collection and rehabilitation	489,215	429,486	401,916	27,570
Total wastewater division	1,167,772	1,089,521	1,125,641	(36,120)
Administrative overhead	284,683	284,683	284,683	–

See Independent Auditor's Report (continued)

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Water and Wastewater Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Debt service:				
Principal	$ 210,000	$ 210,000	$ 210,000	$ —
Interest	123,356	119,857	116,823	3,034
Administrative fees	3,035	3,785	3,088	697
Total debt service	336,391	333,642	329,911	3,731
Capital outlays	1,456,586	1,064,787	798,658	266,129
Total expenditures	5,764,199	5,325,900	5,324,231	1,669
Excess of revenues over expenditures	($ 164,243)	$ 155,172	304,846	$ 149,674
Add:				
Principal payments			210,000	
Capital outlays, including capitalized labor and materials			798,658	
Less:				
Depreciation expense			(1,128,760)	
Amortization expense			(1,032)	
Change in net position			183,712	
Net position, beginning of year			20,971,153	
Net position, end of year			$21,154,865	

See Independent Auditor's Report

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Sanitation Fund
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for services:				
Hand pick-up	$ 752,000	$ 778,000	$ 777,989	($ 11)
Collection fees	17,000	22,000	23,240	1,240
Fines and forfeitures	20,000	8,275	9,453	1,178
Franchise fee	233,000	233,000	229,405	(3,595)
Total operating revenues	1,022,000	1,041,275	1,040,087	(1,188)
Nonoperating revenues:				
Investment income	4,271	4,271	3,577	(694)
Extinguishment of landfill obligation	–	–	295,613	295,613
Total revenues	1,026,271	1,045,546	1,339,277	293,731
Expenditures				
Sanitation operations:				
Contractual services	750,000	750,000	774,658	(24,658)
Administrative overhead	209,500	209,500	209,500	–
Total expenditures	959,500	959,500	984,158	(24,658)
Excess of revenues over expenditures	$ 66,771	$ 86,046	355,119	$ 269,073
Net position, beginning of year			129,734	
Net position, end of year			$ 484,853	

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Franklin, Kentucky (City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 1, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2021-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Franklin, Kentucky's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kerley & Moore, LLP

Bowling Green, Kentucky
February 1, 2022

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2021-1 Segregation of Duties

Criteria: The objectives of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded and financial statements are reliable. The segregation of accounting duties is an essential element of effective internal control, involving the separation of the custody of assets from the related recording of those transactions.

Condition: As is often the case with smaller governmental units, segregation of conflicting duties within the City's Finance department is difficult because of the limited number of personnel. Delegation of duties with a limited number of personnel cannot adequately provide the separation of custody of assets from the related recording and monitoring of transactions.

Effect: Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause: Duties in various transaction cycles are not adequately segregated.

Recommendation: While the City has implemented mitigating controls to compensate for some segregation of duties issues since the previous year, we encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the City's Finance department.

Views of Responsible Officials and Planned Corrective Actions: The City will continue to evaluate the cost vs. the benefit of hiring additional personnel and further implementing compensating controls to mitigate the risk that internal control objectives will not be achieved.