This Preliminary Official Statement and the information contained herein are subject to completion and revision in a final Official Statement. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these Series 2009 Bonds in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration, qualification, or exemption under the securitie4s laws of such jurisdiction.

# PRELIMINARY OFFICIAL STATEMENT

**Dated September 22, 2009**
**(Bonds to be sold September 29, 2009, 11:30 a.m. E.D.S.T.)**

## BOOK-ENTRY-ONLY-SYSTEM

**Bank Qualified**

Rating: Moody's " "
See Ratings herein

In the opinion of Bond Counsel, under existing law (i) interest on the Bonds will be excludable from gross income of the holders thereof for purposes of federal income taxation and (ii) interest on the Bonds will not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, all subject to the qualifications described herein under the heading "TAX EXEMPTION." Interest on the Bonds is also exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and its political subdivisions.

## ELECTRONIC BIDDING VIA PARITY

## $1,545,000*
## CITY OF FRANKLIN, KENTUCKY
## WATER AND SEWER REVENUE REFUNDING AND IMPROVEMENT BONDS
## SERIES 2009

Dated: Date of Delivery (expected October 13, 2009)

Due: December 1, as shown below

The Bonds will be issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds. Accordingly, principal, interest and premium, if any, on the Bonds will be paid by The Huntington National Bank, Cincinnati, Ohio, as Paying Agent and Registrar, directly to DTC or Cede & Co., its nominee. DTC will in turn remit such principal, interest or premium to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Bonds. The Bonds will be issued in denominations of $5,000 each or integral multiples thereof, and will bear interest payable on June 1, 2010 and thereafter semiannually on each December 1 and June 1.

The Bonds maturing on and after December 1, 2020, shall be subject to prior redemption at the option of the City on and after December 1, 2019, as discussed herein.

**SCHEDULE OF MATURITIES**

| Due | Cusip # 353676 | Amount* | Rate | Yield | Due | Cusip # 353676 | Amount* | Rate | Yield |
|---|---|---|---|---|---|---|---|---|---|
| 12/1/10 | | $125,000 | | | 12/1/18 | | $160,000 | | |
| 12/1/11 | | 130,000 | | | 12/1/19 | | 40,000 | | |
| 12/1/12 | | 135,000 | | | 12/1/20 | | 40,000 | | |
| 12/1/13 | | 135,000 | | | 12/1/21 | | 45,000 | | |
| 12/1/14 | | 145,000 | | | 12/1/22 | | 45,000 | | |
| 12/1/15 | | 145,000 | | | 12/1/23 | | 45,000 | | |
| 12/1/16 | | 150,000 | | | 12/1/24 | | 50,000 | | |
| 12/1/17 | | 155,000 | | | | | | | |

(Plus accrued interest-when issued)

***Purchaser's Option*** - The Purchaser of the Bonds may specify to the Financial Advisor that any Bonds may be combined with immediately succeeding sequential maturities into a Term Bond or Term Bonds, bearing a single rate of interest, with the maturities set forth above (or as may be adjusted as provided herein being subject to mandatory redemption in such maturities for such Term Bond(s).

The City deems this Official Statement to be final for purposes of Security and Exchange Commission Rule 15c2-12.

The Bonds are offered when, as and if issued, subject to the approval of legality and tax exemption by Peck, Shaffer & Williams LLP, Bond Counsel, Covington, Kentucky. Certain legal matters have been passed upon for the City by Scott Crabtree, Esq., City Attorney. The Bonds are expected to be available for delivery on or about October 13, 2009.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

*Preliminary, Subject to Permitted Adjustment

**FIRST KENTUCKY SECURITIES CORPORATION**
**Financial Advisor**

**CITY OF FRANKLIN, KENTUCKY**

**Mayor**
Herbert Williams

**City Commission**
Jamie Powell
Wendell Stewart
Henry Stone (Mayor Pro-Tem)
(seat currently vacant)

**City Manager**
Jim Brown

**Finance Director**
Cendy Dodd

**City Attorney**
Scott Crabtree

**City Clerk**
Kathy Stradtner

**BOND COUNSEL**
Peck, Shaffer & Williams LLP
Covington, Kentucky

**FINANCIAL ADVISOR**
First Kentucky Securities Corporation
Frankfort, Kentucky

**PAYING AGENT/BOND REGISTRAR**
The Huntington National Bank
Cincinnati, Ohio

## REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of the City. No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representation, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Upon issuance, the Bonds will not be registered by the City under any federal or state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency except the City will have, at the request of the City, passed upon the accuracy or adequacy of this Official Statement or approved the Bonds for sale.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

Insofar as the statements contained in this Official Statement involve matters of opinion or estimates, even if not expressly stated as such, such statements are made as such and not as representations of fact or certainty, no representation is made that any of such statements have been or will be realized, and such statements should be regarded as suggesting independent investigation or consultation of other sources prior to the making of investment decisions. Certain information may not be current; however, attempts were made to date and document sources of information. Neither this Official Statement nor any oral or written representations by or on behalf of the City preliminary to sale of the Bonds should be regarded as part of the City's contract with the successful bidder or the holders from time to time of the Bonds.

References herein to provisions of Kentucky law, whether codified in the Kentucky Revised Statutes ("KRS") or uncodified, or to the provisions of the Kentucky Constitution or the City's ordinances or resolutions, are references to such provisions as they presently exist. Any of these provisions may from time to time be amended, repealed or supplemented.

As used in this Official Statement, "debt service" means principal of, interest and any premium on, the obligations referred to; "City" means the City of Franklin; and "State" or "Kentucky" means the Commonwealth of Kentucky.

**TABLE OF CONTENTS**

**Page**


INTRODUCTION ..... 1
The Issuer ..... 1
Sources of Payment for the Bonds ..... 1
Purpose of the Bonds ..... 1
Description of the Bonds ..... 1
Redemption ..... 1
Book Entry ..... 2
Tax Exemption ..... 4
Parties to the Issuance of the Bonds ..... 4
Authority for Issuance ..... 5
Disclosure Information ..... 5
Additional Information ..... 5
DESCRIPTION OF THE BONDS ..... 5
Optional Redemption ..... 5
Notice of Redemption ..... 5
SECURITY AND SOURCE OF PAYMENT FOR BONDS ..... 6
Sources of Payment ..... 6
Rate Covenant ..... 6
Debt Service Reserve ..... 6
THE PROJECT ..... 6
Estimated Sources and Uses of Funds ..... 7
INVESTMENT CONSIDERATIONS ..... 7
BOND ORDINANCE ..... 7
Registration, Payment and Transfer ..... 7
Payment of Principal ..... 7
Payment of Interest – Regular Record Dates ..... 8
Exchange and Transfer ..... 8
Pledge of Revenues ..... 8
Definitions ..... 8
APPLICATION OF REVENUES ..... 13
Establishment of Funds ..... 13
Parity Debt ..... 17
Subordinated Debt, Notes and Other Obligations ..... 18
General Covenants of the City ..... 19
Events and Remedies of Default ..... 21
NO INDIVIDUAL LIABILITY ..... 22
FUTURE BORROWINGS OF THE CITY ..... 22
LITIGATION ..... 22
TAX EXEMPTION ..... 22
General ..... 22
Original Issue Premium ..... 23
Original Issue Discount ..... 23
RATING ..... 24
CONTINUING DISCLOSURE ..... 24
UNDERWRITING ..... 25
FINANCIAL ADVISOR ..... 25
MISCELLANEOUS ..... 25

Appendix A: City of Franklin Water and Sewer System
City of Franklin Demographic, Economic and Financial Data
Appendix B: Estimated Debt Service Requirements for the Series 2009 Bonds
Appendix C: Annual Financial Report for the Year Ended June 30, 2008 of the City of Franklin
Appendix D: Form of Final Approving Legal Opinion of Bond Counsel

Official Terms and Conditions of Bond Sale
Official Bid Form

**PRELIMINARY OFFICIAL STATEMENT**

**$1,545,000***
**CITY OF FRANKLIN, KENTUCKY**
**WATER AND SEWER REVENUE REFUNDING AND IMPROVEMENT BONDS**
**SERIES 2009**

**Dated Date: Date of Delivery**

## INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the issuance of $1,545,000* aggregate principal amount of Water and Sewer System Refunding and Improvement Bonds, Series 2009 (the "Bonds" or "Series 2009 Bonds") of the City of Franklin, Kentucky (the "City") as specified on the cover hereof.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

### *The Issuer*

The Bonds are being issued by the City of Franklin, Kentucky, a municipal corporation and political subdivision of the State of Kentucky. The City is in Simpson County in Kentucky.

### *Sources of Payment for the Bonds*

The Bonds do not constitute an indebtedness of the City within the meaning of the Constitution of the Commonwealth of Kentucky, but are payable as to principal and interest and premium, if any, solely from and are secured by, a pledge of revenues and income resulting from the collection of water and sewer rates and charges for the services rendered by the City's water and sewer system (referred to as the "System" herein).

The Bonds are not general obligations of the City, or the county, cities, water districts or other water associations it serves. For a more detailed description of the sources of payment of the Bonds and the rate covenant that secures the Bonds, see "Security and Sources of Payment for the Bonds" herein).

### *Purpose of the Bonds*

The Bonds are being issued for the purpose of (i) currently refunding the outstanding principal amount of a variable rate lease/purchase agreement between the City and Kentucky Municipal Finance Corporation, dated as of October 10, 1989 and a lease/purchase agreement between the City and Kentucky Municipal Finance Corporation, dated as of May 1, 1999, including the thereto related Certificates of Participation (City of Franklin, Kentucky Water and Sewer System Revenue Refunding Project) maturing on or after December 1, 2010, (ii) financing the construction of improvements to the City's Water and Sewer System (see "The Project" for more detail), and (iii) paying the costs of issuing the Bonds.

### *Description of the Bonds*

The Bonds mature as indicated on the cover page hereof. The Bonds are being offered in fully registered form in denominations of $5,000 or any integral multiple thereof (within the same maturity).

### *Redemption*

The Bonds maturing on and after December 1, 2020 are subject to optional redemption prior to maturity, commencing December 1, 2019 (see "DESCRIPTION OF THE BONDS - Optional Redemption", herein).

---

Preliminary, Subject to Adjustment

In the event any Bonds are called for redemption, notice shall be given by mailing a copy of the redemption notice at least thirty (30) days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed (see "DESCRIPTION OF THE BONDS - Notice of Redemption", herein).

***Book Entry***

Unless the successful purchaser notifies the City in writing within twenty-four hours of the award of the Bonds that it has elected (at such purchaser's expense) to take physical delivery of the Bonds, The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by DTC. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to Beneficial Owners (as defined below) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution.

The following information about the book-entry only system applicable to the Bonds has been supplied by DTC. Neither the City nor the Paying Agent and Registrar make any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for in the aggregate principal amount of the Bonds and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent and Registrar as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Paying Agent and Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Paying Agent and Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to tune. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent and Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Remarketing Agent and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable but neither the City nor the Paying Agent and Registrar take any responsibility for the accuracy thereof.

NEITHER THE CITY NOR THE PAYING AGENT AND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE PAYING AGENT AND REGISTRAR AS BEING A HOLDER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF

TENDERED BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Bonds.

The City and the Paying Agent and Registrar cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

DTC may determine to discontinue providing its service as securities depository with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law. In such event, the Resolution provides for issuance of fully registered Bonds ("Replacement Bonds") directly to the Beneficial Owners of Bonds, other than DTC or its nominee, only in the event that DTC resigns or is removed as the securities depository for the Bonds. Upon the occurrence of this event, the City and the Paying Agent and Registrar may appoint another qualified depository. If the City and the Paying Agent and Registrar fail to appoint a successor depository, the Bonds shall be withdrawn from DTC and issued in fully registered form, whereupon the City shall execute and the Paying Agent and Registrar, as authenticating agent, shall authenticate and deliver Replacement Bonds in the denomination of $5,000 or integral multiples thereof. The City will pay for all costs and expenses of printing, executing and authenticating the Replacement Bonds. Transfer and exchange of such Replacement Bonds shall be made as provided in the Resolution.

***Tax Exemption***

Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, if any, on the Bonds is excludable from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, Bond Counsel has assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. Bond Counsel expresses no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds. Interest on the Bonds is also exempt from income taxation and the bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

he City has designated the Bonds as "qualified tax-exempt obligations" with respect to certain financial institutions under Section 265 of the Internal Revenue Code of 1986, as amended.

See Appendix D hereto for the form of the opinion Bond Counsel proposes to deliver in connection with the Bonds.

***Parties to the Issuance of the Bonds***

The Registrar and Paying Agent is The Huntington National Bank, Cincinnati, Ohio. Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereon are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. The Financial Advisor to the City is First Kentucky Securities Corporation.

***Authority for Issuance***

Authority for the issuance of the Bonds is provided by Sections 66.011 through 66.171 of the Kentucky Revised Statutes and an ordinance (the "Ordinance" or "Series 2009 Bond Ordinance") adopted by the City Commission of the City on September 14, 2009.

***Disclosure Information***

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and continuing disclosure documents of the City are intended to be made available through one or more repositories. Copies of the basic documentation relating to the Bonds, including the Ordinance and the bond forms, are available from the City.

The City deems this Preliminary Official Statement to be final for the purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain information on the cover page hereof, and certain pages herein which have been omitted in accordance with the Rule and will be provided with the final Official Statement.

***Additional Information***

Additional information concerning this Official Statement, as well as copies of the basic documentation relating to the Bonds, is available from First Kentucky Securities Corporation, Financial Advisor to the City of Franklin, 305 Ann Street, Suite 400, Frankfort, Kentucky 40602, telephone (502) 875-4611 Attn: Stan Kramer.

## DESCRIPTION OF THE BONDS

The Bonds are dated the date of delivery (expected October 13, 2009) and bear interest from such date at the rates set forth on the cover page of this Official Statement. The Bonds are being issued as fully registered bonds in the denomination of $5,000 or any integral multiple thereof.

Interest on the Bonds is payable semi-annually on June 1 and December 1, commencing June 1, 2010.

***Optional Redemption***

The Bonds maturing on and after December 1, 2020, shall be subject to redemption by the City prior to maturity, in whole or in part, in any order of their maturities selected by the City (less than all of a single maturity to be selected by lot), on any date, on or after December 1, 2019, at a redemption price equal to the principal amount of the Bonds called for redemption, plus unpaid interest accrued to the date of redemption, without premium.

***Notice of Redemption***

If less than all Bonds which are payable by their terms on the same date are to be called, the particular Bonds or portions of Bonds payable on such same date and to be redeemed from such series shall be selected by lot by the Registrar and Paying Agent, in such manner as the Registrar and Paying Agent in its discretion may determine; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of $5,000 or some multiple thereof, and that, in selecting Bonds for redemption, the Registrar and Paying Agent shall treat each bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by $5,000.

At least thirty (30) days before the redemption date of any Bonds the Registrar and Paying Agent shall cause a notice of such redemption either in whole or in part, signed by the Registrar and Paying Agent, to be mailed, postage prepaid, to all registered owners of Bonds to be redeemed in whole or in part at their addresses as they appear on the registration books kept by the Registrar and Paying Agent, but failure so to mail any such notice shall not affect the validity of the proceedings for such redemption. Each such notice shall set forth the date fixed for redemption, the redemption price to be paid and, if less than all of the Bonds being payable by their terms on a single date then outstanding shall be called for redemption, the distinctive numbers or letters, if any, of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. In case any Bond is to be redeemed in part only, the notice of redemption which relates to such Bond shall state also that on or after the redemption date upon surrender of such Bonds, a new Bond in principal amount equal to the unredeemed portion of such Bonds will be issued.

On the date so designated for redemption, notice having been sent in the manner and under the conditions hereinabove provided and moneys for payment of the redemption price being held in separate accounts by the Registrar and Paying Agent for the holders of the Bonds or portions thereof to be redeemed, the Bonds or portions of Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Bonds or portions of Bonds on such date, interest on the Bonds or portions of Bonds so called for redemption shall cease to accrue, and the holders or registered owners of such Bonds or portions of Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and to receive Bonds for any unredeemed portions of Bonds.

In case part but not all of an outstanding Bond shall be selected for redemption, the registered owner thereof or his attorney or legal representative shall present and surrender such Bond to the Registrar and Paying Agent for payment of the principal amount hereof so called for redemption, and the City shall execute and the Registrar and Paying Agent shall authenticate and deliver to or upon the order of such registered owner or his legal representative, without charge therefor, for the unredeemed portion of the principal amount of the Bond so surrendered a Bond of the same series and maturity and bearing interest at the same rate.

## SECURITY AND SOURCE OF PAYMENT FOR BONDS

***Sources of Payment***

Under the terms of the Ordinance, the Bonds are payable from and secured by a pledge of revenues and income derived from the ownership, operation, and use or services of the City's System (the "System"), after the payment of all reasonable or necessary current operating and maintenance expenses of the System, as determined in accordance with generally accepted accounting principles.

***Rate Covenant***

The City covenants by the Ordinance, that it will at all times establish, enforce and collect rates, rentals, and charges for services rendered and facilities constituting the System in an amount after allowances for all operation and maintenance cost (but not including depreciation) of 1.25 times the maximum annual principal and interest requirements on all System Bonds (as hereinafter defined) issued under the Ordinance.

***Debt Service Reserve***

The Debt Service Reserve is pledged to and shall be used for the payment of principal, interest on, and premium, if any and the required minimum balance for said fund shall be equal in amount to the maximum annual debt service in any future year on the then outstanding bonds.

## THE PROJECT

The Bonds are being issued for the purpose of (i) currently refunding the outstanding principal amount of a variable rate lease/purchase agreement between the City and Kentucky Municipal Finance Corporation, dated as of October 10, 1989 and a lease/purchase agreement between the City and Kentucky Municipal Finance Corporation, dated as of May 1, 1999, including the thereto related Certificates of Participation (City of Franklin, Kentucky Water and Sewer System Revenue Refunding Project) maturing on or after December 1, 2010 (collectively, the "Refunded Obligations") and (ii) financing the construction of improvements to the City’s Water and Sewer System and (iii) paying the costs of issuing the Bonds.

Improvements to the City’s Water and Sewer System include, but are not limited to, the following:

Waste Water Treatment Plant chemical feed building and equipment; Waste Water Treatment Plant improvements; Waste Water collection lift station generator; Waste Water grinder station pump and improvements; Water Treatment Plant 3 energy efficient high service pumps with soft starts; and Water Treatment Plant building improvements

***Estimated Sources and Uses of Funds***

| | |
|---|---|
| **Sources of Funds** | |
| Par Amount of Bonds | |
| Total | |
| **Uses of Funds** | |
| Deposit to Construction Fund | |
| Deposit for Refunding of Refunded Obligations | |
| Underwriter's Discount | |
| Costs of Issuance | |
| Rounding Amount | |
| Total | |

## INVESTMENT CONSIDERATIONS

The Bonds, like all obligations of state and local government, are subject to changes in value due to changes in the condition of the tax-exempt bond market and/or changes in the financial condition of the City.

Prospective purchasers of the Bonds may need to consult their own tax advisors prior to any purchase of the Bonds as to the impact of the Internal Revenue Code of 1986, as amended, upon their acquisition, holding or disposition of the Bonds.

It is possible under certain market conditions, or if the financial condition of the City should change, that the market price of the Bonds could be adversely affected.

With regard to the risk involved in a lowering of the City's bond rating, see "RATINGS" herein. With regard to creditors' rights, see "SECURITY AND SOURCE OF PAYMENT FOR BONDS" herein.

## BOND ORDINANCE

The following is a summary of certain terms and provisions of the Ordinance, and is qualified in its entirety by reference to the Ordinance. The following summary supplements the information set forth in "The Series 2009 Bonds" and should be read in conjunction therewith. See "Introduction" as to the availability of copies of the Ordinance.

***Registration, Payment and Transfer***

*Form*

All Series 2009 Bonds will be in fully registered form in denominations of $5,000 and any authorized multiple thereof. The City will maintain at the principal corporate trust office of the Registrar and Paying Agent books for the registration and transfer of Series 2009 Bonds.

***Payment of Principal***

Principal of and interest on the Series 2009 Bonds will be payable when due without deduction for the services of the Registrar and Paying Agent. Principal of and redemption premium on any bond will be paid to the registered owner thereof upon presentation and surrender thereof at the principal corporate trust office of the Registrar and Paying Agent.

*Payment of Interest - Regular Record Dates*

The interest on any Series 2009 Bonds which is payable, and is punctually paid or duly provided for, on any interest payment date will be paid by check or draft mailed by the Paying Agent to the person in whose name such Series 2009 Bond was registered on the registration books at the close of business on the regular record date for such interest payment date and will be mailed to such person at his address as it appears on the registration books. The regular record date for any interest payment date is the fifteenth (15th) day of the month next preceding the month in which the interest payment date occurs.

*Exchange and Transfer*

The Series 2009 Bonds shall be negotiable as provided by the Ordinance, subject to the provisions for registration and transfer contained in the Ordinance. The Registrar shall register or cause to be registered therein and permit to be transferred thereon any bond entitled to registration or transfer under such reasonable regulations as it or the City may prescribe.

***Pledge of Revenues***

The Series 2009 Bonds, together with such additional bonds ranking on a parity therewith that may be issued and outstanding from time to time under the restrictions and provisions of the Ordinance do not constitute an indebtedness of the City within the meaning of the Constitution of Kentucky, but are payable as to principal, interest and premium, if any, solely from and are secured by a pledge of revenues and income resulting from the collection of water and sewer rates and charges for the services rendered by the facilities of the City's Water and Sewer System.

***Definitions***

The following terms as used in the Ordinance and herein have the following meanings:

"*Annual Debt Service Requirement*" means, at any given time of determination, the maximum amount of Principal Installments and interest coming due on all System Bonds outstanding in any year; provided, however, if the terms of any System Bonds are such that interest thereon for any future period of time is to be calculated at a variable rate, then interest on such System Bonds for such period shall be computed by assuming that the rate of interest applicable to such period is equal to the rate of interest (calculated in the manner in which the rate of interest for such period is to be calculated) which would have been in effect for the 12 months immediately preceding the date of calculation; provided further that if more than 25% of the Principal Installments of any series of System Bonds come due in any year, the Annual Debt Service Requirement for such System Bonds will be calculated as if such System Bonds were amortized on the basis of approximate level debt service over the term of such System Bonds.

"*Authorized Officer*" means the Mayor of the City, or any other person authorized by law to act on behalf of the City under or with respect to the Series 2000 Lease, the Series 2002 Bonds, the Series 2009 Bonds and the Series 2009 Bonds, as evidenced by a certificate conferring such authority executed by the Mayor and given to the Paying Agent and Registrar.

"*Bond Fund*" means the fund so designated which was originally established by the Series 1993 Bond Ordinance and which is continued pursuant to Sections 9 and 11 of the Series 2009 Bond Ordinance.

"*Bondholder*" means the registered owners of the fully registered bonds at the time issued and outstanding under the Series 2009 Bond Ordinance, or any of them.

"*Bond Owner*," "*Holder*" and "*Person*" means the person in whose name a Bond is registered and includes the plural as well as the singular number unless the context shall otherwise indicate.

"*Certified Public Accountant*" means an independent certified public accountant or firm of accountants, duly licensed in Kentucky, and may include accountants regularly employed to audit the financial affairs of the System and/or other financial matters of the City.

"*City*" means the City of Franklin, Simpson County, Kentucky.

"*City Commission*" means the governing body of the City.

"*Code*" means the Internal Revenue Code of 1986, as amended, including any successor provisions thereof and any regulations promulgated thereunder.

"*Construction Account*" means the City of Franklin, Kentucky Water and Sewer System Construction Project Account of 2009 established under the provisions of the Series 2009 Bond Ordinance for the purpose of accounting for the disbursement for the Construction Project from the proceeds of the Series 2009 Bonds.

"*Construction Account Depository*" means the bank designated as such in the resolution or executive order awarding the Series 2009 Bonds to the Original Purchaser.

"*Construction Project*" means the construction of the additions and improvements to the City's System, which construction is being financed in part by the Series 2009 Bonds authorized in the Series 2009 Bond Ordinance; consisting of the construction of wastewater treatment plant improvements, water treatment plant improvements, water system pumps, wastewater grinder station pumps and improvements and a wastewater system collection lift station generator.

"*Consulting Engineer of National Recognition*" means and refers to an Engineer or a firm of Engineers, who, by virtue of experience, reputation and ability, bear a reputation in the field of engineering which is nationally recognized and known, and upon whose professional judgment sophisticated investors rely in connection with securities which are issued for water or sewer purposes, as applicable.

"*Danville Bonds*" means the City of Danville, Kentucky Multi-City Lease Revenue Bonds (City of Franklin, Kentucky Water and Sewer Revenue Project) Fixed Rate Series 2000-A.

"*Date of Closing*" means the date upon which the Series 2009 Bonds are delivered to the successful purchaser.

"*Debt Service Reserve*" means the reserve for payment of principal of, interest on, and redemption requirements in respect of System Bonds, which was originally established by the Series 1993 Bond Ordinance and which is continued pursuant to Section 11 of the Series 2009 Bond Ordinance.

"*Debt Service Reserve Requirement*" means an amount equal to the maximum Annual Debt Service Requirement.

"*Depreciation Fund*" means the fund so designated which was originally established by the Series 1993 Bond Ordinance and which is continued pursuant to Section 11 of the Series 2009 Bond Ordinance.

"*Depreciation Reserve Requirement*" means the reserve to be maintained in the Depreciation Fund in an amount equal to the greater of (i) $100,000, (ii) 4% of the total amount of all System Bonds then outstanding or (iii) the amount deemed necessary by the Engineers pursuant to a certificate delivered to the City in connection with the issuance of Parity Debt.

"*Defeasance Obligations*" means:

(a) direct obligations of (including obligations issued or held in book entry form) the United States of America; and

(b) pre-funded municipal obligations defined as follows:

Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (1) which are rated, based on the escrow, in the highest rating category of Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., or any successors thereto; or (2) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in paragraph (a) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate.

"*Engineer*" or "*Engineers*" means any firm or firms of consulting engineers who have been or who will be in the future retained by the City for the purpose of preparing plans and specifications for present or future portions of the System.

"*FDIC*" means the Federal Deposit Insurance Corporation.

"*Fully Registered Bond*" shall refer to a single bond or a series of negotiable bonds (subject to the transfer provisions) payable only to the Registered Owner or Owners in substantially the same form as set forth in the Series 2009 Bond Ordinance; fully registered as to both principal and interest.

"*Government Obligations*" means a direct obligation of, or obligations the payment of principal and interest on which is unconditionally guaranteed, by the United States of America.

"*Gross Income and Revenues*" shall include investment income, connection fees, disconnection fees, and all other items of income which have been established as "reasonably anticipated annual income of the System", based upon a certification of Independent Consulting Engineers and/or certified public accountants.

"*Independent Counsel*" means an attorney duly admitted to the practice of law before the highest court of the State who is not a full-time employee of the City.

"*Investment Obligations*" means:

(a) obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in the Commonwealth of Kentucky;

(b) obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:

(i) United States Treasury;
(ii) Export-Import Bank of the United States;
(iii) Farmers Home Administration;
(iv) Government National Mortgage Corporation; and
(v) Merchant Marine bonds;

(c) obligations of any corporation of the United States government, including but not limited to:

(i) Federal Home Loan Mortgage Corporation;
(ii) Federal Farm Credit Banks;
(iii) Bank for Cooperatives;
(iv) Federal Intermediate Credit Banks;
(v) Federal Land Banks;
(vi) Federal Home Loan Banks;
(vii) Federal National Mortgage Association; and
(viii) Tennessee Valley Authority;

(d) certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4);

(e) uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;

(f) bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;

(g) commercial paper rated in the highest category by a nationally recognized rating agency;

(h) bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities;

(i) securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and

(j) shares of mutual funds, each of which shall have the following characteristics:

(i) the mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;

(ii) the management company of the investment company shall have been in operation for at least five (5) years; and

(iii) all of the securities in the mutual fund shall be investments described in (a) - (i) above.

"*KRS*" means the Kentucky Revised Statutes.

"*Net Annual Income and Revenues*" means Revenues less Operation and Maintenance Costs for the same period, but shall exclude depreciation and interest and Principal Installments payable with respect to any System Bonds or any Subordinated Debt.

"*Net Revenues*" means Gross Income and Revenues of the System less Operating Expenses, which shall include salaries, wages, cost of maintenance and operation, cost of water purchased, if any, materials and supplies, pumping costs, insurance, and all other items that are normally and regularly so included under recognized accounting practices, exclusive of allowances for depreciation.

"*Notes*" means notes issued under the provisions of Section 12 of the Series 2009 Bond Ordinance.

"*Opinion of Bond Counsel*" means a written opinion of an attorney or firm of attorneys acceptable to the City, with nationally recognized expertise in municipal tax-exempt finance.

"*Operating Expenses*" shall include only those items of costs of maintenance and operation which are "reasonably anticipated annual operation and maintenance expenses of the System", and shall exclude any unusual items of operation and maintenance expense which are of a generally non-recurring nature, according to the certification of Independent Consulting Engineers and/or of certified public accountants. Depreciation, amortization, interest on bonded indebtedness and any non-cash charges shall be excluded.

"*Operation and Maintenance Costs*" means, as of any particular date, the operating and maintenance expenses of the System and all other expenses of carrying out and administering the System, and in that regard operating and maintaining the System, and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, upkeep, furnishings, equipment, repair of facilities, insurance premiums, legal, accounting, management, consulting and banking services and expenses.

"*Operation and Maintenance Fund*" means the fund so designated which was originally established by the Series 1993 Bond Ordinance and which is continued pursuant to Section 11 of the Series 2009 Bond Ordinance.

"*Original Purchaser*" means the agency, person, firm or firms to which or to whom the Series 2009 Bonds are awarded at the public sale of said Series 2009 Bonds, or their successors.

"*Parity Debt*" means, collectively, the Series 2000 Lease, the Series 2002 Bonds, the Series 2009 Bonds, the Series 2009 Bonds and any additional Parity Debt issued under the provisions of Section 12 of the Series 2009 Bond Ordinance.

"*Paying Agent and Registrar*" means The Huntington National Bank, Cincinnati, Ohio, its successors and assigns.

"*Principal Installment*" means, as of any date of calculation and with respect to any System Bonds, so long as any System Bonds are outstanding, System Bonds maturing and System Bonds subject to mandatory redemption in such period.

"*Prior Obligations*" means, collectively, the Series 2000 Lease, the Series 2002 Bonds and the Series 2009 Bonds.

"*Prior Ordinances*" means, collectively, the Series 2000 Ordinance, the Series 2002 Ordinance and the Series 2004 Bond Ordinance.

"*Redemption Price*" means, with respect to any System Bonds, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof.

"*Registered Owner*" means the person in whose name a Series 2009 Bond is registered on the books maintained for the City by the Paying Agent and Registrar.

"*Revenue Fund*" means the Revenue Fund which was originally established by the Series 1993 Bond Ordinance and which is continued pursuant to Section 11 of the Series 2009 Bond Ordinance.

"*Revenues*" means the totality of all water and sewer service rates, rentals and charges of any and all types and varieties imposed, enforced and collected by the City for any services rendered by the works and facilities of the City which relate to the System, together with other income received by the City, if any, from any agency of government, both federal and state, as representing income or operating subsidies, as distinguished from capital grants, to the extent not otherwise required to be treated and applied.

"*Series 1989 Lease*" means the Variable Rate Lease/Purchase Agreement dated as of October 10, 1989 between the City and the Kentucky Municipal Finance Corporation.

"*Series 1993 Bond Ordinance*" means the bond ordinance of the City adopted on January 21, 1993, as amended on February 8, 1993, authorizing the Series 1993 Bonds.

"*Series 1993 Bonds*" means the $4,990,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding Bonds, Series of 1993.

"*Series 1999 Certificates*" means the certificates executed and delivered by Central Bank & Trust Co. (as predecessor to The Huntington National Bank) evidencing a proportionate share in rental payments to be made by the City under the Series 1999 Lease.

"*Series 1999 Lease*" means the $1,360,000 principal amount of the Lease Purchase Agreement dated as of May 1, 1999 between the City and the Kentucky Municipal Finance Corporation, including the Series 1999 Certificates issued pursuant thereto.

"*Series 1999 Ordinance*" means the ordinance adopted by the City on April 26, 1999, as amended on May 13, 1999 authorizing the Series 1999 Lease.

"*Series 2000 Lease*" means the $1,570,000 principal amount of the Fixed Rate Lease Purchase Agreement dated as of October 10, 2000 between the City and the Kentucky Municipal Finance Corporation, including the Danville Bonds issued pursuant thereto.

"*Series 2000 Ordinance*" means the ordinance adopted by the City on September 25, 2000 authorizing the Series 2000 Lease.

"*Series 2002 Bond Ordinance*" means the bond ordinance adopted by the City on September 9, 2002 authorizing the Series 2002 Bonds.

"*Series 2002 Bonds*" means the $4,885,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding Bonds, Series 2002.

"*Series 2004 Bond Ordinance*" means the bond ordinance adopted by the City on May 24, 2004 authorizing the Series 2009 Bonds

"*Series 2009 Bonds*" means the $4,495,000 City of Franklin, Kentucky Water and Sewer Revenue Bonds, Series 2004 authorized pursuant to the Series 2004 Bond Ordinance.

"*Series 2009 Bond Ordinance*" means the bond ordinance adopted by the City on September 14, 2009 authorizing the Series 2009 Bonds.

"*Series 2009 Bonds*" means the City of Franklin, Kentucky Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009 authorized pursuant to the Series 2009 Bond Ordinance.

"*Subordinated Debt*" means any additional obligations issued under the provisions of Section 12 of the Series 2009 Bond Ordinance.

"*System*" means (a) the existing water and sewer collection, treatment and distribution facilities of the City and (b) all future improvements, additions and extensions thereto.

"*System Bonds*" means the Series 2000 Lease, the Series 2002 Bonds, the Series 2009 Bonds, the Series 2009 Bonds and any additional Parity Debt.

"*U.S. Obligations*" means bonds, notes or treasury bills which are the direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America.

## APPLICATION OF REVENUES

***Establishment of Funds***

From and after the delivery of any of the Bonds authorized under the provisions of the Ordinance, the System shall be operated on a fiscal year basis and on that basis the Revenues derived directly or indirectly from the operation of said combined System shall be deposited promptly and as received first to the credit of the separate and special account known as the "Water and Sewer Revenue Fund" (the "Revenue Fund"). Such Revenue Fund shall be held separate and apart from all other funds of the City and shall be maintained so long as any of the System Bonds are outstanding and payment is not provided therefore. The monies so deposited in such Revenue Fund shall be expended only in the manner and order as follows:

(a) Bond Fund. A separate and special fund or account of the City designated "Water and Sewer Revenue Bond and Interest Redemption Fund" (the "Bond Fund"), was originally created by the Series 1993 Bond Ordinance, and the same is continued and maintained as long as any System Bonds remain outstanding and there shall be transferred on or before the first day of each month from the Revenue Fund the amounts hereinafter specified to pay the interest on and Principal Installments of the System Bonds. The amounts to be so set aside and paid into the Bond Fund in each month, in equal installments, shall be amounts sufficient to pay the annual debt service requirements of the System Bonds, as same fall due, as follows:

(i) An amount equal to one-sixth (1/6) of the interest due on the System Bonds on the next succeeding interest due date, but subject to a credit for the amount of accrued interest collected on the Bonds and deposited in the Bond Fund;

(ii) An amount equal to one-twelfth (1/12) of the Principal Installment of all System Bonds coming due on the next Succeeding Principal installment date; plus

(iii) If, whenever, and so long as an amount equal to the Debt Service Reserve Requirement shall not have been accumulated and/or is not being maintained, an additional amount shall be deposited each month into the Debt Service Reserve equal to 1/60 of the additional amount required to be accumulated in the Debt Service Reserve, until such total Debt Service Reserve Requirement shall have been accumulated, after which such additional deposits may be discontinued, subject to resumption, if, whenever and so long as same shall be reduced below the Debt Service Reserve Requirement.

As and when additional Parity Debt is issued, provision shall be made for additional payments into the Bond Fund to pay the interest on and the principal of such additional Parity Debt as and when the same become due and to increase the Debt Service Reserve Requirement as provided in subsection (b) below.

The Bond Fund is pledged for the payment of the interest on and principal of the System Bonds and is subject to a first lien and charge in favor of the holders of the System Bonds.

No further payments need be made into the Bond Fund (a) whenever and so long as such amount of the System Bonds shall have been retired that the amounts then held in the Bond Fund (and in the Debt Service Reserve) are equal to the entire amount of the interest and principal that will be payable to and at the time of the retirement or maturity of all of the System Bonds, or (b) whenever the System Bonds shall have been defeased as set out in the Ordinance and the applicable ordinance or ordinances authorizing any System Bonds.

Such payments into the Bond Fund shall be made in equal monthly installments on or before the first-day of each month, except that when the first day of any month shall be on a Saturday, Sunday or legal holiday, then such payments shall be made on the next succeeding secular or business day.

If the City for any reason shall fail to make any monthly deposits as required, then an amount equal to the deficiency-, shall be set aside and deposited into the Bond Fund (or the Debt Service Reserve) out of the first available revenues in the ensuing month or months, which amount shall be in addition to the monthly deposit(s) otherwise required during such succeeding month or months.

All funds on deposit in the Bond Fund shall be kept separate and apart from all other municipal funds and shall be deposited, secured and/or invested in the manner provided in the manner provided in the Ordinance.

(b) Debt Service Reserve. A separate and special fund or account of the City within the Bond Fund designated "Debt Service Reserve" (the "Debt Service Reserve") was originally created in the Series 1993 Bond Ordinance and is ordered continued by the Ordinance. There shall be deposited monthly on or before the first day of each month in the Debt Service Reserve an amount equal to 1/60 of the additional amount required to be accumulated therein until the Debt Service Reserve Requirement has been fully funded. Amounts on deposit in the Debt Service Reserve may be withdrawn and used by the City, when necessary, and shall be so withdrawn and used, if and to the extent necessary to prevent the occurrence of an event of default, for the purpose of making payments of principal of and interest on the System Bonds if the amount on deposit in the Bond Fund is not sufficient to make such payments; provided, however, that in the event of any such withdrawal, the City shall restore such deficiency through the deposit into the Debt Service Reserve in each month thereafter, of an amount equal to 1/60 of the additional amount required to be accumulated in the Debt Service Reserve, until the Debt Service Reserve Requirement shall have been restored.

As and when additional Parity Debt is issued, provision shall be made for accumulating or funding the Debt Service Reserve Requirement in the Debt Service Reserve, subject to any limitations or restrictions as may be contained in Sections 103 (b) (2) and 148 of the Code in order that none of the System Bonds shall be deemed to be "arbitrage bonds" and for correspondingly increasing the respective amounts referred to in all related covenants, and such Debt Service Reserve Requirement shall be similarly maintained and restored when necessary, in the manner specified above. No deposits shall be made in the Debt Service Reserve which would cause any of the System Bonds to become "arbitrage bonds". Any amount in excess of the Debt Service Reserve Requirement shall be transferred to the Bond Fund and constitute a credit against the deposit next required to be made into the Bond Fund.

The City shall cause the depository of the Debt Service Reserve from time to time to transfer or pay out moneys in the Debt Service Reserve for the purpose of making payments and transfers to other funds and accounts pursuant to this paragraph (b) of this Section upon receipt by said depository of written direction of an Authorized Officer stating with respect to each payment or transfer to be made:

(1) the account or fund to which the payment or transfer is to be made,

(2) the purpose of the payment or transfer, and

(3) the amount to be paid.

Any interest earned or sums realized as a result of investment of moneys in the Debt Service Reserve shall accrue to, and be a part of, said Debt Service Reserve; provided, however, that so long as the Debt Service Reserve contains the Debt Service Reserve Requirement, any such interest earned or sums realized shall be transferred, as received, to the Bond Fund.

In lieu of the deposit of funds in the Debt Service Reserve, the City may obtain a Debt Service Reserve Guaranty. Any Debt Service Reserve Guaranty shall be considered a deposit of funds in the Debt Service Reserve equal to the Debt Service Reserve Guaranty Coverage provided by the Debt Service Reserve Guaranty Agreement.

As conditions precedent to delivery of a Debt Service Reserve Guaranty, the City shall obtain (i) a Debt Service Reserve Guaranty, (ii) an opinion of counsel addressed to the City stating that the delivery of such Debt Service Reserve Guaranty to the City is authorized under and complies with the terms hereof and the Prior Ordinances, and (iii) written evidence from a Rating Agency, if the System Bonds are rated by such Rating Agency, that the Rating Agency has reviewed the proposed Debt Service Reserve Guaranty and that (x) the issuance of the Debt Service Reserve Guaranty to the City and (y) if a Debt Service Reserve Guaranty is then in effect with respect to the Debt Service Reserve, the substitution of the proposed Debt Service Reserve Guaranty for the Debt Service Reserve Guaranty then in effect, will not, by itself, result in a reduction or withdrawal of its rating on the System Bonds. If the System Bonds are insured by a bond insurer, the references to the Rating Agency in the prior sentence shall be read to mean such bond insurer and the substitution of the proposed Debt Service Reserve Guaranty shall not result in the cancellation of the bond insurance provided by such bond insurer. For purposed of the provisions of this paragraph, the following terms shall have the following meanings:

"Debt Service Reserve Guarantor" means the issuer of a Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty" means a letter of credit, surety bond or similar arrangement representing the irrevocable obligation of the Debt Service Reserve Guarantor to pay to the city upon request made by the City up to an amount stated therein for application as provided in this Section.

"Debt Service Reserve Guaranty Agreement" means the reimbursement agreement, loan agreement or similar agreement between the City and a Debt Service Reserve Guarantor with respect to repayment of amounts advanced under the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Coverage" means the amount available at any particular time to be paid to the City under the terms of the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Limit" means the maximum aggregate amount available to be paid to the City under the terms of a Debt Service Reserve Guaranty.

"Rating Agency" means whether Moody's Investors Service, Inc. or Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., corporations organized under the laws of the State of Delaware and New York, respectively, and their successors assigns.

(c) Depreciation Fund. A separate and special fund or account of the City was originally created under the Series 1993 Bond Ordinance, which fund was designated "City of Franklin Water and Sewer Depreciation Fund" (the "Depreciation Fund"), and which Depreciation Fund is continued and maintained under the Ordinance so long as any of the System Bonds are outstanding. The Series 1993 Bond Ordinance required, and it is required by the Ordinance that following the required transfers set forth in Sections (a) and (b) above, there continue to be set aside and deposited in the Depreciation Fund ten percent (10%) of the balance of the moneys in the Revenue Fund. The minimum Depreciation Reserve Requirement prescribed by the Prior Ordinances and confirmed by the Ordinance is established to be 4% of the total principal amount of all System Bonds outstanding.

Funds in the Depreciation Fund shall be utilized to balance depreciation, to make unforeseen major repairs and replacements of the System, to pay the costs of constructing additions, extensions, betterments and improvements to the System which will either increase income and revenues or provide a higher degree of service and to pay principal or interest requirements on any System Bonds for which insufficient sums are available in the Bond Fund or Debt Service Reserve. There shall be deposited or transferred to the Depreciation Fund any moneys required to be deposited or transferred thereto by the provisions of the preceding paragraph. In addition, so long as the balance in the Depreciation Fund is less than the Depreciation Reserve Requirement, there shall be transferred to and deposited in such Depreciation Fund any other moneys (i) received by the City from any other source and duly determined and ordered by the City to be deposited therein, unless required to be otherwise applied as provided by the Ordinance or the Prior Ordinances, (ii) for which the City has exercised a discretion to so deposit or transfer as permitted by the Ordinance, and (iii) ordered to be so deposited from the proceeds of any System Bonds.

To the extent that other moneys will not be available for the payment of Principal Installments of and interest on System Bonds when due or the payment of Operation and Maintenance Costs, amounts in the Depreciation Fund shall be transferred by the City, upon written direction by an Authorized Officer, and be deposited in the Bond Fund or Operation and Maintenance Fund, as applicable.

The depository of the Depreciation Fund shall from time to time pay out or permit the withdrawal of moneys from the Depreciation Fund for the purpose of making payments pursuant to the provisions of this paragraph (c) upon receipt by said depository of written direction of an Authorized Officer stating the following with respect to each payment to be made:

(1) the fund from which the payment is to be made,
(2) the name of the person or party to whom the payment is to be made, and
(3) the amount to be paid.

In the event any amounts on deposit in the Depreciation Fund are withdrawn to pay principal of, or interest on, System Bonds due to an insufficiency in the Bond Fund or Debt Service Reserve, such withdrawal shall be promptly restored from the first available Revenues after meeting all current requirements of the Bond Fund and Debt Service Reserve.

It is not reasonably anticipated that any amounts in the Depreciation Fund will be used to pay debt service on any System Bonds.

In addition to the monthly transfers to the Depreciation Fund, there shall be deposited in the Depreciation Fund the proceeds from any property damage insurance not immediately used to replace the damaged or destroyed property, and such proceeds shall be used only for the purposes for which the Depreciation Fund is established.

As and when additional Parity Debt is issued, the City shall determine at the time of the issuance thereof, with the advice of the Independent Consulting Engineer then employed by the City, (i) whether additional amounts shall be accumulated in the Depreciation Fund, (ii) the exact revision, if any to the required deposits in the Depreciation Fund, and (iii) the revised total amount (increased Depreciation Reserve Requirement) necessary to be accumulated in the Depreciation Fund; whereupon covenants to that effect shall be incorporated in the proceedings authorizing the issuance of such additional Parity Debt.

All funds on deposit in the Depreciation Fund shall be kept separate and apart from all other municipal funds and shall be deposited, secured and/or invested in the manner provided for in the Ordinance.

(d) Operation and Maintenance Fund. A special and separate fund of the City was originally created by the Series 1993 Bond Ordinance, distinct and apart from all other funds and accounts of the City, designated and identified as the "City of Franklin Water and Sewer Operation and Maintenance Fund" (the "Operation and Maintenance Fund"), and same is ratified and continued by the Ordinance for the benefit of the System and any or all System Bonds payable from the Revenues of the System. So long as any System Bonds remain outstanding and unpaid, there shall continue to be deposited on or before the first day of each month into the Operation and Maintenance Fund, from moneys remaining in the Revenue Fund, after making the transfers required by Subsections (a), (b) and (c) above (which are cumulative), (i) the amount of money, after adjusting for moneys then on deposit in such Operation and Maintenance Fund and which are not otherwise required for the operational reserve, equal to the reasonable and necessary Operation and Maintenance Costs (the "Monthly Requirement") for the next succeeding month, plus (ii) an amount which, after taking into account the sums then on deposit in said Operation and Maintenance Fund, will equal the estimated and budgeted Operation and Maintenance Costs for two (2) additional months, such additional sums to be held as an operational reserve and expended as required, subject to replacement in the same manner, if so expended.

The Operation and Maintenance Fund shall be used to pay the reasonable expenses of operating, maintaining and repairing the System and for paying Operation and Maintenance Costs and when so withdrawn and paid out shall be free and clear of any lien, pledge or assignment in trust created by the Ordinance, provided, however, the City may at any time withdraw moneys from the Operation and Maintenance Fund and deposit such moneys into any other funds or accounts created by the Ordinance, other than the Surplus Fund.

(e) Surplus Funds. Subject to the provisions for the disposition of the income and revenues of the System set forth in Subsections (a), (b), (c) and (d), which provisions are cumulative, and the maintenance of the required minimum balances in said funds, any excess funds remaining in the Revenue Fund after the end of each fiscal year may be used as follows: (i) to the extent necessary from time to time monies constituting Surplus shall be utilized to retire obligations payable from the Revenues; (ii) to make transfers to the Depreciation Fund, provided the required balance in the Operation and Maintenance Fund is being maintained; and (iii) for any other lawful municipal purpose.

***Parity Debt***

The City reserves the right and privilege in the Ordinance of issuing Parity Debt from time to time payable from the Revenues on a basis of parity and equality with the System Bonds and all other Parity Debt authorized to be issued pursuant to the Ordinance and the Prior Ordinances in order to add new System facilities and related auxiliary facilities provided that:

1. the facilities to be acquired, constructed, reconstructed or improved from the proceeds of the Parity Debt to be issued are or are made an integral part of the System and its or their income and revenues are pledged as additional security for the Parity Debt then to be issued, the Bonds and any other outstanding System Bonds;

2. the City is in compliance with all covenants and undertakings in connection with all of the provisions of the Prior Ordinances, the ordinance and all System Bonds then outstanding and payable from the Revenues;

3. the Net Revenues of the System for twelve consecutive months out of the preceding eighteen months (with adjustments as herein provided) are certified in writing by an independent firm of certified public accountants to have been equal to at least (1) one and twenty-five one hundredths (1.25) times the maximum Annual Debt Service Requirement on the Bonds and all System Bonds outstanding and payable from the Revenues, together with the Parity Debt then to be issued and (ii) one (1.00) times the average annual debt service requirements on all System Bonds and Subordinated Debt outstanding and payable from the Revenues.

Such "Net Revenues" may be adjusted for the purpose of the foregoing computations to reflect (i) any revisions in the schedule of rates or charges being imposed at the time of the issuance of any such additional Parity Debt, and also to reflect (ii) any increase in such Net Revenues projected by reason of the revenues anticipated to be derived from the extensions, additions and/or improvements to the System, or any separately acquired (or to be acquired) water or sewer system or facilities being financed (in whole or in part) by such additional Parity Debt; provided such latter adjustments shall be made only if contracts (secured by 100% performance bond) for the immediate acquisition and/or construction of such extensions, additions and/or improvements, or contracts for the acquisition of an existing water and sewer system or existing water and sewer facilities have been or will have been entered into prior to the issuance of such additional parity bonds. All of such adjustments shall be based upon the written certification of an independent Consulting Engineer, as defined herein.

The City further reserves the right to issue Parity Debt to refund or refinance outstanding System Bonds or any portion thereof, if there shall have been procured a statement by a certified public accountant reciting the opinion that after the issuance of such Parity Debt, the annual Net Revenues, as adjusted and defined above, of the then existing System for the fiscal year preceding the date of issuance of such Parity Debt, after taking into account the revised Debt Service Requirements resulting from the issuance of such Parity Debt and from the elimination of the bonds being refunded or refinanced thereby, are equal to not less than 125% of the maximum Annual Debt Service Requirements thereafter on all of the then outstanding System Bonds payable from the revenues of the System, calculated in the manner specified above.

The Parity Debt (sometimes herein referred to as "permitted" to be issued) the issuance of which is conditioned and restricted, shall be understood to mean Parity Debt payable from the Revenues on a basis of parity and equality with the Bonds and the Prior Obligations, and shall not be construed to include Subordinated Debt. The City may issue Subordinated Debt in accordance with the requirements of the Ordinance. In the event any of such Subordinated Debt is issued, the City may also authorize and issue Subordinated Debt to refund same, pursuant to the terms and conditions of the Ordinance.

Provided, however, that nothing in the Ordinance is intended or shall be construed as a restriction upon the ordinary refunding of the Bonds and/or of any System Bonds which may be outstanding under any of the provisions of the Ordinance or Prior Ordinances if such refunding does not operate to increase amortization requirements on System Bonds outstanding and not to be refunded, if any, in any year to and including the final maturity of the refunding debt.

The City has covenanted and agreed that in the event Parity Debt is issued, it shall:

(1) adjust the monthly deposits into the Bond Fund on the basis prescribed in the Ordinance and the Prior Ordinances to reflect the Annual Debt Service on the Parity Debt; and

(2) adjust the prescribed amount to be accumulated in the Debt Service Reserve in accordance with the provisions of the Ordinance and the Prior Bond Ordinance, and fund said additional Debt Service Reserve pursuant to the prescribed formula.

(3) adjust the monthly deposits into the Depreciation Fund on the basis prescribed in the Ordinance and the Prior Ordinances taking into account the future replacement cost of the facilities and equipment to be constructed or acquired with the proceeds of such Parity Debt; and

(4) make such additional Parity Debt payable as to principal on December 1 of each year in which principal falls due and payable as to interest on June 1 and December 1 of each year.

***Subordinated Debt, Notes and Other Obligations***

(1) The City may, at any time or from time to tithe, issue Subordinated Debt in the form of notes, bonds and other obligations having such terms and provisions and secured by a pledge of such funds as the ordinance or resolution authorizing the same shall provide; provided, however (except as otherwise provided in subsection (2) below), that any pledge of any fund or account created under the Ordinance orjhe Prior Ordinances to the holders of any such notes, bonds or other obligations shall be, and shall be expressed to be, subordinate in all respects to the pledge created under the Ordinance and the Prior Ordinances for the benefit of the holders of System Bonds; and provided further that:

(a) the facility or facilities to be acquired, constructed, reconstructed or improved from the proceeds of the subordinated Debt is or are made an integral part of the System and its or their income and revenues are pledged as additional security for the Subordinated Debt and the outstanding System Bonds;

(b) the City is in compliance with all covenants and undertakings in connection with the Prior Obligations, the Bonds and all of its System Bonds and Subordinated Debt then outstanding and payable from the Revenues; and

(c) the net annual income and revenues of the System for a period of twelve (12) consecutive months of the fifteen (15) months immediately prior to the issuance of said Parity Debt are certified in writing by an independent firm of certified public accountants (subject to adjustments as hereinafter provided) to have been equal to at least one (1.00) times the maximum Annual Debt Service Requirement on all System Bonds and Subordinated Debt outstanding and payable from the Revenues, together with the Subordinated Debt then to be issued.

With reference to the requirements of subparagraph (c) above, the amount of Revenues, and the "net annual income and revenues" of the System, may be adjusted in writing by a firm of independent certified public accountants, which firm shall be the firm performing the certification required by subparagraph (c) above, to reflect and take into account for the historical period being tested, any revision in the schedule of water and sewer rates, rentals and charges either (i) being actually imposed and billed by the City at the time of issuance of such Subordinated Debt, and, (ii) where Subordinated Debt is refunded, the additional available "net annual income and revenues" of the System released as a result thereof.

The amount of Revenues and the "net annual income and revenues" of the System may also be adjusted in writing by an Engineer with expertise in the field of water or sewer engineering, as applicable, to take into account and reflect for the historical period being tested, the amount of additional net income and revenues to be realized by the City by virtue of the acquisition by the City of existing and operating waterworks, water distribution facilities and sewer treatment and collection facilities. A further adjustment may be made by adding thereto an estimate of said Engineer of the increase in Revenues anticipated to be derived from the additions, extensions, replacements and betterments to be financed by the Subordinated Debt then being authorized, for the first twelve months following issuance of said Subordinated Debt, less said engineer's estimate of any additional expenses of operation and maintenance during said twelve months. Additionally, an adjustment thereunder may take into consideration revenues to be generated by virtue of contractual relationships between the City and other municipal corporations or other entities, either governmental or private, where such income and

revenues are historically determinable, for the period being tested, namely, 12 consecutive months of the 15 months immediately prior to issuance of such Subordinated Debt. Provided, however, that any such adjustment by such Engineer shall take into account only such income and revenues as would have been derived during the historical period being tested had the valid and lawful schedule of rates, rentals and charges of the City which is in effect at the time of issuance of such Subordinated Debt been charged during such historical period being tested, and such adjustments shall also take into account all Operations and Maintenance Costs for such historical period being tested.

(2) Whenever the City shall have authorized or made provision for the authorization of, the issuance of Parity Debt, the City may by ordinance authorize the issuance of Notes in anticipation of the sale of such Parity Debt in a principal amount not exceeding the principal amount of such Parity Debt; provided, however that the principal amount of a grant or grants of any federal or state agency for which a commitment has been received may be included in determining the maximum principal amount of Notes. The principal or any interest on such Notes and renewals thereof may be payable from other moneys of the City available therefor and not pledged under the Prior Ordinances or the Ordinance, including, but not by way of limitation, investments purchased from Note proceeds and may further be secured by a subordinate pledge of revenues. The principal on such Notes shall also be payable from the proceeds of the sale of the Parity Debt in anticipation of which such Notes are issued. Such proceeds may be pledged for the payment of the principal of such Notes and any such pledge shall have priority over any other pledge created by the Ordinance. The proceeds of sale of such Notes shall be applied to the purposes for which such Notes are authorized, and, if the ordinance or ordinances authorizing such Notes so provide, to the payment of interest and other costs in connection with the sale and issuance of such Notes.

***General Covenants of the City***

The City, through adoption of the Ordinance, irrevocably covenanted and agreed with the Registered Owners of any and all Bonds, so long as the same or any part thereof remain outstanding and unpaid, that:

(a) It will faithfully and punctually perform all duties with reference to said System required by the Constitution and laws of the Commonwealth of Kentucky and by the terms and provisions of the Ordinance.

(b) It will at all times operate said System on a revenue-producing basis and will permit no free services to be rendered or afforded thereby to any person, firm or corporation, including the City.

(c) It will maintain the said System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided, and will make renewals and replacements, as the same may be required, through application of revenues accumulated and set aside into the Depreciation Fund.

(d) It will not sell, mortgage, pledge, lease or in any manner dispose of the said System, or any extensions, improvements or additions which may be made thereto, or the revenues thereof, except that if the City shall determine by resolution or ordinance that any identified properties of the System are worn out, obsolete or otherwise no longer useful and needed, the same may be sold or exchanged, provided that (1) the City is at the time of such sale or disposition in compliance with all its covenants contained in the Bond Ordinance and each and every provision of the then System Bonds, (ii) the proceeds of any sale of such facilities shall be used either to redeem or purchase System Bonds or deposited to the depreciation fund, (iii) such sale or disposition will not cause the City not to be in compliance with the coverage requirements set forth in the Ordinance and (iv) such sale or disposition would not cause any System Bonds to become "arbitrage bonds" or "private activity bonds" within the meaning of the Code.

(e) The City shall at all times establish, enforce and collect rates, rentals, and charges for services rendered and facilities afforded by facilities constituting the System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the System, the costs of operating the same and maintaining the same in a good state of repair, proper and necessary allowances for additions and extensions, and the amounts necessary for the orderly retirement of all System Bonds and the accruing interest thereon, and the accumulation and maintenance of reserves as provided in the Ordinance (but excluding depreciation expense); and such rates and charges shall be adequate to meet all such requirements as provided in the Ordinance, and shall, if necessary, be adjusted from time to time in order to comply therewith (subject to such regulatory approvals as may be required by law); and annual revenue from such rates, rentals and charges shall be further adequate to provide, after fulfillment of all contractual obligations required of the City incident to the System Bonds, including accumulation and maintenance of all reserves required by the Prior Ordinances and the Ordinance, and after payment of Operation and Maintenance Costs, a 1.00 times coverage of the Annual Debt Service Requirements on all System Bonds and Subordinated Debt then outstanding, and shall, if necessary, be adjusted from time to time in order to comply herewith.

On or before the first day of each fiscal year, so long as any System Bonds remain outstanding, the City will adopt an annual budget of current expenses for the ensuing fiscal year, and will promptly file a copy of such budget, and of any amendments thereto, in the Office of the City Clerk, and will furnish copies thereof to any holder of any System Bond upon request. The term "current expenses" as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining and insuring the System, but shall exclude depreciation expense and expenditures for extensions, improvements and extraordinary repairs and maintenance, and payments into the Bond Fund and the Debt Service Reserve. The City covenants that the current expenses incurred in any year will not exceed the reasonable and necessary amounts available therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the total amount provided for current expenses in its annual budget. At the same time, and in like manner, the City agrees that it will prepare an estimate of Revenues to be derived from operation of the System for such fiscal year, and to the extent that said Revenues are projected to be insufficient to meet all requirements as provided in the Prior Ordinances and the Ordinance, the City covenants and agrees that it will immediately (subject to any regulatory approvals as required by law) revise its rates, rentals and charges for services rendered by the System, so that the same will be adequate to meet all of such requirements.

(f) It will maintain the rates and charges for the services famished by such System which are in effect at the time of the sale of the Bonds authorized under the Ordinance which shall not be reduced unless there shall first be filed with the City Clerk of the City a certification of an Independent Consulting Engineer to the effect that the Net Revenues of the then existing System for the fiscal year preceding the date on which such reduction is proposed, as such Net Revenues are adjusted after taking into account the projected reduction in Net Revenues anticipated to result from such proposed rate decrease, are equal to not less than (i) one and twenty-five one hundredths (1.25) times the maximum Annual Debt Service Requirement on the Bonds and all System Bonds outstanding and payable from the Revenues and (ii) one (1.00) times the average annual debt service requirements on all System Bonds and Subordinated Debt outstanding and payable from the Revenues calculated in the manner specified.

(g) It will at all times segregate the revenues of the System from all other revenues, monies and funds of the City and will promptly and regularly make application and distribution thereof into the special funds provided in the Bond Ordinance in the manner and with due regard for the priorities herein attributed thereto.

(h) It will keep proper books of record and account separate and clearly distinguishable from all other municipal records and accounts, showing complete and correct entries, of all transactions relating to said System, and the same, shall be available and open to inspection by any bondholder, and any agent or representative of a bondholder.

(i) It will, within one hundred twenty (120) days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by a Certified Public Accountant not in the employ of the City on a monthly salary basis, showing all receipts and disbursements, with comments of the auditor concerning whether the books and records are being kept in compliance with the Ordinance and in accordance with recognized accounting practices, and will promptly cause a copy of the audit report to be filed in the Office of the City Clerk where it will-be available for public inspection. If requested to do so by the Registered Owners of not less than 10% of the outstanding principal amount of all then outstanding System Bonds, the City will furnish to the Registered Owners submitting such request a condensed form of the Balance Sheet and a condensed form of the Operating Report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the System, and may be paid from revenues allocated for such purposes, as herein provided.

Simultaneously with the preparation of such audit, or at such other time as the City may determine which is not later than four months after the end of the fiscal year, the City shall cause to be filed with the City Commission of the City a report by a Certified Public Accountant and/or Independent Consulting Engineer setting forth the precise percentage ("Coverage") of the maximum debt service requirements falling due in any fiscal year thereafter for principal of and interest on all of the then System Bonds payable from the Revenues of the System produced and provided by the Net Revenues of the System in that fiscal year, calculated in the manner specified in the Ordinance; and the City covenants that if such Coverage of Net Revenues was less than 125% of such maximum future Annual Debt Service Requirements, the City shall increase the rates by an amount sufficient, in the opinion of such Independent Consulting Engineer or Certified Public Accountant, to establish the existence of or immediate projection of such minimum 125% Coverage.

Any holder of said Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by said City and its officers and agents of all entities imposed or required by law or the Ordinance in connection with the operation of said System, including the making and collecting of sufficient rates and segregation of the revenues and application thereof

(j) If there be any default in the payment of the principal of or interest on any of said Bonds, then upon the filing of suit by any holder of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the City with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against said System, and for the payment of current expenses, and to apply the Revenues in conformity with the Ordinance and the provisions of the statutory laws of Kentucky herein described.

(k) The City will cause each municipal officer or other person (other than depository banks) having custody of any monies administered under the provisions of the Ordinance to be bonded at all times in an amount at least equal to the maximum amount of such monies in his custody at any time, each such bond to have surety given by a surety corporation qualified to do business in Kentucky and approved by the Mayor, and the premiums for such surety shall constitute a proper expense of operating the System, and may be paid from monies available in the Operation and Maintenance Fund.

(l) Pursuant to KRS 96.934, rates and charges for sewer service provided by the System shall be billed simultaneously with rates for water service provided by the System, and water service shall be discontinued to any premises where there is failure to pay any part of the aggregate charges so billed, including such interest, penalties and fees for disconnection and/or reconnection as may be prescribed from time to time.

(m) During the time that any of the System Bonds are outstanding, it will take such steps as may be necessary to cause the owners of all properties abutting upon any sewer lines of the City to conned thereto and to keep connected thereto all sanitary sewage drain pipes on such properties, and will maintain in effect an ordinance imposing such requirements. The foregoing covenant shall be in favor and enforceable by the holders of the System Bonds.

***Events and Remedies of Default***

The following shall constitute an Event of Default on the part of the City:

(a) The failure to pay any Principal Installment of the System Bonds when due and payable, either at maturity or by proceedings for redemption.

(b) The failure to pay any installment of interest on the System Bonds when the same shall become due and payable or within 30 days thereafter.

(c) The failure by the City to fulfill any of its obligations pursuant to the Ordinance.

(d) The failure to promptly repair, replace or reconstruct needed or essential facilities of the System that have been damaged and/or destroyed.

(e) The entering of an order or decree with the consent or acquiescence of the City appointing a receiver of all or any of the System or any revenues thereof; or if such order or decree shall have been entered without the acquiescence or consent of the City, the failure of the City to have the order or decree vacated, discharged, or stayed on appeal within 60 days after entry.

Any holder of the Series 2009 Bonds, either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by said City and its officers and agents of all duties imposed or required by law or the Ordinance in connection with the operation of said System, including the making and collection of sufficient rates and segregation of the income and revenues and the application thereof.

If there be any default in the payment of the principal of or interest on any of the Series 2009 Bonds, then upon the filing of suit by any holder of said Series 2009 Bonds, any court having jurisdiction of the action may appoint a receiver to administer the said combined and consolidated System on behalf of the City, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against such System and for the payment of operating expenses and to apply the income and revenue in conformity with the Prior Ordinances, the Ordinance and with the provisions of Chapters 58 and 96 of Kentucky Revised Statutes. Reasonable attorneys' fees and court costs incurred by any bondholder or bondholders in connection with the appointment of such receiver shall be a proper charge and shall be payable out of the income and revenues from the properties securing the Series 2009 Bonds authorized under the Ordinance.

## NO INDIVIDUAL LIABILITY

All covenants, stipulations, promises, agreements and obligations of the City in the Ordinance shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the City and not of any member, officer, director or employee of the City in his individual capacity, and no recourse shall be had for the payment of the principal, premium, if any, or interest on the bonds or for any claims based thereon or on the Ordinance against any member, officer, director or employee of the Ordinance or any natural person executing the bonds.

## FUTURE BORROWINGS OF THE CITY

Concurrently with the issuance of the Bonds, the City is issuing its General Obligation Public Project Refunding and Improvement Bonds, Series 2009 in the approximate principal amount of $2,695,000.

At the present time, the City has not made any determinations to finance additional projects for the System, although the City regularly reviews and considers public projects for future funding that may be in the best interests of the residents of the City and the System.

## LITIGATION

To the knowledge of the City, no litigation or administrative action or proceeding is pending or threatened directly affecting the Bonds, the security for the Bonds or the improvements being refinanced from the proceeds of the Bonds. A No-Litigation Certificate to that effect will be delivered to the purchaser at the time of the delivery of the Bonds.

## TAX EXEMPTION

***General***

In the opinion of Bond Counsel for the Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds will be excludible from gross income for Federal income tax purposes. Bond Counsel for the Bonds is also of the opinion that interest on the Bonds will not be a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes nor includable in "adjusted current earnings" under Section 56(c) of the Code for purposes of the corporate alternative minimum tax. Furthermore, Bond Counsel for the Bonds is of the opinion that interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

A copy of the form of opinion of Bond Counsel for the Bonds is set forth in Appendix D, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Bonds. The City has covenanted to comply with certain restrictions designed to ensure that interest on the related issues of Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Bond documents and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Bonds is of the opinion that interest on the Bonds will be excludible from gross income for Federal income tax purposes and that interest on the Bonds is excludible from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Bonds on the tax liabilities of the individual or entity.

Receipt of tax-exempt interest, ownership or disposition of the Bonds may result in other collateral federal, state or local tax consequences for certain taxpayers. Such effects may include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of the Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Bonds.

The City has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

***Original Issue Premium***

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Bonds that bear an interest rate that is higher than the yield (as shown on the cover page hereof), are being initially offered and sold to the public at an Acquisition Premium (the "Premium Bonds"). For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

***Original Issue Discount***

The Bonds having a yield that is higher than the interest rate (as shown on the cover page hereof) are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon (the "Discount Bonds"). OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

## RATING

As noted on the cover page of this Official Statement, Moody's Investor's Service ("Moody's") has assigned its municipal bond rating of "__", to this issue of Bonds.

Such rating reflects only the view of said organization. Any explanation of the significance of such rating may only be obtained from Moody's, at the following address: Moody's Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007.

There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of a rating may have an adverse effect on the marketability and/or market price of the Bonds.

The City presently expects to furnish such rating agency with information and material that it may request on future general obligation bond issues. However, the City assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of the rating agency's ratings on outstanding general obligation bonds.

## CONTINUING DISCLOSURE

In accordance with Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule") the City (the "Obligated Person") will agree pursuant to a Continuing Disclosure Undertaking to be dated as of the date of issuance and delivery of the Bonds (the "Disclosure Undertaking"), to cause the following information to be provided:

(i) to the Municipal Securities Rulemaking Board ("MSRB"), certain annual financial information and operating data, including audited financial statements prepared in accordance with generally accepted accounting principles as applied to governmental units, generally consistent with the information contained in "Appendix A," under the heading ,"The City of Franklin Water and Sewer System," and "Appendix C" of the Official Statement ("Financial Data"); such information shall be provided within 365 days after the end of the fiscal year ending June 30, commencing with the fiscal year ended June 30, 2009; provided that the audited financial statements may not be available by such date, but will be made available immediately upon delivery thereof by the auditors for the Obligated Person;

(ii) to the MSRB, notice of the occurrence of the following events, if material, with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (g) Modifications to rights of security holders;
- (h) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
- (i) Defeasances;
- (j) Release, substitution or sale of property securing repayment of the securities;
- (k) Rating changes; and
- (l) The cure, in the manner provided in the Bond Ordinance, of any payment or nonpayment related default under the Bond Ordinance; and

(iii) in a timely manner, to the MSRB, notice of a failure (of which the Obligated Person has knowledge) of an Obligated Person to provide the required Annual Financial Information on or before the date specified in the Disclosure Undertaking.

The Disclosure Undertaking provides bondholders, including beneficial owners of the Bonds, with certain enforcement rights in the event of a failure by the Obligated Person to comply with the terms thereof; however, a default under the

Disclosure Undertaking does not constitute an event of default under the Bond Ordinance. The Disclosure Undertaking may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein.

For purposes of this transaction with respect to material events as defined under the Rule:

(a) there are no credit enhancements applicable to the Bonds;
(b) there are no liquidity providers applicable to the Bonds; and
(c) there is no property securing the Bonds.

## UNDERWRITING

The Bonds are being purchased for reoffering by _____ (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of $_____ (reflecting the par amount of the Bonds, less original issue discount of $_____, less underwriter's discount of $_____. The initial public offering prices which produce the yields set forth on the cover page of this Official Statement may be changed by the Underwriter and the Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the offering prices which produce the yields set forth on the cover page.

## FINANCIAL ADVISOR

The Bonds will be sold by the solicitation and receipt of competitive bids. First Kentucky Securities Corporation, Frankfort, Kentucky, Financial Advisor to the City, has requested and received permission and approval of the City to bid, either alone or in conjunction with others, on the Bonds. The Financial Advisor has expressed its intent to so bid.

First Kentucky Securities Corporation will receive a fee, subject to sale and delivery of the Bonds, for its advisory services. Said fee is separate from and in addition to compensation received, if any, for underwriting of the Bonds.

## MISCELLANEOUS

To the extent any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, such statements are made as such and not as representations of fact or certainty, and no representation is made that any of such statements will be realized. Information herein has been derived by the City from

official and other sources and is believed by the City to be reliable, but such information other than that obtained from official records of the City has not been independently confirmed or verified by the City and its accuracy is not guaranteed. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of the Bonds.

This Official Statement has been duly executed and delivered for and on behalf of the City of Franklin, Kentucky, by its Mayor.

CITY OF FRANKLIN, KENTUCKY

By: /s/ Herbert Williams
Mayor

*APPENDIX A*

---

*The City of Franklin Water and Sewer System*
*The City of Franklin General Information*

**THE CITY OF FRANKLIN**
**WATER AND SEWER SYSTEM**

**Public Water Supply**

| | |
|---|---|
| Company serving Franklin: | Franklin Water Department, Franklin, Kentucky |
| Source: | West Fork Drakes Creek |
| Treatment Plant Capacity: | 5,000,000 gallons per day |
| Average Daily Consumption: | 1,612,891 gallons |
| Peak Daily Consumption: | 3,074,700 gallons |
| Storage Capacity: | 4,225,000 gallons (includes clearwell) |
| Water Pressure: | 35 psi to 100 psi |

| | |
|---|---|
| Name of Water District: | Simpson County Water District |
| Area Served: | Simpson County |
| Source of Supply of Treated Water: | White House Utility District & City of Franklin |
| Amount That Can Be Purchased: | 3,312,000 gallons per day |
| Average Daily Consumption: | 721,000 gallons |
| Peak Daily Consumption: | 1,322,500 gallons |
| Storage Capacity: | 1,650,000 gallons |
| Water Pressure: | 30 psi to 199 psi |

**Sewerage**

| | |
|---|---|
| Company Serving Franklin: | Franklin Sewer Department |
| Design Capacity: | 3,200,000 gallons per day |
| Average Daily Flow: | 2,414,833 gallons |
| Type of Treatment: | Secondary |
| Treated Effluent Discharged Into: | West Fork Drakes Creek |

***Management and Operation***

The Franklin Municipal Utility system is owned and operated by the City of Franklin, Kentucky, a municipal corporation of the Commonwealth of Kentucky, to serve the citizens (residential and commercial) of the City of Franklin and outlying areas. Responsibility for the management of the system is vested in a five member Board of Commission which consists of the following elected officials: Mayor of the City of Franklin (elected to a four year term) and four City Commissioners (elected to two year terms). Day to day operation of the system is the responsibility of the City Manager who is appointed by the Board of Commission.

**MANAGER**
Jim Brown

**BOARD OF COMMISSIONERS**
Henry Stone, Mayor Pro-Tem
Jamie Powell
Wendell Stewart
Herbert Williams

***Water Rates (effective July 1, 2009)***

Inside City Base Rate (Residential)
First 2,000 gallons $12.32 (Minimum Bill)
Over 2,000 gallons $6.16/1,000 gallons

City Business Rate
First 2,000 gallons $18.46 (Minimum Bill)
Over 2,000 gallons $6.16/1,000 gallons

County Residential
First 2,000 gallons $18.46 (Minimum Bill)
Over 2,000 gallons $9.23/1,000 gallons

County Business
First 2,000 gallons $24.07 (Minimum Bill)
Over 2,000 gallons $9.23/1,000 gallons

***Tap Fees Inside and Outside City***

| **Meter Size** | **Water** | **Sewer** |
|---|---|---|
| 5/8 and ¾ inch | $600.00 | $700.00 |
| 1 inch | to be negotiated | |
| 1½ inch | to be negotiated | |
| 2 inch | to be negotiated | |
| 4 inch | to be negotiated | |
| 6 inch | to be negotiated | |

***Sewer Rates (effective July 1, 2009)***

Inside City Residential Rate
First 2,000 gallons $12.27 (Minimum Bill)
Over 2,000 gallons $3.60/1,000 gallons

Outside City Residential Rate
First 2,000 gallons $13.64 (Minimum Bill)
Over 2,000 gallons $4.36/1,000 gallons

Inside City Commercial Rate
First 2,000 gallons $13.74 (Minimum Bill)
Over 2,000 gallons $4.50/1,000 gallons

Outside City Commercial Rate
First 2,000 gallons $20.25 (Minimum Bill)
Over 2,000 gallons $6.64/1,000 gallons

| | July 2008 to June 2009 | July 2007 to June 2008 | July 2006 to June 2007 | July 2005 to June 2006 | July 2004 to June 2005 |
|---|---|---|---|---|---|
| **Average Number of Customers** | | | | | |
| Water Residential | 3,931 | 3,959 | 3,933 | 4,017 | 3,822 |
| Water Commercial | 668 | 640 | 619 | 601 | 575 |
| Average Number Water Customers | 4,599 | 4,599 | 4,552 | 4,617 | 4,397 |
| | | | | | |
| Wastewater Residential | 3,376 | 3,405 | 3,382 | 3,461 | 3,263 |
| Wastewater Commercial | 695 | 666 | 646 | 641 | 604 |
| Average Number Water Customers | | | | | |
| | | | | | |
| **Revenue** | | | | | |
| Water Residential | 1,017,125 | 1,026,832 | 1,022,061 | 1,060,920 | 992,314 |
| Water Commercial | 870,641 | 944,047 | 952,485 | 981,407 | 947,764 |
| Total Water Revenue | 1,887,766 | 1,970,879 | 1,974,546 | 2,042,327 | 1,940,078 |
| | | | | | |
| Wastewater Residential | 613,461 | 618,399 | 618,116 | 636,598 | 593,902 |
| Wastewater Commercial * | 945,705 | 1,134,595 | 1,176,822 | 1,227,159 | 1,116,394 |
| Total Wastewater Revenue | 1,559,166 | 1,752,994 | 1,794,938 | 1,863,757 | 1,710,296 |
| | | | | | |
| **TOTAL **** | 3,446,931 | 3,723,873 | 3,769,485 | 3,906,084 | 3,650,375 |

* Annexation to I-65 Exit 2 to Tennessee State line August 2007 with rates reduced by 1/3 for newly annexed customers.

** Total includes only billed water and wastewater and does not include penalties, surcharges billed and adjustments.

***Outstanding Water and Sewer Revenue Bonds***

| Date of Issue | Final Maturity | Amount of Original Issue | Outstanding October 13, 2009 |
|---|---|---|---|
| October 10, 2000 | 12/1/10 | $1,570,000 | $ 380,000 |
| October 1, 2002 | 12/1/11 | 4,885,000 | 1,555,000 |
| September 1, 2004 | 12/1/33 | 4,495,000 | 4,050,000 |
| Total | | $10,950,000 | $5,985,000 |

***Debt Service Coverage***

The Bond Ordinance requires that, prior to the issuance of parity bonds, a certification by a Certified Public Accountant, not in the regular employ of the City, be obtained to the effect that the net revenues of the System are no less than 1.25 times the maximum amount of principal of and interest on the Prior Bonds and the bonds proposed to be issued in any year prior to the final maturities.

Following is the calculation of estimated coverage of maximum debt service by net revenues, as adjusted, after issuance of the Bonds, using amounts for the fiscal year ended June 30, 2008 and also reflecting coverage after the rate increase effective July 1, 2009:

| | |
|---|---|
| Gross Revenues | $5,298,562.00 |
| Less: Operating Expenses | -3,533,293.00 |
| Net Operating Revenues | 1,765,269.00 |
| **Parity Debt** Service Proposed - Maximum P&I in 2011 | 1,180,933 |
| Debt Service Covered | 1.49% |
| **All Debt** Service Proposed - Maximum P&I in 2011 | 1,430,234 |
| Debt Service Covered | 1.23% |

| | |
|---|---|
| Gross Revenues as Adjusted for Rate Increase Effective July 1, 2009 | $6,471,759.10 |
| Less: Operating Expenses | -3,533,293.00 |
| Net Operating Revenues | 2,938,466.10 |
| **Parity Debt** Service Proposed - Maximum P&I in 2011 | 1,180,933 |
| Debt Service Covered | 2.49% |
| **All Debt** Service Proposed - Maximum P&I in 2011 | 1,430,234 |
| Debt Service Covered | 2.05% |

**CITY OF FRANKLIN, KENTUCKY**
**WATER AND SEWER SYSTEM**

| | Parity Debt | | | | | Subordinated Debt | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Series 2000A | Series 2002 | Series 2004 | Proposed Series 2009 | Total | 1991 KIA | 1993 KIA | 1997 KIA | Total | Total Combined |
| 2010 | $199,519 | $624,785 | $270,135 | $29,862 | $1,124,301 | $72,622 | $29,579 | $147,555 | $249,756 | $1,374,057 |
| 2011 | 199,924 | 537,899 | 272,210 | 170,900 | 1,180,933 | 72,490 | 29,524 | 147,287 | 249,301 | 1,430,234 |
| 2012 | | 462,394 | 268,960 | 173,220 | 904,574 | | 29,469 | 147,017 | 176,486 | 1,081,060 |
| 2013 | | | 270,373 | 175,170 | 445,543 | | 29,413 | 146,742 | 176,155 | 621,698 |
| 2014 | | | 271,541 | 171,795 | 443,336 | | 29,355 | 146,465 | 175,820 | 619,156 |
| 2015 | | | 272,449 | 178,010 | 450,459 | | 14,655 | 146,184 | 160,839 | 611,298 |
| 2016 | | | 273,040 | 173,805 | 446,845 | | | 145,900 | 145,900 | 592,745 |
| 2017 | | | 273,324 | 174,268 | 447,592 | | | 145,612 | 145,612 | 593,204 |
| 2018 | | | 268,386 | 174,348 | 442,734 | | | | 0 | 442,734 |
| 2019 | | | 273,121 | 173,910 | 447,031 | | | | 0 | 447,031 |
| 2020 | | | 272,378 | 50,250 | 322,628 | | | | 0 | 322,628 |
| 2021 | | | 271,250 | 48,670 | 319,920 | | | | 0 | 319,920 |
| 2022 | | | 269,720 | 51,948 | 321,668 | | | | 0 | 321,668 |
| 2023 | | | 272,668 | 50,080 | 322,748 | | | | 0 | 322,748 |
| 2024 | | | 270,233 | 48,168 | 318,401 | | | | 0 | 318,401 |
| 2025 | | | 272,412 | 51,100 | 323,512 | | | | 0 | 323,512 |
| 2026 | | | 269,203 | | 269,203 | | | | 0 | 269,203 |
| 2027 | | | 270,600 | | 270,600 | | | | 0 | 270,600 |
| 2028 | | | 271,533 | | 271,533 | | | | 0 | 271,533 |
| 2029 | | | 271,947 | | 271,947 | | | | 0 | 271,947 |
| 2030 | | | 271,843 | | 271,843 | | | | 0 | 271,843 |
| 2031 | | | 271,267 | | 271,267 | | | | 0 | 271,267 |
| 2032 | | | 270,163 | | 270,163 | | | | 0 | 270,163 |
| 2033 | | | 268,525 | | 268,525 | | | | 0 | 268,525 |
| 2034 | | | 271,294 | | 271,294 | | | | 0 | 271,294 |
| TOTAL | $399,443 | $1,625,078 | $6,778,575 | $1,895,504 | $10,698,600 | $145,112 | $161,995 | $1,172,762 | $1,479,869 | $12,178,469 |

## THE CITY OF FRANKLIN

***General Information***

Franklin, Kentucky has been honored as one of the 50 Best Small Southern Towns. Franklin is the only Kentucky city along I-65 to earn a place on this exclusive list.

Travelers along I-65 find Franklin, KY a popular spot for overnight stops for many reasons: national chain motels (all with very competitive prices); a good variety of restaurants and antique malls; some of the cheapest gas prices in the Southeast; no city traffic; a first-rate golf course; a drive-in theatre; three historical museums; and special events like horse racing, car shows, and music festivals and concerts.

Franklin, conveniently located on Interstate 65 a day's drive from either Chicago or the Gulf of Mexico, is just north of Nashville, Tennessee and near to many other interstates and parkways.

### Total Population

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| Labor Market Area | 985,893 | 988,311 | 998,923 | 1,011,299 | 1,029,843 |
| Simpson County | 16,891 | 16,934 | 17,101 | 17,125 | 17,428 |
| Franklin | 8,054 | 8,079 | 8,110 | 8,019 | 7,997 |

Source: Applied Geographic Solutions, Simi Valley, CA (Labor Market Area and County, 2005 and later);
U.S. Department of Commerce, Bureau of the Census (all other).

### Population Projections

| | 2013 | | | |
|---|---|---|---|---|
| Labor Market Area | 1,072,856 | | | |
| | 2010 | 2015 | 2020 | 2025 |
| Simpson County | 17,271 | 17,816 | 18,345 | 18,799 |

Source: Applied Geographic Solutions, Simi Valley, CA (Labor Market Area);
Kentucky State Data Center, University of Louisville (Counties).

### Personal Income

| | 2002 | 2007 | Pct. Change |
|---|---|---|---|
| Simpson County | $22,450 | $28,476 | 26.8 % |
| Kentucky | $25,777 | $30,824 | 19.6 % |
| U.S. | $30,804 | $38,615 | 25.4 % |
| Labor Market Area Range | $18,325- $36,754 | $21,214- $43,394 | |

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Summary of Recent Locations and Expansions, 2006-Present

| | | Reported | |
|---|---|---|---|
| | Companies | Jobs | Investment |
| Manufacturing Location | 3 | 500-590 | $30,780,000 |
| Manufacturing Expansion | 9 | 361-366 | $45,951,583 |
| Supportive/Service Location | 4 | 94 | $5,219,553 |
| Supportive/Service Expansion | 5 | 22 | $1,790,960 |

Click here for detailed location and expansion information.

Note: Totals include announced locations and expansions.

Source: Kentucky Cabinet for Economic Development (6/10/2009).

## Employment by Major Industry by Place of Work, 2007

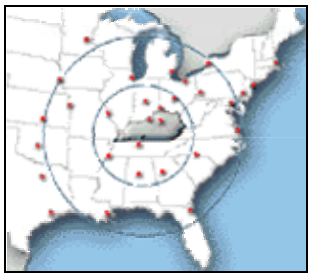
| | Simpson County | | Labor Market Area | |
|---|---|---|---|---|
| | Employment | Percent | Employment | Percent |
| All Industries | 8,943 | 100.0 | 604,912 | 100.0 |
| Agriculture, Forestry, Fishing and Hunting | 81 | 0.9 | 513 | 0.1 |
| Mining | N/A | N/A | N/A | N/A |
| Construction | 203 | 2.3 | 29,173 | 4.8 |
| Manufacturing | 3,889 | 43.5 | 61,486 | 10.2 |
| Trade, Transportation, and Utilities | 1,441 | 16.1 | 120,192 | 19.9 |
| Information | 33 | 0.4 | 13,257 | 2.2 |
| Financial Activities | 268 | 3.0 | 32,264 | 5.3 |
| Services | 1,874 | 21.0 | 250,274 | 41.4 |
| Public Administration | 194 | 2.2 | 45,070 | 7.5 |
| Other | 4 | 0.0 | N/A | N/A |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

## Major Business & Industry (Manufacturing & Supportive Service Firms Only)

| Firm | Product(s)/Service(s) | Emp. | Year Established |
|---|---|---|---|
| ***Franklin*** | | | |
| Arvinmeritor Industries | Braking systems for heavy vehicles | 77 | 1996 |
| Berry Plastics | Pipeline coatings; industrial, athletic & consumer adhesive tapes & bandages | 675 | 1957 |
| Camping World East Coast Distribution Center | Distribution center | 60 | 2005 |
| Caraustar | Paper cores & tubes | 30 | 1982 |
| Cumberland Molded Products | Injection molded plastics for consumer goods, automotive electronic components, office furniture, telecommunications | 19 | 2003 |
| Danafilms | Polyethylene films | 32 | 2000 |
| Franklin Favorite WFKN LLC | Commercial offset printing & newspaper publishing | 20 | 1857 |
| Franklin Precision Industry Inc | Assembly of automotive throttle bodies & charcoal canisters, injection molding | 496 | 1990 |
| HBAS Manufacturing Inc | Digital and analog audio automotive equipment | 480 | 2000 |
| Keystops LLC | Corporate office & warehouse | 75 | 1969 |
| Luvata Franklin Inc | Welded copper tubes | 250 | 1966 |
| Mahle Engine Components | Piston rings and transmission sealing rings | 103 | 1972 |
| New Mather Metals | Stabilizer bars for the North American OEM Automobile Manufacturers | 304 | 2002 |
| Novitec Industries Inc | CNC machining facility, long-run production, volume die cast machining, 30 CNC machines, screw machines, production tube-cutting, wire edm, water jets | 60 | 1988 |
| Packaging Unlimited of Southern Kentucky | Corrugated boxes, corrugated pallets, foam fabrication, thermoforming, contract packaging | 45 | 1997 |
| Philmo Industries Inc | Adhesive tapes eco friendly duct tape | 40 | 1998 |
| Quebecor World | Catalog & retail insert rotogravure printing; saddle stitch binding | 500 | 1979 |
| Silgan Plastics Corp | Plastic bottles | 130 | 1978 |
| Toyo Automotive Parts | Automotive anti-vibration rubber parts: engine mounting, strut mounting, bush, member mounting, insulator, damper, boot for CVJ | 205 | 2001 |
| Vermont Thread Gage LLC | Manufacturers threaded gage products for industries such as aerospace, automotive, electrical, fastener, and medical tooling | 85 | 2001 |

Source: Kentucky Cabinet for Economic Development (6/10/2009).



## Business Cost

| | Kentucky Index, 2007 (U.S. = 100) |
|---|---|
| **Labor Cost** | 95 |
| **Energy Cost** | 70 |
| **Overall Business Cost** | 90 |

*Kentucky is tied for the 12th lowest overall business cost in the nation.*

| | Gross Domestic Product Per Wage, 2007 |
|---|---|
| **Kentucky** | $2.17 |
| **U.S.** | $2.16 |

| | Industrial Electric Cost Per KWH, 2007 |
|---|---|
| **Kentucky** | $0.0447 |
| **U.S.** | $0.0639 |

*Kentucky has the 4th lowest cost for industrial electrical power for the second straight year.*

## Simpson County Statistical Summary

| | Population 2008 |
|---|---|
| **Simpson County** | 17,428 |
| **Labor Market Area** | 1,029,843 |

| | Simpson County |
|---|---|
| **Per Capita Income 2007** | $28,476 |
| **Median Household Income 2008** | $44,734 |
| **Median Home Price 2007** | $88,000 |

| | Total Available Labor 2008 |
|---|---|
| **Simpson County** | 613 |
| **Labor Market Area** | 32,645 |

| | Unemployment Rate 2008 |
|---|---|
| **Simpson County** | 6.5 |
| **Labor Market Area** | 5.5 |
| **U.S.** | 5.8 |

| | Average Weekly Wage 2007 |
|---|---|
| **Simpson County** | $610 |
| **Labor Market Area** | $804 |
| **U.S.** | $855 |

***Assessments***

| Year | Real Estate | Tangible | Motor Vehicle | Water Craft | Total |
|---|---|---|---|---|---|
| 2009 | $494,394,120 | $66,721,416 | $34,637,771 | $661,035 | $596,414,342 |
| 2008 | 492,752,719 | 73,007,982 | 36,049,790 | 553,590 | 602,364,081 |
| 2007 | 431,644,979 | 59,511,298 | 35,478,032 | 562,134 | 527,196,443 |
| 2006 | 406,151,080 | 53,007,982 | 36,049,790 | 553,590 | 495,762,442 |

***Property Tax Rates***

| Tax Year | Real Estate Rate | Tangible Rate | Bank Deposit Rate | Motor Vehicle Rate |
|---|---|---|---|---|
| 2009 | 0.1180 | 0.1380 | 0.02 | 0.1871 |
| 2008 | 0.1120 | 0.1184 | 0.02 | 0.1871 |
| 2007 | 0.1222 | 0.1399 | 0.02 | 0.1871 |
| 2006 | 0.1222 | 0.1478 | 0.02 | 0.1871 |

***Real Estate Property Taxes***

| Year | Assessment | Amount Billed | Amount Collected | Percent Collected |
|---|---|---|---|---|
| 2009 | $494,394,120 | $ 650,741(A) | | |
| 2008 | 492,752,719 | 638,255 | $602,701 | 94.4% |
| 2007 | 431,644.979 | 611,088 | 607,336 | 99.4% |
| 2006 | 406,151,080 | 575,250 | 555,439 | 96.6% |
| 2005 | 357,742,188 | 528,823 | 519,392 | 98.2% |
| 2004 | 359,421,346 | 520,552(B) | 497,335 | 95.5% |

(A)Public hearing for tax rates is scheduled for 9/10/09. Rates proposed for public hearing used to estimate billing.
(B)The tax roll for 2004 did not have totals attached so amount billed was not available. Amount estimated based on valuation and approved tax rate.

***Bank Shares/Bank Deposit Taxes***

| Year | | |
|---|---|---|
| 2009 | Deposits Tax | (A) |
| 2008 | Deposits Tax | $53,675.55 |
| 2007 | Deposits Tax | 51,512.30 |
| 2006 | Deposits Tax | 49,408.18 |
| 2005 | Deposits Tax | 45,986.94 |
| 2004 | Deposits Tax | 46,910.79 |

(A) Information not yet available.

***Ten Largest Property Taxpayers***

| Name | Assessment |
|---|---|
| Kentucky Tennessee Grain Company | $3,217,865 |
| DANA FILMS, INC | 3,222,759 |
| Kelley Storage INC | 3,545,000 |
| Cumberland & Western Resource Co. | 5,161,349 |
| Harmon-Motive, Inc. | 5,419,000 |
| Wal-Mart Stores #01-0282 | 6,345,000 |
| Franklin Precision Industries | 7,467,108 |
| Harmon Becker Automotive System | 9,203,258 |
| TOYO Automotive Parts (USA) | 11,380,681 |
| B C Racing Group INC | 12,000,000 |

*APPENDIX B*

---

*Estimated Debt Service Requirements for the Series 2009 Bonds*

**CITY OF FRANKLIN, KENTUCKY**
**WATER AND SEWER IMPROVEMENT AND REFUNDING BONDS**
**SERIES 2009**

***Estimated Debt Service Requirements***

| Maturity Date | Principal | Interest | Principal and Interest Total | Fiscal Year Total |
|---|---|---|---|---|
| 06/01/2010 | | $29,861.67 | $29,861.67 | $29,861.67 |
| 12/01/2010 | $125,000 | 23,575.00 | 148,575.00 | |
| 06/01/2011 | | 22,325.00 | 22,325.00 | 170,900.00 |
| 12/01/2011 | 130,000 | 22,325.00 | 152,325.00 | |
| 06/01/2012 | | 20,895.00 | 20,895.00 | 173,220.00 |
| 12/01/2012 | 135,000 | 20,895.00 | 155,895.00 | |
| 06/01/2013 | | 19,275.00 | 19,275.00 | 175,170.00 |
| 12/01/2013 | 135,000 | 19,275.00 | 154,275.00 | |
| 06/01/2014 | | 17,520.00 | 17,520.00 | 171,795.00 |
| 12/01/2014 | 145,000 | 17,520.00 | 162,520.00 | |
| 06/01/2015 | | 15,490.00 | 15,490.00 | 178,010.00 |
| 12/01/2015 | 145,000 | 15,490.00 | 160,490.00 | |
| 06/01/2016 | | 13,315.00 | 13,315.00 | 173,805.00 |
| 12/01/2016 | 150,000 | 13,315.00 | 163,315.00 | |
| 06/01/2017 | | 10,952.50 | 10,952.50 | 174,267.50 |
| 12/01/2017 | 155,000 | 10,952.50 | 165,952.50 | |
| 06/01/2018 | | 8,395.00 | 8,395.00 | 174,347.50 |
| 12/01/2018 | 160,000 | 8,395.00 | 168,395.00 | |
| 06/01/2019 | | 5,515.00 | 5,515.00 | 173,910.00 |
| 12/01/2019 | 40,000 | 5,515.00 | 45,515.00 | |
| 06/01/2020 | | 4,735.00 | 4,735.00 | 50,250.00 |
| 12/01/2020 | 40,000 | 4,735.00 | 44,735.00 | |
| 06/01/2021 | | 3,935.00 | 3,935.00 | 48,670.00 |
| 12/01/2021 | 45,000 | 3,935.00 | 48,935.00 | |
| 06/01/2022 | | 3,012.50 | 3,012.50 | 51,947.50 |
| 12/01/2022 | 45,000 | 3,012.50 | 48,012.50 | |
| 06/01/2023 | | 2,067.50 | 2,067.50 | 50,080.00 |
| 12/01/2023 | 45,000 | 2,067.50 | 47,067.50 | |
| 06/01/2024 | | 1,100.00 | 1,100.00 | 48,167.50 |
| 12/01/2024 | 50,000 | 1,100.00 | 51,100.00 | 51,100.00 |
| **Totals** | $1,545,000 | $350,501.67 | $1,895,501.67 | |

Source: Fiscal Agent

*APPENDIX C*

---

*Annual Financial Report for the Year Ended June 30, 2008*
*of the City of Franklin*

# CITY OF FRANKLIN, KENTUCKY

## ANNUAL FINANCIAL REPORT

## Year Ended June 30, 2008

# CITY OF FRANKLIN, KENTUCKY

## ANNUAL FINANCIAL REPORT

## Year Ended June 30, 2008

## TABLE OF CONTENTS


| | Page No. |
|---|---|
| **INDEPENDENT AUDITORS' REPORT** | 1 - 2 |
| **MANAGEMENT'S DISCUSSION AND ANALYSIS** | 3 - 11 |
| **BASIC FINANCIAL STATEMENTS** | |
| Statement of Net Assets | 12 |
| Statement of Activities | 13 |
| Balance Sheet - Governmental Funds | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 15 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 16 |
| Statement of Fund Net Assets - Proprietary Funds | 17 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds | 18 |
| Statement of Cash Flows - Proprietary Funds | 19 - 20 |
| Notes to Financial Statements | 21 - 49 |
| **REQUIRED SUPPLEMENTARY INFORMATION** | |
| Budgetary Comparison Schedule - General Fund | 50 - 53 |
| Infrastructure Condition and Maintenance Data | 54 |
| **SUPPLEMENTARY INFORMATION** | |
| **Nonmajor Governmental Funds** | |
| Combining Balance Sheet - Nonmajor Governmental Funds | 55 |
| Combining Balance Sheet - Nonmajor Permanent Funds | 56 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds | 57 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Permanent Funds | 58 |
| Budgetary Comparison Schedule: | |
| Greenlawn-Shady Rest Cemetery Special Revenue Fund | 59 |
| Community Development Special Revenue Fund | 60 |
| Municipal Aid Special Revenue Fund | 61 |
| Economic Development Revolving Loan Special Revenue Fund | 62 |
| **Proprietary Funds - Enterprise Funds** | |
| Budgetary Comparison Schedule: | |
| Water and Wastewater Fund | 63 - 65 |
| Sanitation Fund | 66 |

KIRBY & KIRBY
CERTIFIED PUBLIC ACCOUNTANTS

1027 College Street • P.O. Box 2160
Bowling Green, Kentucky 42102-2160
Phone: (270) 843-0244
Fax: (270) 843-0245

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Franklin, Kentucky (City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

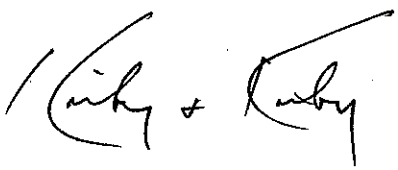
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



March 3, 2009

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# City of Franklin, Kentucky

**Management's Discussion and Analysis**

**Years Ended June 30, 2008 and 2007**

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, 2008. The information contained in this MD&A should be considered in conjunction with the information contained in the Accountants' Reports and Financial Statements and Supplementary information.

## *Financial Highlights*

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $29,366,103 and $28,239,462 for the prior fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported ending net assets of $14,273,193 which includes unrestricted net assets of $1,200,728. Respectively for the prior fiscal year $13,363,789 of net assets and $1,383,926 of unrestricted net assets.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $1,115,527 with $1,026,680 for the prior fiscal year.
- For the year ended June 30, 2008, total debt decreased by $2,176,935 during the year due to principal reductions. For the prior fiscal year, total debt decreased by $680,233 due to principal reductions of $1,730,233 partially offset by loan of $1,050,000 for purchase of new city hall and refinance of Park Improvement Loan.
- The City had total revenues of $12,337,661 for the year ended June 30, 2008 which includes: program revenues (charges for service) of $6,640,376, operating grants and contributions of $408,921, capital grants and contributions of $194,803 and general revenues of $4,974,541. The City had total expenses of $11,211,020 for the year ended June 30, 2008. Comparatively, the City had total revenues of $12,566,765 for the year ended June 30, 2007 which includes: program revenues (charges for service) of $6,764,439, operating grants and contributions of $351,852, capital grants and contributions of $960,910 and general revenues of $4,489,564. The City had total expenses of $11,029,794 for the year ended June 30, 2007.
- The City's total capital outlays were $609,585 for the current fiscal year and $2,120,134 for the prior fiscal year. For the Governmental Funds capital outlays of $250,462 for the current fiscal year and $983,265 for the prior fiscal year. For the Proprietary Funds capital outlays for the current fiscal year were $359,123 and the prior fiscal year of $1,136,869.

## *Overview of the Financial Statements*

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

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

### *Government-wide Financial Statements*

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

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

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

The government-wide financial statements can be found on pages 12 and 13 of this report.

### *Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources which have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

### *Governmental Funds*

Most of the City's basic services are included in the governmental fund type. These funds use the modified accrual accounting basis, which measures cash and all other financial assets that can readily be converted to cash. The general fund, special revenue funds and permanent funds are all governmental type funds.

### *Proprietary Funds*

Proprietary funds, in general, charge customers for the services that are provided. These funds use a long-term financial accounting approach, full accrual basis and provide additional information in the statement of cash flows.

### *Notes to the Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 49 of this report.

### *Government-wide Analysis*

The implementation of Governmental Accounting Standards Board (GASB) Statement 34 was implemented in fiscal 2004.

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $29,366,103 for the current fiscal year and $28,239,462 at the close of the prior fiscal year.

By far the largest portion of the City's net assets (86%) is its investment in capital assets, *e.g.*, land, buildings, machinery and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Only the unrestricted net assets of the City may be used to meet the government's ongoing obligations to citizens and creditors.

| | 2008 Net Assets | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| Current and other assets | $ 2,575,243 | $ 3,451,787 | $ 6,027,030 |
| Capital assets | 13,993,118 | 22,451,477 | 36,444,595 |
| Total assets | $ 16,568,361 | $ 25,903,264 | $ 42,471,625 |
| Long-term liabilities outstanding | $ 1,765,900 | $ 9,726,054 | $ 11,491,954 |
| Other liabilities | 529,268 | 1,084,300 | 1,613,568 |
| Total liabilities | $ 2,295,168 | $ 10,810,354 | $ 13,105,522 |
| Net assets | | | |
| Invested in capital assets, net of related debt | $ 12,227,218 | $ 13,218,073 | $ 25,445,291 |
| Restricted | 845,193 | 2,020,163 | 2,865,356 |
| Unrestricted | 1,200,782 | ( 145,326) | 1,055,456 |
| Total net assets | $ 14,273,193 | $ 15,092,910 | $ 29,366,103 |

| | 2007 Net Assets | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| Current and other assets | $ 2,914,905 | $ 3,684,642 | $ 6,599,547 |
| Capital assets | 14,014,070 | 23,205,328 | 37,219,398 |
| Total assets | $ 16,928,975 | $ 26,889,970 | $ 43,818,945 |
| Long-term liabilities outstanding | $ 2,883,855 | $ 10,790,205 | $ 13,674,060 |
| Other liabilities | 681,331 | 1,224,092 | 1,905,423 |
| Total liabilities | $ 3,565,186 | $ 12,014,297 | $ 15,579,483 |
| Net assets | | | |
| Invested in capital assets, net of related debt | $ 11,130,215 | $ 12,819,545 | $ 23,949,760 |
| Restricted | 849,648 | 1,915,992 | 2,765,640 |
| Unrestricted | 1,383,926 | 140,136 | 1,524,062 |
| Total net assets | $ 13,363,789 | $ 14,875,673 | $ 28,239,462 |

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

| | 2008 Changes in Net Assets | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| **Revenues** | | | |
| Program revenues | | | |
| Charges for services | $ 867,547 | $ 5,772,829 | $ 6,640,376 |
| Operating grants and contributions | 408,921 | — | 408,921 |
| Capital grants and contributions | 14,436 | 180,367 | 194,803 |
| General revenues | | | |
| Property taxes | 717,524 | — | 717,524 |
| Occupational fees | 1,788,097 | — | 1,788,097 |
| Insurance premium fees | 1,078,421 | — | 1,078,421 |
| Franchise fees | 106,007 | — | 106,007 |
| Business license fees | 308,803 | — | 308,803 |
| Interest income | 51,105 | 109,662 | 160,767 |
| Miscellaneous income | 64,696 | 99,461 | 164,157 |
| Gain on sale of capital assets | 31,488 | 738,297 | 769,785 |
| Transfers | 828,400 | ( 828,400) | — |
| Total revenues and transfers | 6,265,445 | 6,072,216 | 12,337,661 |
| **Expenses** | | | |
| General government | 1,666,983 | — | 1,666,983 |
| Public safety | 2,006,658 | — | 2,006,658 |
| Public works | 961,210 | — | 961,210 |
| Community and cultural | 559,790 | — | 559,790 |
| Interest expense on long-term debt | 161,400 | 384,042 | 545,442 |
| Water and wastewater | — | 3,559,025 | 3,559,025 |
| Sanitation | — | 1,890,803 | 1,890,803 |
| Fiber optic | — | 21,109 | 21,109 |
| Total expenses | 5,356,041 | 5,854,979 | 11,211,020 |
| **Increase in net assets** | 909,404 | 217,237 | 1,126,641 |
| **Net assets, beginning of year** | 13,363,789 | 14,875,673 | 28,239,462 |
| **Net assets – June 30, 2008** | $ 14,273,193 | $ 15,092,910 | $ 29,366,103 |

| | 2007 Changes in Net Assets | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| **Revenues** | | | |
| Program revenues | | | |
| Charges for services | $ 839,435 | $ 5,925,004 | $ 6,764,439 |
| Operating grants and contributions | 351,852 | — | 351,852 |
| Capital grants and contributions | — | 960,910 | 960,910 |
| General revenues | | | |
| Property taxes | 725,381 | — | 725,381 |
| Occupational fees | 1,614,367 | — | 1,614,367 |
| Insurance premium fees | 1,356,352 | — | 1,356,352 |
| Franchise fees | 102,594 | — | 102,594 |
| Business license fees | 274,748 | — | 274,748 |
| Interest income | 64,157 | 108,623 | 172,780 |
| Miscellaneous income | 88,766 | 154,576 | 243,342 |
| Total revenues | 5,417,652 | 7,149,113 | 12,566,765 |
| **Expenses** | | | |
| General government | 1,629,475 | — | 1,629,475 |
| Public safety | 2,032,714 | — | 2,032,714 |
| Public works | 933,276 | — | 933,276 |
| Community and cultural | 665,187 | — | 665,187 |
| Interest expense on long-term debt | 101,760 | 414,510 | 516,270 |
| Water and wastewater | — | 3,524,535 | 3,524,535 |
| Sanitation | — | 1,728,337 | 1,728,337 |
| Total expenses | 5,362,412 | 5,667,382 | 11,029,794 |
| **Increase in net assets** | 55,240 | 1,481,731 | 1,536,971 |
| **Net assets, beginning of year** | 13,308,549 | 13,393,942 | 26,702,491 |
| **Net assets – June 30, 2007** | $ 13,363,789 | $ 14,875,673 | $ 28,239,462 |

Financial Analysis of the Government's Funds

### *Governmental Funds*

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

As of the end of the current fiscal year, the City's governmental funds reported an ending fund balance of $1,957,319 compared to $1,818,851 for the prior fiscal year. The City's major sources of revenues are insurance premium fees, payroll occupational fees and property taxes. The funds balance primarily represents the accumulation of revenues in excess of expenditures not reimbursed by funding sources.

### *General Fund Budgetary Highlights*

Differences between the original budget and the final amended budget were approximately $34,000 increase in revenue and $24,000 decrease in appropriations which can be briefly summarized as follows:

- Decrease in intergovernmental grant revenue awarded but delayed to FY2009 and related expenses for streetscape project
- Increase in miscellaneous revenues related to receivable from Franklin-Simpson Industrial Authority paid off during the year and related debt payments to KLC

Total revenues for the year were higher than final budgetary estimates while expenses were lower than final budgetary estimates. There was an increase in fund balance for the year.

### *Proprietary Funds*

Operating revenues of the City's proprietary funds decreased 2.6% from the prior year to $5,772,829 from lower utility rates charged to newly annexed areas of the City. The operating expenses increased 4.8% to $5,445,205.

## *Capital Asset and Debt Administration*

### *Capital Assets*

As of June 30, 2008, the City's investment in capital assets net of related debt for its governmental and business-type activities was $25,445,291 and $23,949,760 as of June 30, 2007. 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:

- Street expansions $74,259.
- Purchase new police cruisers $70,940
- Fire Station building improvements $18,566
- Capital expenditures of $359,123 for improvements and additions to the City's water and sewer system.

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

- New City Hall and renovations/furniture $799,027.
- Capital expenditures of $781,428 for improvements and additions to the City's water and sewer system.

### *Long-term Debt*

The City had $11,093,898 in revenue bonds and capital lease obligations outstanding as of June 30, 2008, which is a decrease of $2,176,935 from the previous year. The City made principal payments of $2,185,329 during fiscal 2008. The previous year the City had $13,270,833 in revenue bonds and capital lease obligations outstanding as of June 30, 2007, which is a net decrease of $671,788 from the previous year. The City borrowed $1,050,000 to purchase the new City hall building and refinance the park improvement loan. The City made principal payments of $1,730,234 during fiscal 2007.

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

As the City completed the year, its governmental funds reported a combined fund balance of $1,957,319 excluding capital assets and long-term debt. Included in this year's total change in fund balance, however, is an increase of $90,149 in the City's General Fund. For the previous year, City's governmental funds reported a combined fund balance of $1,818,851 excluding capital assets and long-term debt. Included in the prior year total change in fund balance, however, is an increase of $186,292 in the City's General Fund.

### *Modified Approach to Infrastructure*

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

It is the City's policy to assess the condition of the roads annually for cracks, potholes, misalignment, drainage condition and number of specific safety hazards. There are no roads that are severely deficient in condition at this time.

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

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

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

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

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

- The City contracted with a fiber optic design consultant to design a fiber optic loop for business and industry in Franklin and in the two industrial parks. The City was awarded a $1,000,000 grant from the U.S. Department of Commerce, Economic Development Administration to aid in the costs of the construction. Total cost of construction is projected to be $2,000,000. Construction of the fiber optic loop is projected to be completed during 2010.

- The Oasis Southwest Grill announced plans to open a 300 seat restaurant at I-65 exit 2. Construction has begun and the restaurant should be open summer 2009. The restaurant is projected to employ approximately 80 to 100.

- ZAP Motor Manufacturing of Kentucky announced plans to construct an electric car manufacturing facility on U.S. 31-W north near the Wilkey North Industrial Park. The company is pursuing a low-interest direct loan from the U.S. Department of Energy and hopes to be in production by late 2009 or early 2010. Although original estimates for employment were estimated to be approximately 4,000 it is more likely to be 500 to 1,000 in the initial phase of the project.

- The City has experienced some layoffs and loss of jobs in the past few months as have many communities. The City adjusted expected occupational fees downward at the mid-year FY2009 to reflect these job reductions. Although there have been reductions, the City has seen continued construction with various enterprises such as CVS Pharmacy, Hibbett Sports, Dollar Tree, Peppers Restaurant, Holiday Inn Express and Comfort Inn and Suites scheduled to be open in 2009 adding additional jobs to our employment base. With these additions, the City now has over 500 hotel rooms and 9 restaurants that serve alcoholic beverages which is an important factor for tourism growth for the community.

- Construction of a Technical College began in the City of Franklin in January 2007. This will benefit the youth in Franklin-Simpson and also employers that need training for their employees. The Technical College opened in the fall of 2008.

- The City annexed south near 31-W to near the state line in August 2007. The annexation should increase commercial growth along I-65 and beyond. This annexation should impact the City positively by expanding payroll occupational and insurance premium fees.

- The widening of I-65 Exit 2 was completed in 2007 and the Exit 6 expansion completed in 2008. With I-65 being expanded to 6 lanes and the reworking of 31-W and Highway 100, the infrastructure for expanded growth is set.

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

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

# BASIC FINANCIAL STÁTEMENTS

# CITY OF FRANKLIN, KENTUCKY

## STATEMENT OF NET ASSETS
## June 30, 2008

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 879,556 | $ 268,717 | $ 1,148,273 |
| Certificates of deposit | 429,206 | — | 429,206 |
| Receivables (net of allowance for uncollectibles): | | | |
| Accounts | 14,477 | 673,871 | 688,348 |
| Taxes | 887,973 | — | 887,973 |
| Notes | 151,595 | — | 151,595 |
| Intergovernmental | 36,327 | 34,045 | 70,372 |
| Interest | 1,188 | — | 1,188 |
| Internal balances | 101,416 | ( 101,416) | — |
| Prepaid items | 48,594 | 46,943 | 95,537 |
| Restricted assets: | | | |
| Cash and cash equivalents | 24,911 | 922,554 | 947,465 |
| Certificates of deposit | — | 1,506,023 | 1,506,023 |
| Interest receivable | — | 5,714 | 5,714 |
| Capital assets, net of accumulated depreciation: | | | |
| Nondepreciable | 11,316,176 | 496,542 | 11,812,718 |
| Depreciable capital assets | 2,676,942 | 21,687,215 | 24,364,157 |
| Construction in progress | — | 267,720 | 267,720 |
| Debt issuance costs | — | 95,337 | 95,337 |
| Total assets | $ 16,568,361 | $ 25,903,265 | $ 42,471,626 |
| **LIABILITIES AND NET ASSETS** | | | |
| Liabilities: | | | |
| Accounts payable | $ 372,269 | $ 492,480 | $ 864,749 |
| Other accrued liabilities | 81,798 | 366,345 | 448,143 |
| Accrued interest payable | — | 27,416 | 27,416 |
| Accrued vacation | 62,938 | 28,904 | 91,842 |
| Deposit on land contract | — | 148,000 | 148,000 |
| Deferred revenue | 12,263 | 21,156 | 33,419 |
| Noncurrent liabilities: | | | |
| Customer deposits | — | 398,056 | 398,056 |
| Due within one year | 190,419 | 1,116,499 | 1,306,918 |
| Due in more than one year | 1,575,481 | 8,211,499 | 9,786,980 |
| Total liabilities | 2,295,168 | 10,810,355 | 13,105,523 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 12,227,218 | 13,218,073 | 25,445,291 |
| Restricted for: | | | |
| Highways and streets | 191,668 | — | 191,668 |
| Debt service | — | 2,020,163 | 2,020,163 |
| Economic development | 155,316 | — | 155,316 |
| Perpetual care | 450,211 | — | 450,211 |
| Other purposes | 47,998 | — | 47,998 |
| Unrestricted | 1,200,782 | ( 145,326) | 1,055,456 |
| Total net assets | 14,273,193 | 15,092,910 | 29,366,103 |
| Total liabilities and net assets | $ 16,568,361 | $ 25,903,265 | $ 42,471,626 |

See Notes to Financial Statements

# CITY OF FRANKLIN, KENTUCKY

## STATEMENT OF ACTIVITIES
## Year Ended June 30, 2008

| Function/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities | Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total |
|---|---|---|---|---|---|---|---|
| **Primary Government** | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | $ 1,666,983 | $ 678,787 | $ — | $ — | ($ 988,196) | $ — | ($ 988,196) |
| Public safety | 2,006,658 | 57,650 | 81,635 | 9,996 | ( 1,857,377) | — | ( 1,857,377) |
| Public works | 961,210 | — | 327,286 | 4,440 | ( 629,484) | — | ( 629,484) |
| Community and cultural | 559,790 | 131,110 | — | — | ( 428,680) | — | ( 428,680) |
| Interest on long-term debt | 161,400 | — | — | — | ( 161,400) | — | ( 161,400) |
| Total governmental activities | 5,356,041 | 867,547 | 408,921 | 14,436 | ( 4,065,137) | — | ( 4,065,137) |
| Business-type activities: | | | | | | | |
| Water and wastewater | 3,943,067 | 3,910,657 | — | 180,367 | — | 147,957 | 147,957 |
| Sanitation | 1,890,803 | 1,862,172 | — | — | — | ( 28,631) | ( 28,631) |
| Fiber optic | 21,109 | — | — | — | — | ( 21,109) | ( 21,109) |
| Total business-type activities | 5,854,979 | 5,772,829 | — | 180,367 | — | 98,217 | 98,217 |
| Total primary government | $ 11,211,020 | $ 6,640,376 | $ 408,921 | $ 194,803 | ( 4,065,137) | 98,217 | ( 3,966,920) |
| General revenues: | | | | | | | |
| Property taxes | | | | | 717,524 | — | 717,524 |
| Occupational taxes | | | | | 1,788,097 | — | 1,788,097 |
| Insurance premium taxes | | | | | 1,078,421 | — | 1,078,421 |
| Franchise taxes | | | | | 106,007 | — | 106,007 |
| Business license taxes | | | | | 308,803 | — | 308,803 |
| Interest income | | | | | 51,105 | 109,662 | 160,767 |
| Miscellaneous | | | | | 64,696 | 99,461 | 164,157 |
| Gain on sale of capital assets | | | | | 31,488 | 738,297 | 769,785 |
| Transfers | | | | | 828,400 | ( 828,400) | — |
| Total general revenues and transfers | | | | | 4,974,541 | 119,020 | 5,093,561 |
| Change in net assets | | | | | 909,404 | 217,237 | 1,126,641 |
| Net assets, beginning of year | | | | | 13,363,789 | 14,875,673 | 28,239,462 |
| Net assets, end of year | | | | | $ 14,273,193 | $ 15,092,910 | $ 29,366,103 |

See Notes to Financial Statements

# CITY OF FRANKLIN, KENTUCKY

## BALANCE SHEET - GOVERNMENTAL FUNDS
## June 30, 2008

| | General | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 551,186 | $ 328,370 | $ 879,556 |
| Certificates of deposit | — | 429,206 | 429,206 |
| Receivables (net of allowance for uncollectibles): | | | |
| Accounts | 4,427 | 10,050 | 14,477 |
| Taxes | 887,973 | — | 887,973 |
| Notes | 100,000 | 51,595 | 151,595 |
| Intergovernmental | 11,900 | 24,427 | 36,327 |
| Interest | 636 | 552 | 1,188 |
| Due from other funds | 133,622 | 51,095 | 184,717 |
| Prepaid items | 48,194 | 400 | 48,594 |
| Restricted assets | | | |
| Cash and cash equivalents | 23,638 | 1,273 | 24,911 |
| Total assets | $ 1,761,576 | $ 896,968 | $ 2,658,544 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Liabilities: | | | |
| Accounts payable | $ 329,162 | $ 43,106 | $ 372,268 |
| Due to other funds | 50,995 | 32,306 | 83,301 |
| Accrued expenses | 81,798 | — | 81,798 |
| Deferred revenue | 112,263 | 51,595 | 163,858 |
| Total liabilities | 574,218 | 127,007 | 701,225 |
| Fund balances: | | | |
| Reserved for: | | | |
| Prepaid items | 48,194 | 400 | 48,594 |
| Drug enforcement | 12,206 | — | 12,206 |
| Retirement benefits | 11,431 | — | 11,431 |
| Perpetual care | — | 450,211 | 450,211 |
| Unreserved | 1,115,527 | — | 1,115,527 |
| Unreserved, reported in nonmajor: | | | |
| Special revenue funds | — | 319,350 | 319,350 |
| Total fund balances | 1,187,358 | 769,961 | 1,957,319 |
| Total liabilities and fund balances | $ 1,761,576 | $ 896,968 | $ 2,658,544 |

| | |
|---|---|
| Total fund balances - governmental funds | $ 1,957,319 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 13,993,118 |
| Long-term obligations are not due and payable in the current period and, therefore, are not reported in the funds. | ( 1,765,900) |
| Accrued compensated absences are not due and payable with current financial resources and, therefore, are not reported in the funds. | ( 62,938) |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 151,595 |
| Net assets of governmental activities | $ 14,273,194 |

See Notes to Financial Statements

# CITY OF FRANKLIN, KENTUCKY

## STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
## Year Ended June 30, 2008

| | General | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| Revenues | | | |
| Taxes: | | | |
| Property | $ 717,524 | $ — | $ 717,524 |
| Occupational | 1,788,097 | — | 1,788,097 |
| Insurance premium | 1,078,421 | — | 1,078,421 |
| Franchise | 106,007 | — | 106,007 |
| Business license | 308,803 | — | 308,803 |
| Intergovernmental | 153,360 | 322,743 | 476,103 |
| Charges for sales and services | — | 74,510 | 74,510 |
| Interfund charges | 651,600 | — | 651,600 |
| Fines and forfeitures | 29,943 | — | 29,943 |
| Contributions and donations | 80 | 6,600 | 6,680 |
| Investment income | 26,285 | 24,820 | 51,105 |
| Miscellaneous | 428,872 | 4,239 | 433,111 |
| Total revenues | 5,288,992 | 432,912 | 5,721,904 |
| Expenditures | | | |
| Current: | | | |
| General government | $ 1,627,490 | $ — | $ 1,627,490 |
| Public safety | 1,853,890 | — | 1,853,890 |
| Public works | 678,644 | 207,264 | 885,908 |
| Community services | 308,406 | 248,813 | 557,219 |
| Capital outlay | 137,351 | 113,111 | 250,462 |
| Debt service: | | | |
| Principal | 1,117,955 | — | 1,117,955 |
| Interest | 133,973 | — | 133,973 |
| Administrative fees | 27,427 | — | 27,427 |
| Total expenditures | 5,885,136 | 569,188 | 6,454,324 |
| Deficiency of revenues under expenditures | ( 596,144) | ( 136,276) | ( 732,420) |
| Other financing sources (uses): | | | |
| Transfers in | 828,400 | 164,500 | 992,900 |
| Transfers out | ( 147,000) | ( 17,500) | ( 164,500) |
| Sale of capital assets | 4,893 | 37,595 | 42,488 |
| Total other financing sources (uses) | 686,293 | 184,595 | 870,888 |
| Net change in fund balances | 90,149 | 48,319 | 138,468 |
| Fund balances, beginning of year | 1,097,209 | 721,642 | 1,818,851 |
| Fund balances, end of year | $ 1,187,358 | $ 769,961 | $ 1,957,319 |

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, 2008

| | Total Governmental Funds |
|---|---|
| Net change in fund balances - total governmental funds | $ 138,468 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | ( 20,952) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 1,117,955 |
| Accrued compensated absences 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. | 1,281 |
| Principal collections on notes and lease receivables are included in governmental funds. Principal collections reduce long-term notes and lease receivables in the government-wide statement of net assets. | ( 316,348) |
| In the statement of activities, only the gain on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balance by the net book value of the assets sold. | ( 11,000) |
| Change in net assets of governmental activities | $ 909,404 |

See Notes to Financial Statements

# CITY OF FRANKLIN, KENTUCKY

## STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
## June 30, 2008

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Wastewater | Sanitation | Fiber Optic | Total |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 66,816 | $ 201,901 | $ — | $ 268,717 |
| Accounts receivable, net | 561,684 | 112,187 | — | 673,871 |
| Intergovernmental receivables | 34,045 | — | — | 34,045 |
| Due from other funds | 227 | 358,744 | — | 358,971 |
| Prepaid items | 46,374 | 569 | — | 46,943 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 922,554 | — | — | 922,554 |
| Certificates of deposit | 1,506,023 | — | — | 1,506,023 |
| Interest receivable | 5,714 | — | — | 5,714 |
| Total current assets | 3,143,437 | 673,401 | — | 3,816,838 |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Land | 307,228 | 188,114 | 1,200 | 496,542 |
| Depreciable capital assets, net | 21,687,215 | — | — | 21,687,215 |
| Construction in progress | 198,501 | — | 69,219 | 267,720 |
| Net capital assets | 22,192,944 | 188,114 | 70,419 | 22,451,477 |
| Debt issue costs | 95,337 | — | — | 95,337 |
| Total noncurrent assets | 22,288,281 | 188,114 | 70,419 | 22,546,814 |
| Total assets | $ 25,431,718 | $ 861,515 | $ 70,419 | $ 26,363,652 |

See Notes to Financial Statements

# CITY OF FRANKLIN, KENTUCKY

## STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
## June 30, 2008

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Wastewater | Sanitation | Fiber Optic | Total |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 174,464 | $ 313,853 | $ 4,163 | $ 492,480 |
| Accrued liabilities | 36,888 | 329,457 | — | 366,345 |
| Accrued interest | 27,416 | — | — | 27,416 |
| Accrued vacation | 28,904 | — | — | 28,904 |
| Due to other funds | 373,022 | — | 87,365 | 460,387 |
| Deposit on land contract | — | 148,000 | — | 148,000 |
| Current maturities of notes payable | 202,608 | — | — | 202,608 |
| Current maturities of capital lease obligations | 253,891 | — | — | 253,891 |
| Payable from restricted assets: | | | | |
| Current maturities of revenue bonds payable | 660,000 | — | — | 660,000 |
| Customer deposits | 398,056 | — | — | 398,056 |
| Total current liabilities | 2,155,249 | 791,310 | 91,528 | 3,038,087 |
| Noncurrent liabilities: | | | | |
| Deferred revenue | 21,156 | — | — | 21,156 |
| Notes payable | 1,350,755 | — | — | 1,350,755 |
| Capital lease obligations | 1,358,830 | — | — | 1,358,830 |
| Revenue bonds payable | 5,501,914 | — | — | 5,501,914 |
| Total noncurrent liabilities | 8,232,655 | — | — | 8,232,655 |
| Total liabilities | 10,387,904 | 791,310 | 91,528 | 11,270,742 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 12,959,540 | 188,114 | 70,419 | 13,218,073 |
| Restricted for debt service and capital activity | 2,020,163 | — | — | 2,020,163 |
| Unrestricted | 64,111 | ( 117,909) | ( 91,528) | ( 145,326) |
| Total net assets | 15,043,814 | 70,205 | ( 21,109) | 15,092,910 |
| Total liabilities and net assets | $ 25,431,718 | $ 861,515 | $ 70,419 | $ 26,363,652 |

# CITY OF FRANKLIN, KENTUCKY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
## Year Ended June 30, 2008

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Wastewater | Sanitation | Fiber Optic | Total |
| Operating revenues | | | | |
| Charges for services | $ 3,808,300 | $ 1,845,489 | $ — | $ 5,653,789 |
| Fines and forfeitures | 102,357 | 16,683 | — | 119,040 |
| Total operating revenues | 3,910,657 | 1,862,172 | — | 5,772,829 |
| Operating expenses | | | | |
| Salaries, wages and benefits | 1,056,659 | 10,206 | — | 1,066,865 |
| Maintenance | 203,304 | 1,693,159 | 17,515 | 1,913,978 |
| Utilities | 301,516 | — | — | 301,516 |
| Administrative | 415,500 | 186,100 | — | 601,600 |
| Supplies | 503,193 | — | — | 503,193 |
| Other | 25,802 | 1,338 | 3,594 | 30,734 |
| Depreciation | 1,027,319 | — | — | 1,027,319 |
| Total operating expenses | 3,533,293 | 1,890,803 | 21,109 | 5,445,205 |
| Operating income | 377,364 | ( 28,631) | ( 21,109) | 327,624 |
| Nonoperating revenues (expenses): | | | | |
| Investment income | 109,134 | 528 | — | 109,662 |
| Intergovernmental revenue | 180,367 | — | — | 180,367 |
| Miscellaneous revenue | 71,085 | 28,376 | — | 99,461 |
| Gain on sale of capital assets | 738,297 | — | — | 738,297 |
| Interest expense | ( 371,496) | — | — | ( 371,496) |
| Amortization expense | ( 25,731) | — | — | ( 25,731) |
| Administrative fees | ( 12,547) | — | — | ( 12,547) |
| Total nonoperating revenues (expenses) | 689,109 | 28,904 | — | 718,013 |
| Income (loss) before transfers | 1,066,473 | 273 | ( 21,109) | 1,045,637 |
| Transfers out | ( 828,400) | — | — | ( 828,400) |
| Change in net assets | 238,073 | 273 | ( 21,109) | 217,237 |
| Net assets, beginning of year | 14,805,741 | 69,932 | — | 14,875,673 |
| Net assets, end of year | $ 15,043,814 | $ 70,205 | ($ 21,109) | $ 15,092,910 |

See Notes to Financial Statements

# CITY OF FRANKLIN, KENTUCKY

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
## Year Ended June 30, 2008

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Wastewater | Sanitation | Fiber Optic | Total |
| **Cash flows from operating activities** | | | | |
| Cash received from customers | $ 4,018,324 | $ 1,900,792 | $ — | $ 5,919,116 |
| Cash payments to employees and retirees | ( 1,067,322) | ( 10,206) | — | ( 1,077,528) |
| Cash payments to suppliers | ( 1,229,240) | ( 1,663,450) | ( 16,946) | ( 2,909,636) |
| Payments for administrative overhead | ( 415,500) | ( 186,100) | — | ( 601,600) |
| Net cash provided by (used in) operating activities | 1,306,262 | 41,036 | ( 16,946) | 1,330,352 |
| **Cash flows from noncapital financing activities** | | | | |
| Borrowings from other funds | — | — | 87,365 | 87,365 |
| Transfers out | ( 828,400) | — | — | ( 828,400) |
| Net cash provided by (used in) noncapital financing activities | ( 828,400) | — | 87,365 | ( 741,035) |
| **Cash flows from capital and related financing activities** | | | | |
| Proceeds from capital grants | 324,282 | — | — | 324,282 |
| Proceeds from sale of capital assets | 823,951 | — | — | 823,951 |
| Purchase of capital assets | ( 288,703) | — | ( 70,419) | ( 359,122) |
| Principal paid on bonds, notes and lease obligations | ( 1,067,374) | — | — | ( 1,067,374) |
| Interest paid on bonds, notes and lease obligations | ( 373,967) | — | — | ( 373,967) |
| Administrative fees paid | ( 12,547) | — | — | ( 12,547) |
| Net cash used in capital and related financing activities | ( 594,358) | — | ( 70,419) | ( 664,777) |
| **Cash flows from investing activities** | | | | |
| Proceeds from sale and maturities of certificates of deposit | 300,000 | — | — | 300,000 |
| Purchase of certificates of deposit | ( 353,991) | — | — | ( 353,991) |
| Interest received | 110,198 | 528 | — | 110,726 |
| Net cash provided by investing activities | 56,207 | 528 | — | 56,735 |
| Net increase (decrease) in cash and cash equivalents | ( 60,289) | 41,564 | — | ( 18,725) |
| Cash and cash equivalents, beginning of year | 1,049,659 | 160,337 | — | 1,209,996 |
| Cash and cash equivalents, end of year | $ 989,370 | $ 201,901 | $ — | $ 1,191,271 |
| **Reflected in the Statement of Fund Net Assets - Proprietary Funds as:** | | | | |
| Cash and cash equivalents | $ 66,816 | $ 201,901 | $ — | $ 268,717 |
| Restricted cash and cash equivalents | 922,554 | — | — | 922,554 |
| Total | $ 989,370 | $ 201,901 | $ — | $ 1,191,271 |

See Notes to Financial Statements

# CITY OF FRANKLIN, KENTUCKY

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
## Year Ended June 30, 2008

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Water and Wastewater | Sanitation | Fiber Optic | Total |
| **Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:** | | | | |
| Operating income (loss) | $ 377,364 | ($ 28,631) | ($ 21,109) | $ 327,624 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 1,027,319 | — | — | 1,027,319 |
| Nonoperating revenues | 71,085 | 28,376 | — | 99,461 |
| Change in assets and liabilities: | | | | |
| Decrease in accounts receivable | 41,754 | 10,244 | — | 51,998 |
| (Increase) decrease in due from other funds | ( 227) | 905 | — | 678 |
| Increase in prepaid items | ( 32,036) | ( 37) | — | ( 32,073) |
| Increase (decrease) in accounts payable | ( 159,732) | 33,243 | 4,163 | ( 122,326) |
| Decrease in accrued liabilities | ( 12,126) | ( 3,064) | — | ( 15,190) |
| Increase in accrued vacation | 1,463 | — | — | 1,463 |
| Decrease in customer deposits | ( 5,171) | — | — | ( 5,171) |
| Decrease in due to other funds | ( 2,164) | — | — | ( 2,164) |
| Decrease in deferred revenue | ( 1,267) | — | — | ( 1,267) |
| Net cash provided by (used in) operating activities | $ 1,306,262 | $ 41,036 | ($ 16,946) | $ 1,330,352 |

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

Business-type activities and proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant of the City's accounting policies are described below.

### A. Reporting Entity

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

#### Related Organizations and Jointly Governed Organizations

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

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.

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

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

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

### 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.

#### Special Revenue Funds

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

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

### 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.

### Sanitation Fund

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

### Fiber Optic Fund

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

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

### C. Measurement Focus and Basis of Accounting

#### Government-wide and Proprietary Funds

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

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

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

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

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

### Governmental Fund Financial Statements

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

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

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

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

### D. Assets, Liabilities and Fund Equity

#### Cash and Cash Equivalents

The City considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2008, 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.

#### 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.

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

### 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.

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.

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

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

### Compensated Absences

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

### Long-term Obligations

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

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

### Deferred Revenue

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

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

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

### Net Assets/Fund Balance

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

Net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. Designation of fund balance in the fund financial statements represent tentative management plans that are subject to change. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both unrestricted and restricted net assets are available.

### E. Revenues, Expenditures and Expenses

### Operating Revenues and Expenses

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

### Interfund Activity

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

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

## 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 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Excess of Expenditures over Appropriations

The following funds that have budgets adopted annually had excess expenditures over appropriations for the fiscal year ended June 30, 2008:

| | |
|---|---|
| Community Development Fund | $13,529 |

Community Development Fund excess expenditures were funded by greater than anticipated revenues.

### Deficit Fund Equity

The Fiber Optic enterprise fund had a deficit fund equity of $21,109 as of June 30, 2008. The fund was established in fiscal year 2008 to account for the future operations of the City's fiber optic system. As of June 30, 2008, preliminary fiber optic line design expenditures have been funded by General Fund advances.

## 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 or FSLIC.

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

At June 30, 2008, $2,699,169 of the City's bank balances of $3,343,036, were exposed to custodial credit risk as follows:

| | |
|---|---|
| Insured by irrevocable letter of credit from the Federal Home Loan Bank of Cincinnati | $ 1,814,737 |
| Uninsured and collateral held by pledging financial institution | 884,432 |
| | $ 2,699,169 |

### 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, 2008, the City had the following investments and maturities:

| Type | Fair Value | Maturities In Years Less than 1 |
|---|---|---|
| U. S. obligations | $ 855,351 | $ 855,351 |

**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, 2008, investments in U. S. agency obligations not directly guaranteed by the U. S. government were rated AAA by Standard & Poor's.

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

**Concentration of Credit Risk** - The City's funds must be diversified by security type and institution with the exception of fully insured or fully collateralized investments and except for authorized investment pools, no more than 30% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution. At June 30, 2008, 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 | $ 3,175,616 |
| Investments | 855,351 |
| | $ 4,030,967 |

Included in the following balance sheet captions:

| | |
|---|---|
| **Government-wide Statement of Net Assets** | |
| Cash and cash equivalents | $ 1,148,273 |
| Certificates of deposit | 429,206 |
| Restricted assets: | |
| Cash and cash equivalents | 947,465 |
| Certificates of deposit | 1,506,023 |
| Total | $ 4,030,967 |

**Investment Income**

Investment income for the year ended June 30, 2008 consisted of:

| | |
|---|---|
| Interest and dividend income | $ 160,767 |

## NOTE 3. NOTES RECEIVABLE

Notes receivable at June 30, 2008 consists of the following:

**General Fund:**

| | |
|---|---|
| Franklin-Simpson Industrial Authority note receivable; issued pursuant to real estate conveyance; no set repayment terms; receivable from Authority upon sale or transfer of real estate located on Robey Street in City conveyed to Authority for economic development purposes pursuant to Resolution No. G-2006, adopted February 27, 2006. | $ 100,000 |

**Nonmajor governmental fund:**

| | |
|---|---|
| JD/Novitec Industries, Inc. note receivable, dated June 10, 2002; receivable in semi-annual installments of $5,419, including interest at 5%; final installment due January 20, 2013. | 51,595 |
| Total notes receivable - governmental funds | $ 151,595 |

## NOTE 4. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2008:

| | Cash | Certificates of Deposit | Interest Receivable | Total |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| General Fund: | | | | |
| Retiree Life fund | $ 11,431 | $ – | $ – | $ 11,431 |
| Police fund | 12,207 | – | – | 12,207 |
| Total General Fund | 23,638 | – | – | 23,638 |
| Special Revenue Fund | | | | |
| Cemetery Fund | 1,273 | – | – | 1,273 |
| Total governmental activities | 24,911 | – | – | 24,911 |
| **Business-type activities:** | | | | |
| Enterprise Fund | | | | |
| Water and Wastewater Fund: | | | | |
| Capital projects | 1,000 | – | – | 1,000 |
| Customer deposits | 55,202 | 352,211 | 1,621 | 409,034 |
| Debt service reserve | 866,352 | 688,204 | 2,442 | 1,556,998 |
| Depreciation reserve | – | 347,645 | 1,651 | 349,296 |
| Maintenance and replacement reserve | – | 117,963 | – | 117,963 |
| Total business-type activities | 922,554 | 1,506,023 | 5,714 | 2,434,291 |
| Total restricted assets | $ 947,465 | $ 1,506,023 | $ 5,714 | $ 2,459,202 |

## NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

| | Balance June 30, 2007 | Increases | Decreases | Balance June 30, 2008 |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 837,523 | $ — | $ — | $ 837,523 |
| Streets and sidewalks | 10,404,394 | 74,259 | — | 10,478,653 |
| Total capital assets, not being depreciated | 11,241,917 | 74,259 | — | 11,316,176 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,094,937 | 32,005 | — | 2,126,942 |
| Vehicles | 1,622,077 | 70,940 | — | 1,693,017 |
| Furniture, fixtures and equipment | 1,197,689 | 73,258 | — | 1,270,947 |
| Total capital assets, being depreciated | 4,914,703 | 176,203 | — | 5,090,906 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | ( 299,232) | ( 52,440) | — | ( 351,672) |
| Vehicles | ( 1,169,036) | ( 103,624) | — | ( 1,272,660) |
| Furniture, fixtures and equipment | ( 674,282) | ( 115,350) | — | ( 789,632) |
| Total accumulated depreciation | ( 2,142,550) | ( 271,414) | — | ( 2,413,964) |
| Total capital assets, being depreciated, net | 2,772,153 | ( 95,211) | — | 2,676,942 |
| Governmental activities capital assets, net | $14,014,070 | ($ 20,952) | $ — | $13,993,118 |
| **Business-type activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 495,342 | $ 1,200 | $ — | $ 496,542 |
| Construction in progress | 114,404 | 198,898 | ( 45,582) | 267,720 |
| Total capital assets, not being depreciated | 609,746 | 200,098 | ( 45,582) | 764,262 |
| Capital assets being depreciated: | | | | |
| Utility plant | 34,245,578 | 166,814 | — | 34,412,392 |
| Buildings | 306,651 | — | ( 212,280) | 94,371 |
| Furniture and equipment | 2,069,626 | 37,793 | — | 2,107,419 |
| Vehicles | 482,796 | — | — | 482,796 |
| Total capital assets being depreciated | 37,104,651 | 204,607 | ( 212,280) | 37,096,978 |
| Less accumulated depreciation: | | | | |
| Utility plant | ( 12,625,892) | ( 859,808) | — | ( 13,485,700) |
| Buildings | ( 198,708) | ( 6,137) | 126,625 | ( 78,220) |
| Furniture and equipment | ( 1,255,838) | ( 140,121) | — | ( 1,395,959) |
| Vehicles | ( 428,631) | ( 21,253) | — | ( 449,884) |
| Total accumulated depreciation | ( 14,509,069) | ( 1,027,319) | 126,625 | ( 15,409,763) |
| Total capital assets, being depreciated, net | 22,595,582 | ( 822,712) | ( 85,655) | 21,687,215 |
| Business-type activities capital assets, net | $23,205,328 | ($ 622,614) | ($ 131,237) | $22,451,477 |

## NOTE 5. CAPITAL ASSETS (Continued)

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

| | |
|---|---|
| **Governmental activities:** | |
| General government | $ 38,473 |
| Public safety | 151,656 |
| Public works | 78,713 |
| Community and cultural | 2,572 |
| Total depreciation expense - governmental activities | $ 271,414 |
| **Business-type activities:** | |
| Water and wastewater | $ 1,027,319 |

## NOTE 6. LONG-TERM LIABILITIES

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

Changes in long-term liabilities for the year ended June 30, 2008 were as follows:

| | Balance June 30, 2007 | Increases | Decreases | Balance June 30, 2008 | Amounts Due in One Year |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| Lease purchase agreements | $ 2,774,046 | $ — | ($ 1,105,326) | $ 1,668,720 | $ 175,116 |
| Notes payable | 109,809 | — | ( 12,629) | 97,180 | 15,303 |
| Total governmental activities | $ 2,883,855 | $ — | ($ 1,117,955) | $ 1,765,900 | $ 190,419 |
| **Business-type activities:** | | | | | |
| Revenue bonds | $ 6,900,000 | $ — | ($ 635,000) | $ 6,265,000 | $ 660,000 |
| Less: unamortized discount and deferred amount | ( 111,480) | — | 8,394 | ( 103,086) | — |
| Bonds payable, net | 6,788,520 | — | ( 626,606) | 6,161,914 | 660,000 |
| Lease purchase agreements | 1,849,465 | — | ( 236,744) | 1,612,721 | 253,891 |
| Notes payable | 1,748,993 | — | ( 195,630) | 1,553,363 | 202,608 |
| Total business-type activities | $10,386,978 | $ — | ($ 1,058,980) | $ 9,327,998 | $ 1,116,499 |
| Total governmental and business-type activities | $13,270,833 | $ — | ($ 2,176,935) | $11,093,898 | $ 1,306,918 |

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

### Governmental activities:

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

Governmental activities long-term debt of the City consisted of the following at June 30, 2008:

### Lease purchase agreements:

| | | |
|---|---|---|
| $656,901 Kentucky League of Cities Funding Trust variable rate lease purchase agreement, dated October 10, 1989; principal and variable interest payable monthly through January, 2019; 3.97% current rate; proceeds used for street improvements. | $ | 375,453 |
| $550,000 Kentucky League of Cities Funding Trust variable rate lease purchase agreement, dated March 9, 1998; principal payable in semi-annual installments of $10,000 to $20,000 on January 15 and July 15 through January, 2018; variable interest payable monthly; 3.92% current rate; proceeds used for fire station project. | | 340,000 |
| $350,000 Kentucky League of Cities Funding Trust lease purchase agreement, dated May 27, 1999; principal payable in annual installments of $11,022 to $28,363 on July 1 through July, 2018; interest at 5.25% payable semi-annually on January 1 and July 1; proceeds used for fire station bays. | | 243,267 |
| $510,000 Kentucky League of Cities Funding Trust variable rate lease purchase agreement, dated December 14, 2001; principal payable in quarterly installments of $5,000 to $10,000 on March 15, June 15, September 15 and December 15 through December, 2016; interest payable monthly; 3.99% current rate; proceeds used for sidewalk improvements. | | 340,000 |
| $1,050,000 Kentucky Municipal Finance Corporation variable rate lease purchase agreement, dated October 31, 2006; principal payable in monthly installments of $2,000 through September, 2009; $825,000 principal amount due October, 2009; thereafter, principal payable in monthly installments of $2,000 to $3,000 through June, 2016; variable interest payable monthly; 3.97% current rate; portion of proceeds ($825,000) used for purchase and renovation of real estate for use as the new City Hall building; remaining proceeds ($225,000) used for the financing of park improvements. | | 370,000 |
| Total lease purchase agreements | | 1,668,720 |

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

**Notes payable:**

| | |
|---|---|
| $150,000 Franklin Bank & Trust Company note payable, dated September 22, 2003; principal and interest at 3.8% payable in monthly installments of $1,400 through September, 2008; proceeds used to finance South Street project; secured by real estate mortgage. | $ 97,180 |
| Total lease purchase agreements and notes payable - governmental activities | $ 1,765,900 |

**Business-type activities:**

**Lease purchase agreements:**

**Water and Wastewater Fund:**

| | |
|---|---|
| $1,133,270 Kentucky League of Cities Funding Trust variable rate lease purchase agreement, dated October 10, 1989; principal and variable interest payable monthly through January, 2019; 3.97% current rate; proceeds used to finance waterline improvements. | $ 647,721 |
| $1,360,000 Kentucky Municipal Finance Corporation lease purchase agreement, dated May 1, 1999; principal payable on December 1 in annual installments of $25,000 to $175,000 through 2018; interest at 5.65% to 6.20% payable semi-annually on June 1 and December 1; issued to advance refund City's outstanding Water and Sewer Revenue Bonds, Series 1982 and Water and Sewer Revenue Refunding Bonds, Series 1983; secured by water and sewer system revenues. | 410,000 |
| $1,570,000 Kentucky Municipal Finance Corporation lease purchase agreement, dated October 10, 2000; principal payable in annual installments of $125,000 to $195,000 through 2010; interest at 4.75% to 4.80% payable semi-annually on June 1 and December 1; issued to finance replacement of system water meters and construction of system water lines; secured by water and sewer system revenues. | 555,000 |
| Total lease purchase agreements | $ 1,612,721 |

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

**Notes payable:**

**Water and Wastewater Fund:**

| | |
|---|---|
| $669,950 Kentucky Infrastructure Authority assistance agreement note, dated May 3, 1989; principal and variable interest payable in monthly installments through June, 2011; current rate 4.06%; proceeds used to finance dam construction project. | $ 135,000 |
| $497,979 Kentucky Infrastructure Authority assistance agreement note, dated November 1, 1993; principal and interest at 1.6% payable semi-annually on June 1 and December 1 through December, 2014; proceeds used to finance improvements to wastewater treatment facility. | 180,271 |
| $2,572,240 Kentucky Infrastructure Authority assistance agreement note, dated July 1, 1996; principal and interest at 1.2% payable semi-annually on June 1 and December 1 through June, 2017; proceeds used to finance upgrades to wastewater treatment plant. | 1,238,092 |
| Total notes payable | $ 1,553,363 |

**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, 2008 were as follows:

| | Interest Rates | Final Maturity Date | Principal at June 30, 2008 |
|---|---|---|---|
| Revenue bonds, Series 2002 (A) | 1.25 - 3.25% | December 1, 2011 | $ 2,120,000 |
| Revenue bonds, Series 2004 (B) | 2.00 - 4.75% | December 1, 2033 | 4,145,000 |
| | | | 6,265,000 |
| Less: unamortized discounts | | | ( 103,086) |
| Total revenue bonds payable - business-type activities | | | $ 6,161,914 |

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

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

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

In prior years, the City defeased certain water and sewer system revenue bonds by placing new debt proceeds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2008, $2,200,000 of bonds outstanding are considered defeased.

**Annual Debt Service Requirements**

The annual requirements to amortize long-term debt outstanding as of June 30, 2008 are as follows:

| Year Ending | Governmental Activities | | Business-Type Activities | | Government-Wide | |
|---|---|---|---|---|---|---|
| June 30 | Principal | Interest | Principal | Interest | Principal | Interest |
| 2009 | $ 190,419 | $ 65,785 | $ 1,116,499 | $ 319,791 | $ 1,306,918 | $ 385,576 |
| 2010 | 195,445 | 59,905 | 1,150,749 | 284,386 | 1,346,194 | 344,291 |
| 2011 | 198,461 | 52,322 | 1,100,130 | 247,810 | 1,298,591 | 300,132 |
| 2012 | 201,615 | 44,854 | 809,643 | 216,660 | 1,011,258 | 261,514 |
| 2013 | 204,924 | 27,071 | 364,296 | 200,085 | 569,220 | 227,156 |
| 2014 - 2018 | 721,009 | 84,958 | 1,745,492 | 860,795 | 2,466,501 | 945,753 |
| 2019 - 2023 | 54,027 | 3,285 | 819,276 | 643,127 | 873,303 | 646,412 |
| 2024 - 2028 | — | — | 910,000 | 443,982 | 910,000 | 443,982 |
| 2029 - 2033 | — | — | 1,150,000 | 203,747 | 1,150,000 | 203,747 |
| 2034 - 2038 | — | — | 265,000 | 171,506 | 265,000 | 171,506 |
| | $ 1,765,900 | $ 338,180 | $ 9,431,085 | $ 3,591,889 | $11,196,985 | $ 3,930,069 |

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

### Project Financing/Sublease Agreement - Franklin-Simpson Industrial Authority

In January, 2004, the City obtained financing from the Kentucky League of Cities (KLC) Funding Trust Program to provide financial assistance to the Franklin-Simpson Industrial Authority ("Authority") to finance a portion of the costs of the renovation of a warehouse facility to be used for industrial development purposes ("project").

The City and Authority entered into a Series 2004 Sublease Agreement ("sublease") on January 23, 2004 to sublet the project to the Authority for a term commencing January 23, 2004 and ending February 15, 2010. Monthly rental payments made by the Authority to the City are equal to the rental payments payable by the City pursuant to the Kentucky League of Cities lease purchase agreement.

In previous fiscal years, the City recorded a receivable from the Authority and deferred revenue in the General Fund, applicable to future lease revenues to be received pursuant to sublease agreement. The City's KLC obligation was paid off on June 10, 2008, therefore, no receivables or deferred revenues exist as of June 30, 2008.

## NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2008 are as follows:

| | Interfund Receivables | Interfund Payables |
|---|---|---|
| Governmental Funds: | | |
| General Fund | $ 133,622 | $ 50,995 |
| Special Revenue Funds: | | |
| Greenlawn-Shady Rest Cemetery Fund | 2 | 100 |
| Economic Development Revolving Loan Fund | 50,993 | — |
| Community Development Fund | — | 32,206 |
| Permanent Funds | | |
| Greenlawn-Shady Rest Cemetery Perpetual Fund | 100 | — |
| Total governmental funds | 184,717 | 83,301 |
| Proprietary Funds: | | |
| Water and Wastewater Fund | 227 | 373,022 |
| Sanitation Fund | 358,744 | — |
| Fiber Optic Fund | — | 87,365 |
| Total proprietary funds | 358,971 | 460,387 |
| | $ 543,688 | $ 543,688 |

## NOTE 7. 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 8. INTERFUND TRANSFERS

Interfund transfers for the year ending June 30, 2008 are summarized as follows:

| | Transfers In | Transfers Out |
|---|---|---|
| General Fund | $ 828,400 | $ 147,000 |
| Special Revenue Fund | | |
| Greenlawn-Shady Rest Cemetery Fund | 164,500 | — |
| Permanent Fund | | |
| Greenlawn-Shady Rest Cemetery Perpetual Fund | — | 17,500 |
| Total governmental funds | 992,900 | 164,500 |
| Proprietary Funds: | | |
| Water and Wastewater Fund | — | 828,400 |
| | $ 992,900 | $ 992,900 |

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

## NOTE 9. RETIREMENT PLAN

### Plan Descriptions and Funding Information

### County Employees Retirement System

The County Employees Retirement System (CERS) is a cost sharing multiple-employer defined benefit pension plan created by the Kentucky General Assembly, pursuant to the provisions of Kentucky Revised Statute (KRS) 78.520. CERS is administered by the Board of Trustees of Kentucky Retirement Systems (KRS) and covers substantially

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

all regular full-time City employees (members) employed in nonhazardous and hazardous duty positions. The CERS provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the state legislature. The KRS issues a publicly available annual report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601.

Plan members with nonhazardous and hazardous duty positions were required to contribute 5% and 8%, respectively, of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per KRS Section 61.656(3), normal contributions and past service contribution rates shall be determined by the Board of Trustees on the basis of an annual valuation last proceeding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of the biennium, if it is determined on the basis of subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2008, participating employers contributed 16.17% (nonhazardous) and 33.87% (hazardous) of each employee's creditable compensation. The actuarially determined rates set by the Board for the year ended June 30, 2008, were 16.17% and 33.87% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

The City's employer contributions to CERS for the years ended June 30, 2008, 2007 and 2006, were equal to the required contributions for each year and are as follows:

| Fiscal Year Ending | Non-hazardous Duty Positions Contribution | Percent of Compensation | Hazardous Duty Positions Contribution | Percent of Compensation |
|---|---|---|---|---|
| 2008 | $ 271,228 | 16.17% | $ 308,831 | 33.87% |
| 2007 | $ 213,559 | 13.19% | $ 262,753 | 28.21% |
| 2006 | $ 167,254 | 10.98% | $ 222,084 | 25.01% |

## NOTE 9. RETIREMENT PLAN (Continued)

### Other Post-Employment Benefits

In addition to the pension benefits described above, the City maintains an informal retirement plan authorized by the Mayor/Council whereby City employees who retired prior to May 1, 1988, plus employees/spouses who retired after May 1, 1988 but who elected not to participate in the CERS plan (above), are paid $100 per month. Twenty-two retired City employees are currently covered under the plan. Expenditures for retirement benefits are recognized on a pay as you go basis. Payments under the plan totaled $27,500 for the year ended June 30, 2008.

In addition to providing retirement benefits, the City also provides certain health care and life insurance benefits for these retired employees and their spouses. The cost of the retiree health care and life insurance benefits is borne 100% by the City and is recognized on a pay as you go basis. For the year ended June 30, 2008, payments under the plan totaled $119,522.

## NOTE 10. DEFERRED COMPENSATION PLAN

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

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or $15,500 for 2008, whichever is less. During the fiscal year ending June 30, 2008, employee contributions totaled $49,208.

## NOTE 11. SOLID WASTE COLLECTION FRANCHISE AGREEMENT

On September 27, 1988, the City entered into an exclusive five year franchise agreement with Monarch Environmental, Inc. (Monarch) to collect all nonhazardous solid waste in the City. The agreement gave Monarch the right to extend the contract for three successive five year periods. The contract was renewed for an additional five years in October, 1993, in October, 1998, and again in October, 2003. The contract provides for Monarch to receive the revenues from the solid waste collection service and to pay the City a franchise fee of $21,156 per month through September, 2007 and $4,530 per month thereafter, until the contract expires September 30, 2008. The City receives a fee equal to 1.00% of total revenues for the City's billing and collection services.

## NOTE 12. INTERLOCAL AGREEMENT FOR FIRE PROTECTION

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

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

### Fire Station and Equipment

Fire fighting equipment owned by the City and County will be used both within the City and County for automatic response and mutual aid on a non-exclusive basis and will remain the property of the contributing entity. The County shall have full use of fire station owned by City and shall maintain the station and grounds. The City shall retain ownership of the fire station and shall provide for major capital repairs of station required during the term of the agreement including extensions. As partial consideration for such, the County agrees to pay City directly, or by offset from amount City shall pay County for the services

## NOTE 12. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

provided, the amount of $25,000 per year, payable or offset on a monthly basis, until such time as City retires the existing debt service on the City's fire department building and improvements or until agreement is terminated, whichever is sooner. In addition, City agrees to provide at no charge, water and sewer services at fire department facility.

### Personnel

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

### Financial Contributions

City contributions to the County to the cost and expense of Franklin-Simpson Fire Rescue shall be at amounts per City's adopted budget payable monthly, however, not less than $179,316 annually, without the prior written agreement of the parties. City contributions shall be increased or decreased annually, based upon change in consumer price index or cost of living increases set by Governor's Office of Local Development or comparable governmental office, effective July 1st of year increase or decrease is adopted by applicable state office, or the percentage increase in Simpson County's fire department budget, whichever is lower.

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

### Term

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

## NOTE 13. RISK MANAGEMENT

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

## NOTE 14. CONTINGENCIES

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

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2008 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.

During fiscal years 2006 and 2007, the City received checks totaling $560,726 from an insurance company (Company) for insurance premium taxes collected by the Company attributable to the City. Subsequent to June 30, 2007, the City determined the insurance premium taxes received from the Company may have been intended for another governmental unit in Kentucky. No claim for refund has been made by the Company and the City Attorney believes the City has a justifiable reason for keeping the taxes remitted to the City.

## NOTE 15. SUBSEQUENT EVENTS

### Solid Waste Collection Franchise Agreement

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

### Grant Award

On June 11, 2008, the City was awarded a $1,000,000 grant from the U. S. Department of Commerce, Economic Development Administration to construct a fiber optic cable line. The City estimates total project costs of approximately $2,000,000 and anticipates project completion in fiscal year 2010.

### Notes Payable

On September 2, 2008, the City's Franklin Bank & Trust general obligation note payable was extended for five years. The note principal balance of $94,875 will be paid in monthly principal installments, including variable interest at 3.75%.

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

# CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
## General Fund
## Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Revenues | | | | |
| Taxes | $ 708,115 | $ 716,762 | $ 717,524 | $ 762 |
| Occupational taxes | 1,745,425 | 1,775,593 | 1,788,097 | 12,504 |
| Insurance premium taxes | 1,162,687 | 1,085,663 | 1,078,421 | ( 7,242) |
| Business license taxes | 291,238 | 302,543 | 308,803 | 6,260 |
| Franchise taxes | 100,714 | 103,406 | 106,007 | 2,601 |
| Intergovernmental | 294,747 | 139,656 | 153,360 | 13,704 |
| Interfund charges | 651,600 | 651,600 | 651,600 | — |
| Fines and forfeitures | 24,650 | 27,568 | 29,943 | 2,375 |
| Miscellaneous | 245,332 | 456,077 | 455,237 | ( 840) |
| Total revenues | 5,224,508 | 5,258,868 | 5,288,992 | 30,124 |
| Expenditures | | | | |
| General government: | | | | |
| Legislative: | | | | |
| Personal services | 126,770 | 128,458 | 128,565 | ( 107) |
| Contractual services | 12,175 | 35,745 | 33,850 | 1,895 |
| Materials and supplies | 2,300 | 2,149 | 1,928 | 221 |
| Other | 20,415 | 12,813 | 10,730 | 2,083 |
| Total legislative | 161,660 | 179,165 | 175,073 | 4,092 |
| Administrative: | | | | |
| Personal services | 341,788 | 316,429 | 313,927 | 2,502 |
| Contractual services | 3,490 | 4,616 | 4,654 | ( 38) |
| Materials and supplies | 6,390 | 7,655 | 5,939 | 1,716 |
| Other | 9,400 | 9,525 | 8,484 | 1,041 |
| Total administrative | 361,068 | 338,225 | 333,004 | 5,221 |
| Finance and accounting: | | | | |
| Personal services | 573,935 | 563,881 | 562,309 | 1,572 |
| Contractual services | 151,681 | 161,987 | 158,846 | 3,141 |
| Materials and supplies | 28,400 | 27,904 | 27,359 | 545 |
| Other | 9,900 | 9,994 | 9,785 | 209 |
| Total finance and accounting | 763,916 | 763,766 | 758,299 | 5,467 |
| Risk management | 325,083 | 355,584 | 361,114 | ( 5,530) |
| Total general government | 1,611,727 | 1,636,740 | 1,627,490 | 9,250 |

## CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
### General Fund
### Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Public safety: | | | | |
| Police department: | | | | |
| Administration: | | | | |
| Personal services | $ 275,849 | $ 258,990 | $ 260,689 | ($ 1,699) |
| Contractual services | 31,519 | 32,804 | 29,891 | 2,913 |
| Materials and supplies | 12,250 | 10,238 | 9,083 | 1,155 |
| Other | 3,650 | 3,793 | 3,743 | 50 |
| Total administration | 323,268 | 305,825 | 303,406 | 2,419 |
| Patrol: | | | | |
| Personal services | 1,230,034 | 1,195,985 | 1,207,872 | ( 11,887) |
| Contractual services | 16,048 | 15,367 | 14,178 | 1,189 |
| Materials and supplies | 68,020 | 78,513 | 78,201 | 312 |
| Other | 9,772 | 7,993 | 7,601 | 392 |
| Total patrol | 1,323,874 | 1,297,858 | 1,307,852 | ( 9,994) |
| Non-sworn personnel: | | | | |
| Personal services | 54,043 | 49,925 | 50,217 | ( 292) |
| Contractual services | 40,285 | 38,888 | 37,313 | 1,575 |
| Materials and supplies | 1,600 | 507 | 7 | 500 |
| Other | 325 | 80 | 80 | — |
| Total non-sworn personnel | 96,253 | 89,400 | 87,617 | 1,783 |
| Total police department | 1,743,395 | 1,693,083 | 1,698,875 | ( 5,792) |
| Fire department: | | | | |
| Inspection and administration: | | | | |
| Contractual services | 800 | 601 | 491 | 110 |
| Materials and supplies | 1,500 | 390 | 208 | 182 |
| Total inspection and administration | 2,300 | 991 | 699 | 292 |

## CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
### General Fund
### Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Expenditures (continued) | | | | |
| Fire department (continued) | | | | |
| Firefighting: | | | | |
| Contractual services | $ 154,316 | $ 154,316 | $ 154,316 | $ — |
| Total fire department | 156,616 | 155,307 | 155,015 | 292 |
| Total public safety | 1,900,011 | 1,848,390 | 1,853,890 | ( 5,500) |
| Public works: | | | | |
| Personal services | 474,684 | 428,986 | 424,471 | 4,515 |
| Contractual services | 121,273 | 131,070 | 128,272 | 2,798 |
| Materials and supplies | 123,143 | 119,487 | 120,516 | ( 1,029) |
| Other | 5,701 | 6,359 | 5,385 | 974 |
| Total public works | 724,801 | 685,902 | 678,644 | 7,258 |
| Community services: | | | | |
| Economic development | 380,000 | 151,846 | 149,975 | 1,871 |
| Parks and recreation | 155,000 | 160,700 | 158,431 | 2,269 |
| Total community services | 535,000 | 312,546 | 308,406 | 4,140 |
| Capital outlay: | | | | |
| Buildings | 16,000 | 18,566 | 18,566 | — |
| Equipment | 45,000 | 43,477 | 34,406 | 9,071 |
| Vehicles | 35,630 | 70,940 | 70,940 | — |
| Land and improvements | — | 13,392 | 13,439 | ( 47) |
| Total capital outlay | 96,630 | 146,375 | 137,351 | 9,024 |
| Debt service: | | | | |
| Principal | 897,607 | 1,118,098 | 1,117,955 | 143 |
| Interest | 140,044 | 134,907 | 133,973 | 934 |
| Administrative fees | 28,309 | 27,349 | 27,427 | ( 78) |
| Total debt service | 1,065,960 | 1,280,354 | 1,279,355 | 999 |
| Total expenditures | 5,934,129 | 5,910,307 | 5,885,136 | 25,171 |

# CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
## General Fund
## Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Deficiency of revenues under expenditures | ($ 709,621) | ($ 651,439) | ($ 596,144) | $ 55,295 |
| Other financing sources (uses): | | | | |
| Transfers in: | | | | |
| Water and Wastewater Fund | — | 828,400 | 828,400 | — |
| Transfers out: | | | | |
| Greenlawn-Shady Rest Cemetery Fund | ( 157,000) | ( 147,000) | ( 147,000) | — |
| Sale of capital assets | 872,000 | 2,893 | 4,893 | 2,000 |
| Total other financing sources (uses) | 715,000 | 684,293 | 686,293 | 2,000 |
| Net change in fund balance | 5,379 | 32,854 | 90,149 | 57,295 |
| Fund balances, beginning of year | 1,097,209 | 1,097,209 | 1,097,209 | — |
| Fund balances, end of year | $ 1,102,588 | $ 1,130,063 | $ 1,187,358 | $ 57,295 |

# CITY OF FRANKLIN, KENTUCKY

## Infrastructure Condition and Maintenance Data
## June 30, 2008

### Modified Approach to Infrastructure

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

| | OCI Condition Rating | Square Feet of Road Area 2008 Square Feet | 2008 % | 2007 Square Feet | 2007 % | 2006 Square Feet | 2006 % |
|---|---|---|---|---|---|---|---|
| Acceptable | 75 - 100 | 3,874,018 | 78.00 | 3,699,578 | 74.75 | 3,467,730 | 70.04 |
| Marginally deficient | 50 - 74 | 862,861 | 17.37 | 828,126 | 16.73 | 859,856 | 17.37 |
| Moderately deficient | 25 - 49 | 230,186 | 4.63 | 421,541 | 8.52 | 520,393 | 10.51 |
| Severely deficient | 0 - 24 | — | — | — | — | 102,963 | 2.08 |
| Total | | 4,967,065 | 100.00 | 4,949,245 | 100.00 | 4,950,942 | 100.00 |

| | Comparison of Estimated-to-Actual Maintenance/Preservation 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Original estimate | $ 314,310 | $ 256,852 | $ 192,306 | $ 177,927 | $ 175,500 |
| Actual | $ 248,637 | $ 258,219 | $ 193,489 | $ 148,404 | $ 180,007 |

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

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

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

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

# SUPPLEMENTARY INFORMATION

# Nonmajor Governmental Funds

## Special Revenue Funds

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

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

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

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

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

## Permanent Funds

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

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

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

# CITY OF FRANKLIN, KENTUCKY

## COMBINING BALANCE SHEET
## NONMAJOR GOVERNMENTAL FUNDS
## June 30, 2008

| | Special Revenue | | | | |
|---|---|---|---|---|---|
| | Cemetery | Community Development | Municipal Aid | Economic Development | Total |
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 12,778 | $ 84,934 | $ 210,305 | $ — | $ 308,017 |
| Certificates of deposit | — | — | — | — | — |
| Receivables (net of allowance for uncollectibles): | | | | | |
| Accounts | 10,050 | — | — | — | 10,050 |
| Notes | — | — | — | 51,595 | 51,595 |
| Intergovernmental | — | — | 24,427 | — | 24,427 |
| Interest | — | — | — | — | — |
| Due from other funds | 2 | — | — | 50,993 | 50,995 |
| Prepaid items | 400 | — | — | — | 400 |
| Restricted assets: | | | | | |
| Cash and cash equivalents | 1,273 | — | — | — | 1,273 |
| Total assets | $ 24,503 | $ 84,934 | $ 234,732 | $ 102,588 | $ 446,757 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Accounts payable | $ 42 | $ — | $ 43,064 | $ — | $ 43,106 |
| Due to other funds | 100 | 32,206 | — | — | 32,306 |
| Deferred revenue | — | — | — | 51,595 | 51,595 |
| Total liabilities | 142 | 32,206 | 43,064 | 51,595 | 127,007 |
| Fund balances: | | | | | |
| Reserved for perpetual care | — | — | — | — | — |
| Unreserved, undesignated | 24,361 | 52,728 | 191,668 | 50,993 | 319,750 |
| Total fund balances | 24,361 | 52,728 | 191,668 | 50,993 | 319,750 |
| Total liabilities and fund balances | $ 24,503 | $ 84,934 | $ 234,732 | $ 102,588 | $ 446,757 |

| Permanent Funds<br>Cemetery Perpetual | Total Nonmajor Governmental Funds |
|---|---|
| $ 20,353 | $ 328,370 |
| 429,206 | 429,206 |
| — | 10,050 |
| — | 51,595 |
| — | 24,427 |
| 552 | 552 |
| 100 | 51,095 |
| — | 400 |
| — | 1,273 |
| $ 450,211 | $ 896,968 |
| $ — | $ 43,106 |
| — | 32,306 |
| — | 51,595 |
| — | 127,007 |
| 450,211 | 450,211 |
| — | 319,750 |
| 450,211 | 769,961 |
| $ 450,211 | $ 896,968 |

# CITY OF FRANKLIN, KENTUCKY

## COMBINING BALANCE SHEET
## NONMAJOR PERMANENT FUNDS
## June 30, 2008

| | Francis Harris Cemetery Perpetual | Greenlawn-Shady Rest Cemetery Perpetual | Total Nonmajor Permanent Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 4,350 | $ 16,003 | $ 20,353 |
| Certificates of deposit | 50,000 | 379,206 | 429,206 |
| Accrued interest receivable | — | 552 | 552 |
| Due from other funds | — | 100 | 100 |
| Total assets | $ 54,350 | $ 395,861 | $ 450,211 |
| **FUND BALANCES** | | | |
| Reserved for cemetery maintenance | $ 54,350 | $ — | $ 54,350 |
| Reserved for perpetual care | — | 395,861 | 395,861 |
| Total fund balances | $ 54,350 | $ 395,861 | $ 450,211 |

# CITY OF FRANKLIN, KENTUCKY

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS Year Ended June 30, 2008

| | Special Revenue | | | | |
|---|---|---|---|---|---|
| | Cemetery | Community Development | Municipal Aid | Economic Development | Total |
| Revenues | | | | | |
| Intergovernmental | $ — | $ — | $ 322,743 | $ — | $ 322,743 |
| Charges for sales and services | 74,510 | — | — | — | 74,510 |
| Contributions | — | — | — | — | — |
| Investment income | 214 | — | 1,879 | 1,386 | 3,479 |
| Miscellaneous | 206 | — | — | 4,033 | 4,239 |
| Total revenues | 74,930 | — | 324,622 | 5,419 | 404,971 |
| Expenditures | | | | | |
| Current: | | | | | |
| Public works | — | — | 207,264 | — | 207,264 |
| Community services | 233,301 | 13,529 | — | — | 246,830 |
| Capital outlay | — | — | 113,111 | — | 113,111 |
| Total expenditures | 233,301 | 13,529 | 320,375 | — | 567,205 |
| Excess (deficiency) of revenues over (under) expenditures | ( 158,371) | ( 13,529) | 4,247 | 5,419 | ( 162,234) |
| Other financing sources (uses): | | | | | |
| Transfers in | 164,500 | — | — | — | 164,500 |
| Transfers out | — | — | — | — | — |
| Sale of capital assets | — | 37,595 | — | — | 37,595 |
| Total other financing sources (uses) | 164,500 | 37,595 | — | — | 202,095 |
| Net change in fund balances | 6,129 | 24,066 | 4,247 | 5,419 | 39,861 |
| Fund balances, beginning of year | 18,232 | 28,662 | 187,421 | 45,574 | 279,889 |
| Fund balances, end of year | $ 24,361 | $ 52,728 | $ 191,668 | $ 50,993 | $ 319,750 |

| Permanent Funds | |
|---|---|
| Cemetery Perpetual | Total Nonmajor Governmental Funds |
| $ — | $ 322,743 |
| — | 74,510 |
| 6,600 | 6,600 |
| 21,341 | 24,820 |
| — | 4,239 |
| 27,941 | 432,912 |
| — | 207,264 |
| 1,983 | 248,813 |
| — | 113,111 |
| 1,983 | 569,188 |
| 25,958 | ( 136,276) |
| — | 164,500 |
| ( 17,500) | ( 17,500) |
| — | 37,595 |
| ( 17,500) | 184,595 |
| 8,458 | 48,319 |
| 441,753 | 721,642 |
| $ 450,211 | $ 769,961 |

## CITY OF FRANKLIN, KENTUCKY

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR PERMANENT FUNDS Year Ended June 30, 2008

| | Francis Harris Cemetery Perpetual | Greenlawn-Shady Rest Cemetery Perpetual | Total Nonmajor Permanent Funds |
|---|---|---|---|
| Revenues | | | |
| Investment income | $ 2,470 | $ 18,871 | $ 21,341 |
| Contributions | — | 6,600 | 6,600 |
| Total revenues | 2,470 | 25,471 | 27,941 |
| Expenditures | | | |
| Current: | | | |
| Community services | 1,983 | — | 1,983 |
| Excess of revenues over expenditures | 487 | 25,471 | 25,958 |
| Other financing uses: | | | |
| Transfers out | — | ( 17,500) | ( 17,500) |
| Excess of revenues over expenditures and other financing uses | 487 | 7,971 | 8,458 |
| Fund balance, beginning of year | 53,863 | 387,890 | 441,753 |
| Fund balance, end of year | $ 54,350 | $ 395,861 | $ 450,211 |

## CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
## Greenlawn - Shady Rest Cemetery Special Revenue Fund
## Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Revenues | | | | |
| Charges for sales and services | $ 58,500 | $ 69,170 | $ 74,510 | $ 5,340 |
| Investment income | 250 | 223 | 214 | ( 9) |
| Miscellaneous | 39 | 100 | 206 | 106 |
| Total revenues | 58,789 | 69,493 | 74,930 | 5,437 |
| Expenditures | | | | |
| Current: | | | | |
| Community services: | | | | |
| Personal services | 8,100 | 7,030 | 6,996 | 34 |
| Contractual services | 168,523 | 168,532 | 168,668 | ( 136) |
| Materials and supplies | 1,150 | 1,117 | 1,028 | 89 |
| Administrative overhead | 50,000 | 50,000 | 50,000 | — |
| Other | 5,000 | 6,810 | 6,609 | 201 |
| Total expenditures | 232,773 | 233,489 | 233,301 | 188 |
| Deficiency of revenues under expenditures | ( 173,984) | ( 163,996) | ( 158,371) | 5,625 |
| Other financing sources: | | | | |
| Transfers in | 174,500 | 164,500 | 164,500 | — |
| Excess of revenues and other financing sources over expenditures | 516 | 504 | 6,129 | 5,625 |
| Fund balance, beginnning of year | 18,232 | 18,232 | 18,232 | — |
| Fund balance, end of year | $ 18,748 | $ 18,736 | $ 24,361 | $ 5,625 |

## CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
## Community Development Special Revenue Fund
## Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Revenues | $ — | $ — | $ — | $ — |
| Expenditures | | | | |
| Current: | | | | |
| Community services: | | | | |
| Economic development | — | — | 13,529 | ( 13,529) |
| Deficiency of revenues under expenditures | — | — | ( 13,529) | ( 13,529) |
| Other financing sources: | | | | |
| Sale of capital assets | — | — | 37,595 | 37,595 |
| Excess of revenues and other financing sources over expenditures | — | — | 24,066 | 24,066 |
| Fund balance, beginning of year | 28,662 | 28,662 | 28,662 | — |
| Fund balance, end of year | $ 28,662 | $ 28,662 | $ 52,728 | $ 24,066 |

## CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
## Municipal Aid Special Revenue Fund
## Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Revenues | | | | |
| Intergovernmental: | | | | |
| Liquid fuel tax | $ 126,312 | $ 126,312 | $ 137,306 | $ 10,994 |
| Mineral and coal severance tax | 7,000 | 19,141 | 23,237 | 4,096 |
| Municipal road aid bond | — | 96,200 | 92,200 | ( 4,000) |
| State grant | — | 70,000 | 70,000 | — |
| Investment income | 2,000 | 1,725 | 1,879 | 154 |
| Total revenues | 135,312 | 313,378 | 324,622 | 11,244 |
| Expenditures | | | | |
| Current: | | | | |
| Public works | 120,000 | 275,161 | 207,264 | 67,897 |
| Capital outlay: | | | | |
| Public works | 15,000 | 107,200 | 113,111 | ( 5,911) |
| Total expenditures | 135,000 | 382,361 | 320,375 | 61,986 |
| Excess (deficiency) of revenues over(under) expenditures | 312 | ( 68,983) | 4,247 | 73,230 |
| Fund balance, beginning of year | 187,421 | 187,421 | 187,421 | — |
| Fund balance, end of year | $ 187,733 | $ 118,438 | $ 191,668 | $ 73,230 |

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE
Economic Development Revolving Loan Special Revenue Fund
Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Revenues | | | | |
| Investment income | $ 2,678 | $ 2,678 | $ 1,386 | ($ 1,292) |
| Revolving loan payments | 8,159 | 8,159 | 4,033 | ( 4,126) |
| Total revenues | 10,837 | 10,837 | 5,419 | ( 5,418) |
| Expenditures | — | — | — | — |
| Excess of revenues over expenditures | 10,837 | 10,837 | 5,419 | ( 5,418) |
| Fund balance, beginning of year | 45,574 | 45,574 | 45,574 | — |
| Fund balance, end of year | $ 56,411 | $ 56,411 | $ 50,993 | ($ 5,418) |

## PROPRIETARY FUNDS

### Enterprise Funds

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

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

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

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

# CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
## Water and Wastewater Fund
## Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Water division | $ 2,153,258 | $ 2,141,755 | $ 2,101,720 | ($ 40,035) |
| Wastewater division | 1,867,357 | 1,857,949 | 1,808,938 | ( 49,011) |
| Total operating revenues | 4,020,615 | 3,999,704 | 3,910,658 | ( 89,046) |
| Nonoperating revenues: | | | | |
| Investment income | 343,000 | 100,237 | 109,134 | 8,897 |
| Grant revenue | — | 282,186 | 180,367 | ( 101,819) |
| Miscellaneous | 99,183 | 151,889 | 71,085 | ( 80,804) |
| Sale of capital assets | 7,276 | 823,950 | 738,297 | ( 85,653) |
| Total nonoperating revenues | 449,459 | 1,358,262 | 1,098,883 | ( 259,379) |
| Total revenues | 4,470,074 | 5,357,966 | 5,009,541 | ( 348,425) |
| Expenditures | | | | |
| Water division: | | | | |
| Production: | | | | |
| Personal services | 291,481 | 243,457 | 245,218 | ( 1,761) |
| Contractual services | 196,180 | 188,401 | 180,440 | 7,961 |
| Materials and supplies | 173,575 | 202,752 | 206,133 | ( 3,381) |
| Other | 3,900 | 3,147 | 3,327 | ( 180) |
| Total water production | 665,136 | 637,757 | 635,118 | 2,639 |
| Distribution: | | | | |
| Personal services | 346,945 | 326,870 | 328,017 | ( 1,147) |
| Contractual services | 29,179 | 42,492 | 36,876 | 5,616 |
| Materials and supplies | 112,501 | 81,274 | 93,723 | ( 12,449) |
| Other | 11,000 | 11,692 | 12,323 | ( 631) |
| Total water distribution | 499,625 | 462,328 | 470,939 | ( 8,611) |

## CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
### Water and Wastewater Fund
### Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Expenditures (continued) | | | | |
| Meter reading and maintenance: | | | | |
| Personal services | $ 58,016 | $ 51,695 | $ 51,485 | $ 210 |
| Contractual services | 7,904 | 5,508 | 5,505 | 3 |
| Materials and supplies | 35,368 | 54,860 | 53,623 | 1,237 |
| Other | 1,000 | 50 | 130 | ( 80) |
| Total water meter reading and maintenance | 102,288 | 112,113 | 110,743 | 1,370 |
| Total water division | 1,267,049 | 1,212,198 | 1,216,800 | ( 4,602) |
| Wastewater division: | | | | |
| Treatment: | | | | |
| Personal services | 296,306 | 277,451 | 277,435 | 16 |
| Contractual services | 184,870 | 214,498 | 219,701 | ( 5,203) |
| Materials and supplies | 109,093 | 93,225 | 94,303 | ( 1,078) |
| Other | 6,000 | 5,674 | 4,705 | 969 |
| Total wastewater treatment | 596,269 | 590,848 | 596,144 | ( 5,296) |
| Collection and rehabilitation: | | | | |
| Personal services | 159,341 | 154,947 | 154,505 | 442 |
| Contractual services | 54,397 | 65,234 | 62,951 | 2,283 |
| Materials and supplies | 63,999 | 60,264 | 55,361 | 4,903 |
| Other | 7,800 | 5,616 | 4,714 | 902 |
| Total wastewater collection and rehabilitation | 285,537 | 286,061 | 277,531 | 8,530 |
| Total wastewater division | 881,806 | 876,909 | 873,675 | 3,234 |
| Administrative overhead | 475,500 | 415,500 | 415,500 | — |
| Debt service: | | | | |
| Principal | 1,081,587 | 1,067,373 | 1,067,373 | — |
| Interest | 383,204 | 373,836 | 371,496 | 2,340 |
| Administrative fees | 10,098 | 11,326 | 12,546 | ( 1,220) |
| Total debt service | 1,474,889 | 1,452,535 | 1,451,415 | 1,120 |
| Capital outlays | 365,400 | 544,445 | 288,703 | 255,742 |
| Total expenditures | 4,464,644 | 4,501,587 | 4,246,093 | 255,494 |

## CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
### Water and Wastewater Fund
### Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Excess of revenues over expenditures | $ 5,430 | $ 856,379 | $ 763,448 | ($ 92,931) |
| Other financing uses: | | | | |
| Transfers out | — | ( 828,400) | ( 828,400) | — |
| Excess (deficiency) of revenues over (under) expenditures and other financing uses | $ 5,430 | $ 27,979 | ( 64,952) | ($ 92,931) |
| Add: | | | | |
| Principal payments | | | 1,067,373 | |
| Capital outlays | | | 288,703 | |
| Less: | | | | |
| Depreciation expense | | | ( 1,027,319) | |
| Amortization expense | | | ( 25,732) | |
| Change in net assets | | | 238,073 | |
| Net assets, beginning of year | | | 14,805,741 | |
| Net assets, end of year | | | $15,043,814 | |

# CITY OF FRANKLIN, KENTUCKY

## BUDGETARY COMPARISON SCHEDULE
## Sanitation Fund
## Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Charges for services: | | | | |
| Hand pick-up | $ 686,973 | $ 692,677 | $ 714,504 | $ 21,827 |
| Industry sanitation | 546,115 | 570,127 | 567,311 | ( 2,816) |
| Commercial dumpster | 422,060 | 442,357 | 442,725 | 368 |
| Collection fees | 16,264 | 16,578 | 16,712 | 134 |
| Fines and forfeitures | 14,064 | 16,140 | 16,683 | 543 |
| Franchise fee | 104,237 | 104,237 | 104,237 | — |
| Total operating revenues | 1,789,713 | 1,842,116 | 1,862,172 | 20,056 |
| Nonoperating revenues: | | | | |
| Investment income | 1,500 | 520 | 528 | 8 |
| Miscellaneous | — | 28,376 | 28,376 | — |
| Total nonoperating revenues | 1,500 | 28,896 | 28,904 | 8 |
| Total revenues | 1,791,213 | 1,871,012 | 1,891,076 | 20,064 |
| Expenditures | | | | |
| Sanitation operations: | | | | |
| Personal services | 10,068 | 10,243 | 10,206 | 37 |
| Contractual services | 1,629,950 | 1,672,073 | 1,693,159 | ( 21,086) |
| Administrative overhead | 126,100 | 186,100 | 186,100 | — |
| Other | 3,400 | — | 1,338 | ( 1,338) |
| Total expenditures | 1,769,518 | 1,868,416 | 1,890,803 | ( 22,387) |
| Excess of revenues over expenditures | $ 21,695 | $ 2,596 | 273 | ($ 2,323) |
| Net assets, beginning of year | | | 69,932 | |
| Net assets, end of year | | | $ 70,205 | |

*APPENDIX D*

---

*Form of Final Approving Legal Opinion of Bond Counsel*

The form of the legal approving opinion of Peck, Shaffer & Williams LLP, bond counsel, is set forth below. The actual opinion will be delivered on the date of delivery of the bonds referred to therein and may vary from the form set forth to reflect circumstances both factual and legal at the time of such delivery. Recirculation of the Final Official Statement shall create no implication that Peck, Shaffer & Williams LLP has reviewed any of the matters set forth in such opinion subsequent to the date of such opinion.

City of Franklin, Kentucky
Franklin, Kentucky

Gentlemen:

We have acted as bond counsel in connection with the authorization, sale and issuance by the City of Franklin, Kentucky (the "City"), a municipal corporation and political subdivision of the Commonwealth of Kentucky, acting by and through its City Commission as its duly authorized governing body of $_____ principal amount of its Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009, dated October __, 2009 (the "Series 2009 Bonds").

The Series 2009 Bonds have been authorized and issued pursuant to Chapter 58 and §§ 96.320 to 96.510, inclusive, of the Kentucky Revised Statutes (collectively, the "Act"), and a certain bond ordinance adopted by the City on September 14, 2009 (the "Ordinance"). Pursuant to the Ordinance, the City has authorized the issuance of the Series 2009 Bonds for the purpose of paying the costs of financing improvements to the City's combined and consolidated water and sewer system (the "System"), paying the costs, not otherwise provided for, of refunding certain outstanding obligations payable from the revenues of the System, funding a debt service reserve for the Series 2009 Bonds, if necessary, and paying the costs of issuance of the Series 2009 Bonds.

We have examined such portions of the Constitution and Statutes of the United States, the Constitution and Statutes of the Commonwealth of Kentucky, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records, and the transcript of proceedings relating to the authorization and issuance of the Series 2009 Bonds, including a specimen bond, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied upon certificates of officials of the City as to certain factual matters. Based upon the foregoing, we advise you that in our opinion under existing law:

1. The Series 2009 Bonds have been duly authorized by the City in accordance with the Constitution and Statutes of the Commonwealth of Kentucky, including the Act, and in accordance with the Ordinance, and upon issuance will constitute valid and binding special obligations of the City, payable as to principal, interest, and premium, if any, from and secured by a pledge of (i) the Revenues of the System, as defined in the Ordinance, (ii) the proceeds of the sale of the Series 2009 Bonds, and (iii) all funds established by the Ordinance, including accounts thereof and monies and securities therein, subject only to the provisions of the Ordinance permitting the use and application thereof for or to the purposes and on the terms and conditions set forth in the Ordinance, all as more specifically described in the Ordinance, on a parity with the City's outstanding (i) $1,570,000 Fixed Rate Lease Purchase Agreement dated as of October 10, 2000 between the City and the Kentucky Municipal Finance Corporation, including the City of Danville, Kentucky Multi-City Lease Revenue Bonds (City of Franklin, Kentucky Water and Sewer Revenue Project) Fixed Rate Series 2000-A issued pursuant thereto, (ii) $4,885,000 City of

Franklin, Kentucky Water and Sewer Revenue Refunding Bonds, Series 2002 and (iii) $4,495,000 City of Franklin, Kentucky Water and Sewer Revenue Bonds, Series 2004.

2. Neither the faith and credit nor the taxing power of the Commonwealth of Kentucky, or any political subdivision thereof, nor the faith and credit of the City is pledged to the payment of the principal of or interest on the Series 2009 Bonds, or to the payment of premium, if any.

3. Interest on the Series 2009 Bonds will be exempt from income taxation by the Commonwealth of Kentucky, and the Series 2009 Bonds will be exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

4. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, on the Series 2009 Bonds will be excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Series 2009 Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations, nor be includable in adjusted current earnings, under Section 56(c) of the Code, in computing the alternative minimum tax for corporations.. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Series 2009 Bonds.

5. The City has designated the Series 2009 Bonds as "qualified tax-exempt obligations" under § 265 of the Code.

Our opinion set forth above is subject to the qualification that the enforceability of the Ordinance, the Series 2009 Bonds and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights or by general equitable principles.

The Series 2009 Bonds will be special and limited obligations of the City, payable solely and only from the revenues provided for by the Ordinance. The Series 2009 Bonds do not pledge the general credit or taxing power, if any, of the City, the Commonwealth or any other agency or political subdivision of the Commonwealth.

Very truly yours,

Peck, Shaffer & Williams LLP

**OFFICIAL TERMS AND CONDITIONS OF BOND SALE**
**$1,545,000***
**City of Franklin, Kentucky Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009**
**SALE: September 29, 2009 at 10:30 A.M., C.D.S.T.**

As duly advertised, electronic bids will be received by the City of Franklin, Kentucky (the "City"), until 10:30 a.m., C.T. on September 29, 2009 (or at such later time and date announced at least forty-eight hours in advance via the BiDCOMP®/PARITY® system) for the purchase of the City's revenue bonds herein described (the "Bonds"). Alternatively, written sealed or facsimile bids for the Bonds by the designated time will be received by the Finance Director, 117 West Cedar Street, Franklin, Kentucky 42134 (FAX: (270) 586-9419). Electronic bids must be submitted through BiDCOMP®PARITY® as described herein and no other provider of electronic bidding services will be accepted. Bids will be opened and acted upon by the Mayor later that same day.

*Preliminary; subject to change as herein described.

## STATUTORY AUTHORITY AND PURPOSE OF ISSUE

These Bonds are authorized pursuant to Chapters 58 and 96 of the Kentucky Revised Statutes and are being issued in accordance with a Bond Ordinance adopted by the City Commission of the City on September 14, 2009 (the "Bond Ordinance"). The Bonds are revenue bonds and do not constitute a direct indebtedness of the City.

The Bonds are being issued to finance the costs, not otherwise provided, of the construction of extensions, improvements and additions to the combined and consolidated water and sewer system of the City (the "System") and the refunding of the City's outstanding Variable Rate Lease/Purchase Agreement dated October 10, 1989 with the Kentucky Municipal Finance Corporation (the "Series 1989 Lease") and Lease/Purchase Agreement between the City and the Kentucky Municipal Finance Corporation dated as of May 1, 1999 (the "Series 1999 Lease") maturing on or after December 1, 2010, including the related Certificates of Participation (City of Franklin, Kentucky Water and Sewer Revenue Refunding Project) (the "Series 1999 Certificates"), the proceeds of which in turn financed and refinanced the construction of extensions, improvements and additions to the System.

The Bonds, in the opinion of Bond Counsel, will constitute legal, valid and binding special obligations of the City of Franklin, Kentucky, payable solely from and secured by a first pledged of and lien on the gross revenues of the System, ranking on a parity with the outstanding principal amount of the (i) Fixed Rate Lease/Purchase Agreement between the City and the Kentucky Municipal Finance Corporation dated as of October 10, 2000 in the original principal amount of $1,570,000 (the "Series 2000 Lease"), (ii) $4,885,000 City of Franklin, Kentucky Water and Sewer System Revenue Refunding Bonds, Series 2002 (the "Series 2002 Bonds") and (iii) $4,495,000 City of Franklin, Kentucky Water and Sewer System Revenue Bonds, Series 2004 (the "Series 2004 Bonds"). The right is reserved by the City to issue additional debt ranking on a parity ("Parity Debt") as to security and source of payment with the Series 2000 Lease, Series 2002 Bonds, Series 2004 Bonds and the Bonds upon meeting the requirements prescribed by the Bond Ordinance. The Bond Ordinance provides that so long as any of the Series 2000 Lease, Series 2002 Bonds, Series 2004 Bonds, the Bonds and/or any additional

Parity Debt are outstanding ("System Bonds"), the System shall be owned and operated by the City as a single, revenue producing, public project or System within the meaning of the aforesaid Statutes, for the security and source of payment of any and all of such System Bonds.

In order to further secure the Bonds, the City has covenanted as follows:

(A) It will at all times operate said System on a revenue-producing basis and will permit no free services to be rendered or afforded thereby to any person, firm or corporation, including the City.

(B) Pursuant to KRS 96.934, rates and charges for sewer service provided by the System shall be billed simultaneously with rates for water service provided by the System, and water service shall be discontinued to any premises where there is failure to pay any part of the aggregate charges so billed, including such interest, penalties and fees for disconnection and/or reconnection as may be prescribed from time to time.

(C) It will establish, enforce and collect rates and charges for services rendered and facilities afforded by said System, and the same shall be reasonable and just, taking into account and consideration the cost had value of the System, the costs of operating the same and maintaining it in good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all System Bonds and the Bonds herein authorized, and the accruing interest thereon and the accumulation of reserves as herein provided, and such rates and charges shall be adequate to meet all such requirements as provided in this Series 2009 Bond Ordinance and shall, if necessary, be adjusted from time to time in order to comply herewith.

## BOND MATURITIES, PRIOR REDEMPTION PROVISIONS AND PAYING AGENT

The Bonds will bear interest from their date of delivery, payable on the first day of each June and December, commencing June 1, 2010. The Bonds are scheduled to mature in each of the years as follows:

| Maturity Date December 1 | Principal Maturity Series 2009 Bonds* | Maturity Date December 1 | Principal Maturity Series 2009 Bonds* |
|---|---|---|---|
| 2010 | $125,000 | 2018 | $160,000 |
| 2011 | 130,000 | 2019 | 40,000 |
| 2012 | 135,000 | 2020 | 40,000 |
| 2013 | 135,000 | 2021 | 45,000 |
| 2014 | 145,000 | 2022 | 45,000 |
| 2015 | 145,000 | 2023 | 45,000 |
| 2016 | 150,000 | 2024 | 50,000 |
| 2017 | 155,000 | | |

*Subject to Permitted Adjustment

The Bonds maturing on or after December 1, 2020, are subject to redemption prior to their stated maturities on any date falling on or after December 1, 2019, in such order of

maturities as the City shall determine (less than all of a single maturity to be selected by lot), in whole or in part, upon terms of the face amount, plus accrued interest.

The Huntington National Bank, Cincinnati, Ohio, has been appointed Paying Agent and Registrar for the Bonds.

## BIDDING CONDITIONS AND RESTRICTIONS

The terms and conditions of the sale of the Bonds are as follows:

(A) Bids are required to be submitted on the Official Bid Form in order to provide for uniformity in submission of bids and ready determination of the best bid. Bids may alternatively be submitted electronically via the BiDCOMP®/PARITY® system. Electronic bids for the Bonds must be submitted through the BiDCOMP®/PARITY® system and no other provider of electronic bidding services will be accepted. Subscription to the BiDCOMP®/PARITY® Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by BiDCOMP®/PARITY® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in BiDCOMP®/PARITY® conflict with the terms of the Official Terms and Conditions of Bond Sale, this Official Terms and Conditions of Bond Sale shall prevail. Electronic bids made through the facilities of BiDCOMP®/PARITY® shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the City. The City shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by BiDCOMP®/PARITY®. The use of the BiDCOMP®/PARITY® system facilities are at the sole risk of the prospective bidders. For further information regarding the BiDCOMP®/PARITY® system, potential bidders may contact BiDCOMP®/PARITY®, telephone (212) 404-8102. Notwithstanding the foregoing non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form. Official Bid Forms, together with a Preliminary Official Statement, may be obtained at the office of the Financial Advisor, First Kentucky Securities Corporation, 305 Ann Street, Suite 400, Frankfort, Kentucky 40602, Attention Stan Kramer (502) 875-4611.

(B) The minimum bid shall be not less than $1,529,550 (99.00% of par), plus accrued interest. Interest rates shall be in multiples 1/8 or 1/20 of 1% or both. Only one interest rate shall be permitted per Bond, and all Bonds of the same maturity shall bear the same rate. Interest rates must be on an ascending scale, in that the interest rate stipulated for any maturity shall not be less than the interest rate for any preceding maturity. There is no limit on the number of different interest rates.

(C) The maximum permissible net interest cost for the Bonds shall not exceed "The Bond Buyer's" Index of 20 Municipal Bonds as established on the Thursday immediately preceding the sale of said bonds plus 1.50%

(D) The determination of the best purchase bid for said Bonds shall be made on the basis of all bids submitted for exactly $1,545,000 principal amounts of Bonds offered for sale hereunder; but the City may adjust the principal amount of Bonds which may be awarded to such best bidder upward or downward by up to $300,000 (the "Permitted Adjustment") to a

minimum of $1,245,000 or a maximum of $1,845,000. In the event of such Permitted Adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. The price at which such adjusted principal amount of Bonds will be sold will be the same price per $1,000 of Bonds as the price per $1,000 for the $1,545,000 of Bonds bid.

(E) Bidders have the option of specifying that all the Bonds maturing in any two or more consecutive years may, in lieu of maturing in each of such years, be combined to comprise one or more maturities of Bonds scheduled to mature in the latest of such year and be subject to mandatory sinking fund redemption at par in each of the years and in the principal amounts of such term Bonds scheduled in the year of maturity of the term Bonds, which principal amount shall mature in that year. Bidders may specify an unlimited number of such term Bonds.

(F) CUSIP identification numbers will be printed on the Bonds at the expense of the City. The purchaser shall pay the CUSIP Service Bureau Charge and the cost of printing the Final Official Statement. Improper imprintation or the failure to imprint CUSIP numbers shall not constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for the Bonds in accordance with the terms of any accepted proposal for the purchase of the Bonds.

(G) The City will provide to the successful purchaser a Final Official Statement in accordance with SEC Rule 15c2-12. A final Official Statement will be provided in Electronic Form to the successful bidder, in sufficient time to meet the delivery requirements of the successful bidder under SEC and Municipal Securities Rulemaking Board Delivery Requirements. The successful bidder will be required to pay for the printing of Final Official Statements..

(H) Bids need not be accompanied by a certified or bank cashier's good faith check, but the successful bidder will be required to wire transfer to the order of the City an amount equal to 2% of the amount of the principal amount of Bonds awarded by the close of business on the day following the award. Said good faith amount will be forfeited as liquidated damages in the event of a failure of the successful bidder to take delivery of such Series 2009 Bonds when ready. The good faith amount (without interest) will be applied to the purchase price upon delivery of the Bonds. The successful bidder shall not be required to take up and pay for said Bonds unless delivery is made within 45 days from the date the bid is accepted.

(I) The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. They will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Purchases of the Bonds under the DTC system must be made by or through securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"), which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (a "Beneficial Owner") is in turn to be recorded on the records of Direct Participants or securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant (the "Indirect Participants"). Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the

books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

(J) The City reserves the right to reject any and all bids or to waive any informality in any bid. The Bonds are offered for sale subject to the principal and interest not being subject to Federal or Kentucky income taxation or Kentucky ad valorem taxation on the date of their delivery to the successful bidder, in accordance with the Final Approving Legal Opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, which Opinion will be qualified in accordance with the section hereof on TAX TREATMENT.

(K) Prospective bidders are advised that First Kentucky Securities Corporation has been employed as Financial Advisor in connection with the issuance of the Bonds. First Kentucky Securities Corporation's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery thereof. Bidders, including First Kentucky Securities Corporation, may submit a bid for the purchase of the Bonds at the time of the advertised public sale, either individually or as a member of a syndicate organized to submit a bid for the purchase of the Bonds.

(L) As required by the Code, the purchaser of the Bonds will be required to certify to the City as to certain of its activities regarding any reoffering to the public of the Bonds, including any reoffering prices.

## CONTINUING DISCLOSURE

In accordance with the Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule") the City (the "Obligated Person") will agree pursuant to a Continuing Disclosure Undertaking (the "Continuing Disclosure Undertaking") to be dated as of the date of issuance and delivery of the Bonds, to cause the following information to be provided:

(i) to the Municipal Securities Rulemaking Board ("MSRB"), certain annual financial information and operating data, including audited financial statements prepared in accordance with generally accepted accounting principles as applied to governmental units, generally consistent with the information contained in "Appendix A" and "Appendix B" of the Official Statement ("Financial Data"); such information shall be provided within 365 days after the end of the fiscal year ending June 30, commencing with the fiscal year ended June 30, 2009; provided that the audited financial statements may not be available by such date, but will be made available immediately upon delivery thereof by the auditors for the Obligated Person;

(ii) to the MSRB, if any, notice of the occurrence of the following events, if material, with respect to the Bonds:

(a) Principal and interest payment delinquencies;
(b) Non-payment related defaults;
(c) Unscheduled draws on debt service reserves reflecting financial difficulties;
(d) Unscheduled draws on credit enhancements reflecting financial difficulties;

(e) Substitution of credit or liquidity providers, or their failure to perform;
(f) Adverse tax opinions or events affecting the tax-exempt status of the security;
(g) Modifications to rights of security holders;
(h) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
(i) Defeasances;
(j) Release, substitution or sale of property securing repayment of the securities;
(k) Rating changes; and
(l) The cure, in the manner provided under the Bond Ordinance, of any payment or nonpayment related default under the Bond Ordinance; and

(iii) in a timely manner, to the MSRB, notice of a failure of the Obligated Person to provide the required Financial Data on or before the date specified in the Continuing Disclosure Undertaking.

The Continuing Disclosure Undertaking provides bondholders, including beneficial owners of the Bonds, with certain enforcement rights in the event of a failure by the Obligated Person to comply with the terms thereof; however, a default under the Continuing Disclosure Undertaking does not constitute an event of default under the Bond Ordinance. The Continuing Disclosure Undertaking may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein.

For purposes of this transaction with respect to material events as defined under the Rule:

(a) there are no credit enhancements applicable to the Bonds;
(b) there are no liquidity providers applicable to the Bonds; and
(c) there is no property securing the Bonds.

The City has entered into previous disclosure undertakings under the Rule. To the best of the City's knowledge, the City is currently in compliance with its continuing disclosure undertakings.

## TAX TREATMENT

In the opinion of Bond Counsel for the Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds will be excludible from gross income for Federal income tax purposes. Bond Counsel for the Bonds is also of the opinion that interest on the Bonds will not be a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes nor includable in "adjusted current earnings" under Section 56(c) of the Code for purposes of the corporate alternative minimum tax. Furthermore, Bond Counsel for the Bonds is of the opinion that interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Bonds. The City has covenanted to comply with certain restrictions designed to ensure that

interest on the related issues of Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Bond documents and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Bonds is of the opinion that interest on the Bonds will be excludible from gross income for Federal income tax purposes and that interest on the Bonds is excludible from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Bonds on the tax liabilities of the individual or entity.

Receipt of tax-exempt interest, ownership or disposition of the Bonds may result in other collateral federal, state or local tax consequences for certain taxpayers. Such effects may include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of the Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Bonds.

The City has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

/s/ Kathy Stradtner
City Clerk, City of Franklin, Kentucky

## OFFICIAL BID FORM

Subject to the Official terms and Conditions of Bond Sale relating to the $1,545,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009 (the "Bonds"), and in accordance with the Notice of Bond Sale, as duly advertised, to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase the Bonds.

We hereby bid for said $1,545,000 principal amount of the Bonds maturing on December 1 of the years and in the amounts set forth below, the total sum of $_____ (not less than $1,529,550), at the following annual rate(s), payable semi-annually, commencing June 1, 2010 (rates on ascending scale, number of interest rates unlimited):

| Maturity Date December 1 | Principal Maturity* | Interest Rate | Maturity Date December 1 | Principal Maturity* | Interest Rate |
|---|---|---|---|---|---|
| 2010 | $125,000 | _____% | 2018 | $160,000 | _____% |
| 2011 | 130,000 | _____% | 2019 | 40,000 | _____% |
| 2012 | 135,000 | _____% | 2020 | 40,000 | _____% |
| 2013 | 135,000 | _____% | 2021 | 45,000 | _____% |
| 2014 | 145,000 | _____% | 2022 | 45,000 | _____% |
| 2015 | 145,000 | _____% | 2023 | 45,000 | _____% |
| 2016 | 150,000 | _____% | 2024 | 50,000 | _____% |
| 2017 | 155,000 | _____% | | | |

*Preliminary; subject to change as herein described.

The amounts indicated above maturing in the following years: _____ are Sinking fund redemption amounts for term bonds due _____. The amounts indicated above maturing in the following years: _____ are Sinking fund redemption amounts for term bonds due _____.

**Bids may be submitted electronically via BiDCOMP®/PARITY® until the appointed date and time, but no bid will be received after such time. Notwithstanding the foregoing, completed bid forms may be submitted until the appointed date and time (i) in a sealed envelope marked "Official Bid for Bonds" or (ii) by facsimile transmission, in each case delivered to the office of the Finance Director of the City of Franklin, 117 West Cedar Street, Franklin, Kentucky 42134 (FAX: (270) 586-9419). Neither the City nor the Financial Advisor assumes any responsibility whatsoever with regard to the receipt of bids, or that adequate personnel and/or equipment are available to accept all facsimile transfers of bids before the appointed date and time of sale. Bidders have the sole responsibility of assuring that their bids have been received via facsimile or delivered before the appointed date and time of sale. Any bids in progress by facsimile at the appointed time will be considered as received by the appointed time. No bids will be received via telephone.**

It is understood that the City will furnish the final, approving Legal Opinion of Peck, Shaffer & Williams LLP, Bond Counsel to the City. We understand that no certified or bank cashier's check will be required to accompany the bid, but that if we are the successful bidder, we shall be required to wire transfer an amount equal to 2% of the principal amount of Bonds awarded by the close of business on the day following the award. Said amount will be applied (without interest) to the purchase price when the Bonds are tendered to us for delivery.

If we are the successful bidder, we agree to accept and make payment for the Bonds in immediately available funds within forty-five (45) days from the date of sale in accordance with the terms of the sale.

Respectfully submitted,

_____
Bidder

By _____
Authorized Officer

_____
Address

Total interest cost: Date of Delivery (estimated to be October 13, 2009) to Final Maturity $_____

(Less Premium) or Plus Discount, if any $_____

Net interest cost (Total interest cost plus discount) $_____

Average interest rate or (i.e. N.I.C.) _____%

The above computation of net interest cost and of average interest rate or cost is submitted for information only and is not a part of this Bid.

Accepted this 29th day of September, 2009 by the City of Franklin, Kentucky, as follows:

| MATURITIES DECEMBER 1 | AMOUNT | MATURITIES DECEMBER 1 | AMOUNT |
|---|---|---|---|
| 2010 | $_____ | 2018 | $_____ |
| 2011 | _____ | 2019 | _____ |
| 2012 | _____ | 2020 | _____ |
| 2013 | _____ | 2021 | _____ |
| 2014 | _____ | 2022 | _____ |
| 2015 | _____ | 2023 | _____ |
| 2016 | _____ | 2024 | _____ |
| 2017 | _____ | | |

_____
Mayor