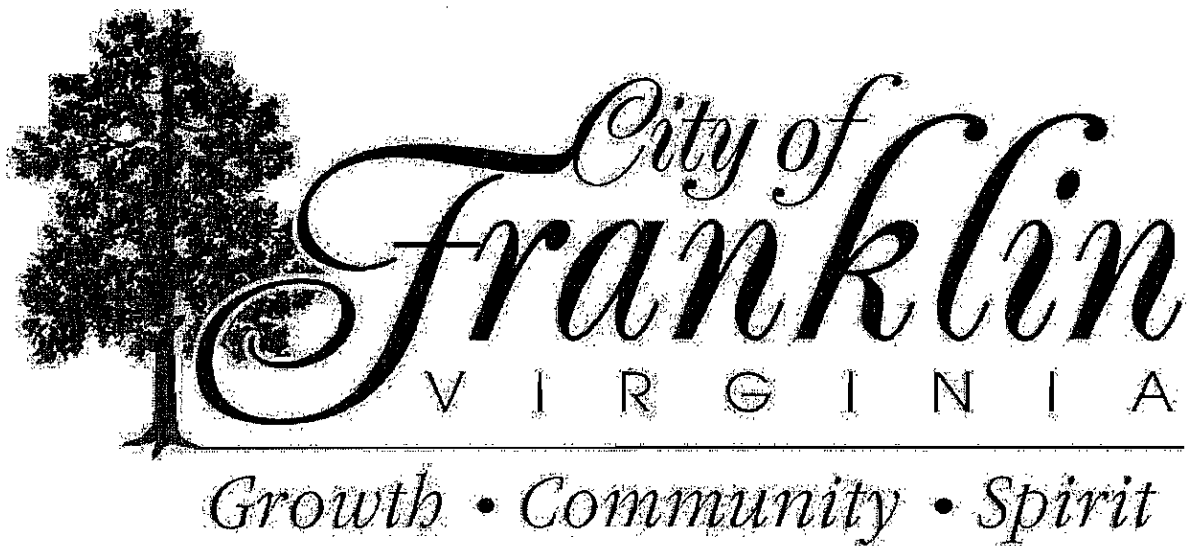


Comprehensive Annual Financial Report

Fiscal Year Ended

June 30, 2004



Prepared By:

*Finance Department
City of Franklin, Virginia*

City of Franklin, Virginia

Official Directory

June 30, 2004

Mayor

James P. Councill, III

Vice Mayor

E. Kent Pope

Council Members

Mark S. Fetherolf
Mary E. Hilliard
Joseph J. Scislowicz

Raystine D. Johnson
Charles A. Wrenn

Constitutional Officers

Brenda B. Rickman
John R. Cornwell, III

Commissioner of Revenue
City Treasurer

Franklin City Public Schools

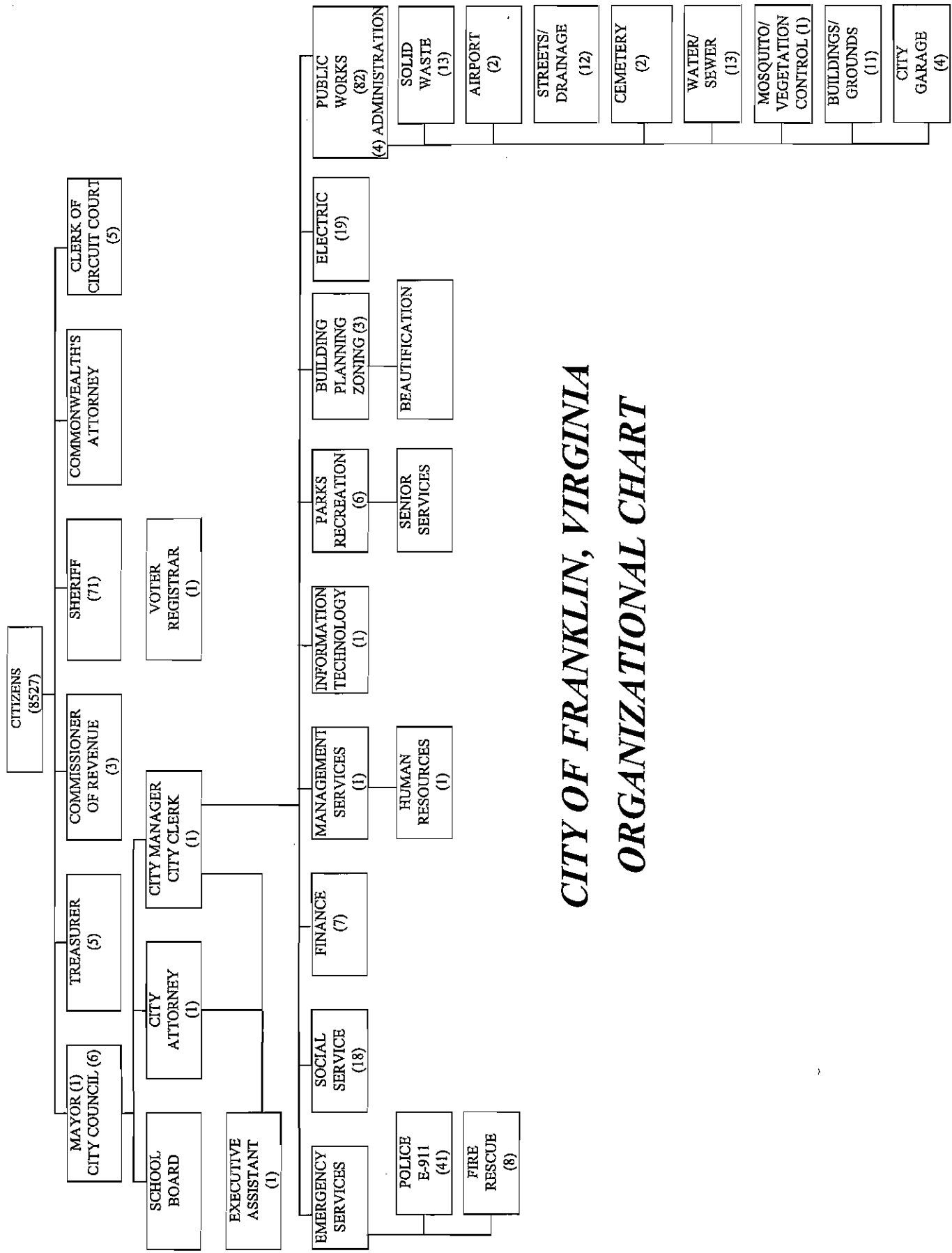
John Loving, Jr.
Alline B. Farmer, Ed. D.
Eileen T. Ritter

Chairman of School Board
Division Superintendent
Director of Finance

City Administration

Rowland L. Taylor
Andrew L. Rose
F. Bruce Stewart
Phillip Hardison
Dave A. Howe
Frank A. Davis
Sandra B. Holloman
Vincent P. Holt
Russell Pace
Lawrence A. Owes
Donald E. Goodwin

City Manager
Director of Finance
City Attorney
Chief of Police
Director of Public Utilities
Director of Parks and Recreation
Registrar
Chief of Emergency Services
Director of Public Works
Director of Social Services
Building/Planning/Zoning Officer



CITY OF FRANKLIN, VIRGINIA
ORGANIZATIONAL CHART

City of Franklin, Virginia
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2004

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City of Franklin, Virginia

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December 17, 2004

To the Honorable Mayor Council, Members of City Council, and Citizens of the City of Franklin:

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Franklin (the "City") for the fiscal year ended June 30, 2004. The report is required in accordance with Section 3.08 (c) of the Franklin City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia.

This report consists of management's representations concerning the finances of the City of Franklin. Consequently, management assumes full responsibility for both the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. To provide a reasonable basis for making these representations, management of the City of Franklin has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Franklin's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Franklin's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and the component units of the City of Franklin.

The City of Franklin's financial statements have been audited by Goodman & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Franklin for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Franklin's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented on page 1 of this report.

The independent audit of the financial statements of the City of Franklin was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies and a state compliance audit. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements

involving the administration of federal awards. The Commonwealth of Virginia also has audit requirements on compliance with specific Commonwealth of Virginia laws, regulations, contracts, and grants. The compliance section of the report starts on page 84.

GAAP requires that management provide a narrative, introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Franklin's MD&A can be found immediately following the report of the independent auditors starting on page 3.

Profile of the City of Franklin

Franklin, which had been a part of Southampton County for many years, became an incorporated town in 1876 and an independent city on December 22nd, 1961. Subsequent annexations in 1986 & 1996 increased the population and land area of the City. The population today is approximately 8,500 and the land area is 8.75 square miles.

The City is located in the southeastern part of the state in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the country.

Franklin is organized under the Council - City Manager form of government. The Franklin City Council is comprised of seven members who are elected by the voters on a non-partisan basis and serve four year staggered terms. The City is divided into six precincts, with each precinct entitled to one representative. The City Mayor is elected at large for a two year term. Persons elected to City Council take office on the first day of July following the election.

The City Council is the policy determining body of the City. Its responsibilities include: adoption of the City budget; creation, combination or elimination of City departments; approval of all tax levies; approval of amendments, supplements or repeals to ordinances and the City Code; and appointment of the City Manager, City Clerk, City Attorney and various local boards, commissions and committees. The City Manager acts as Chief Executive and Administrative Officer of the City. The Manager serves at the pleasure of Council, carries out its policies, directs business procedures and has the power of appointment and removal of the heads of all departments (except Constitutional Officers, police chief and fire chief) as well as all other employees of the City.

Virginia state statutes put Virginia schools under the dual control of the State Education Board and a local school board. The State Education Board provides operational procedures, standards of education, and state school aid formulas for partial funding. The City must provide all capital improvement funds, pay debt on school projects, and provide any additional operating funds required but not provided by the State Education Board. The City Council's authority is limited to appointing local school board members and appropriating funds by state-established categories. Local school boards do not have taxing or bond issuance authority.

The City of Franklin provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City owns and operates a municipal electric company which provides electrical services to all of the City of Franklin and some of the surrounding jurisdictions. The City also owns and operates water and sewage facilities; picks up trash, recycling, landscaping and bulky items; owns and operates a City pool; and manages various paid recreational activities. Franklin has and maintains a municipal airport located one mile east of Franklin in Isle of Wight County. In addition to general

governing activities, the governing body has significant financial influence over the Schools and the Industrial Development Authority (IDA); both of which are reported separately within the City of Franklin's financial statements. Additional information on these two legally separate entities can be found in Note 1 in the notes to basic financial statements starting on page 23.

The annual budget serves as the foundation for the City of Franklin's financial planning and control. All agencies and departments of the City of Franklin are required to submit requests for appropriation to the City Manager in March. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget no later than May 31. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments and additional appropriations require the special approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 51 of the report.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Franklin operates.

Local Economy. The City of Franklin currently has a favorable economic environment and local indicators point to slow growth and continued stability.

The 2000 census population of 8,346 for the City of Franklin is an increase from 1990 census total of 7,864. This increase is due to the 1996 annexation of the Hunterdale area.

Franklin's major industrial presence is International Paper which purchased Union Camp in 1999 and which operates just across the City limits in Isle of Wight County. This company produces lumber, Kraft paper, pulp and chemical by-products. Other major industries include Hercules Inc. located in Southampton County, Franklin Equipment Co. located in Isle of Wight County, Birdsong Peanut Co.; Money Mailer, LLC, a direct-mail coupon distributor and Southampton Memorial Hospital which is the City's largest employer.

The City's largest source of revenue comes from real estate taxes. The City's tax rate of \$0.90 per \$100 of assessed value has not increased since FY 1998, but the City has had increases in real estate tax revenue primarily due to increased assessments, growth of new buildings in the City and the change in the status of the hospital from an exempt non-profit to private. In the past 5 years assessments on taxable housing and commercial property increased by 22.7%.

Long-Term Financial Planning. The City Council and City management continue in their commitment to planning for future growth of the City of Franklin. Completion of a business incubator building is scheduled for the first quarter of 2005. Through an EDA grant and other sources, an old warehouse is being renovated into space to house start-up businesses.

Franklin also developed Pretlow Industrial Park with industrial sites available off Pretlow Street adjacent to Rt. 58. Currently, Money-Mailer leases a building from the City in this park.

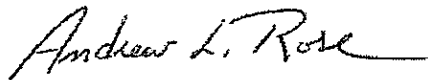
Cash Management Policies and Practices. The City uses a pooled cash concept to allow greater investment flexibility and, consequently, a better investment return. Cash from all funds, except that restricted for specific purposes or managed by fiscal agents, is pooled for investment purposes. All of the City's cash is deposited with the City Treasurer, an elected officer, who is responsible for investing all City funds. City cash is invested primarily in overnight repurchase agreements and certificates of deposit in Virginia banks which are permissible under the Virginia Public Investment Act. The amount of interest earned during the year by the General Fund was less than the previous year due to declining interest rates and decreased cash and cash on hand. The City also has restricted cash and investments that are monitored by the Finance Department and used for the payment of bond projects. At June 30, 2004, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$3,588,525 for the City, \$2,627,115 for the Schools, and \$13,830 for the Industrial Development Authority.

Pension Benefits. The City and Schools contribute to the Virginia Retirement System (VRS), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for political subdivisions in Virginia. More information on the defined benefit retirement plan is contained in the notes to the basic financial statements.

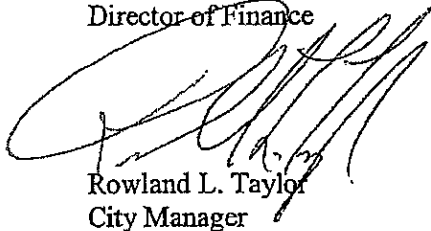
Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, the School Board Finance Department, the Treasurer's Office, the Commissioner of the Revenue's Office and our Certified Public Accountants, Goodman & Company, LLP. Due credit should also be given to City Council for their interest and support in planning and conducting the operations of the City of Franklin in a responsible and progressive manner.

Respectfully submitted,



Andrew L. Rose, CPA
Director of Finance



Rowland L. Taylor
City Manager

Report of Independent Auditors

Honorable Mayor and Members of City Council
City of Franklin, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Franklin, Virginia*** (City) as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the School Cafeteria, School Textbook and School Agency Funds, which represent 5.93% and 5.63%, respectively, of the assets and revenues of the Component Unit – School Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the School Cafeteria, School Agency and School Textbook Funds is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities and Towns* and *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Franklin, Virginia*** as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, 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 December 17, 2004, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Honorable Mayor and Members of City Council
City of Franklin, Virginia

Management's Discussion and Analysis on pages 3 through 10 and the required supplementary information included at pages 51 through 57 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 information listed as other supplementary information and compliance section information in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion on them.

Goodman & Company, L.L.P.

Newport News, Virginia
December 17, 2004

Management's Discussion and Analysis *Fiscal Year July 1, 2003 – June 30, 2004*

The discussion and analysis of the City of Franklin's (the City's) financial performance provides an overall review of the City's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2004

- The assets of the City of Franklin, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2004 by \$24,496,760. Of this amount, \$6,297,113 represents unrestricted net assets, which may be used to meet the City's ongoing obligations and \$1,097,958 represents amounts limited to future capital project activity.
- The City's total net assets decreased by \$1,529,941 from the prior year. This represents a 5.9 % decrease from the previous fiscal year. A significant portion of this decrease is attributable to the City issuing debt for \$3,466,258 for school capital projects and carryover of previous year's unspent funds for governmental activities.
- The General Fund, on a current financial resources basis, reported a shortage of revenues and other financing sources over expenditures and other financing uses of \$32,304, primarily due to carryovers of prior year unspent grant and capital funds.
- The City's total outstanding general obligation debt at June 30, 2004 was \$24,216,611. This includes \$7,099,588 in business-activity debt, \$6,511,124 School related debt and \$10,605,899 of general government debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This 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: (1) *government-wide financial statements*, (2) *fund financial statements*, and (3) *notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

Government-wide financial statements are designed to provide the readers with a broad overview of the City's finances in a manner similar to a private-sector business. Government-wide financial reporting consists of two statements: the *Statement of Net Assets* and the *Statement of Activities*.

The *statement of net assets* presents information on all City 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 identifying how net assets changes 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, some items of revenue and expenses are reported in this statement that will result in cash flows in future periods.

In the *Statement of Net Assets* and the *Statement of Activities*, the City is divided into the following categories:

Governmental activities – Most of the City’s basic services are reported here including general government, public safety, public works, education, health and welfare, parks and recreation, and economic and community development.

Business-type activities - The City’s water and sewer services, electrical services, and airport are reported here. These services are supported by charges for services based on use.

Component Units – The City includes two separate legal entities in its report – the Franklin City School Board and the City of Franklin - Industrial Development Authority. While legally separate, the City is financially accountable and provides operating and capital funding for these two component units.

Fund Financial Statements

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. Traditional users of governmental financial statements will find the fund financial statement presentation more familiar. The focus is now on the City’s most significant funds. The fund financial statements are divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the *government-wide financial statements*, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Capital Projects and Debt Service funds. Data from the other governmental funds are combined into a single aggregate presentation. Individual funds data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds – The City maintains proprietary funds for enterprise funds that report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations, electrical service operations, and airport operations.

Fiduciary Funds - The fiduciary funds are used to account for resources held for the benefit of parties outside City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s programs. The accounting for fiduciary funds is similar to the proprietary funds.

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 statement can be found following the basic financial statements section of this report.

Required Supplementary Information -The statements and notes are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. This section contains budgetary comparison schedules, a schedule of funding progress and other information.

Other Supplementary Information – This section contains combining and individual fund statement information and schedules.

Required Components of Franklin’s Financial Statements

Prior to fiscal year 2003, the primary focus of local government financial statements had been summarized fund type information on a current financial resources basis. However, with the implementation of Statement No. 34 of the Governmental Accounting Standards Board (GASB Statement No. 34) adopted for the year ended June 30, 2003, the new focus is on both the City as a whole (government-wide) and the fund financial statements. Each view provides a different snapshot of the City’s finances. The government-wide financial statements provide both long-term and short-term information about the City’s overall financial status. The fund financial statements, which have been provided in the past, focus on the individual parts of the City government, reporting the City’s operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year-to-year or government-to-government), and enhance the City’s accountability.

Government-Wide Financial Statements Analysis

This is the first year the City applied Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The City has not restated prior periods for purposes of providing the comparative data for the Management’s Discussion an Analysis (MD&A) because certain prior-year information is unavailable. However, in future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. At the close of the most recent fiscal year, the City’s assets exceeded its liabilities by \$ 24,496,760.

**Statement of Net Assets
June 30, 2004**

	Governmental Activities		Business-type Activities		Total	
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004
Current and Other Assets	\$6,924,155	\$8,110,066	\$830,304	\$5,218,925	\$11,754,459	\$13,328,991
Capital Assets	26,496,119	28,056,596	15,498,544	14,412,526	41,994,663	42,469,122
Total Assets	33,420,274	36,166,662	20,328,848	19,631,451	53,749,122	55,798,113
Current and Other Liabilities	5,161,581	6,157,139	3,198,006	2,559,863	8,359,587	8,519,687
Long- Term Liabilities	12,880,009	16,090,606	6,482,825	6,493,745	19,362,834	22,584,351
Total Liabilities	18,041,590	22,247,745	9,680,831	9,053,608	27,722,421	31,104,038
Net Assets:						
Invested in Capital Assets, Net of Related Debt	14,850,421	9,150,107	8,457,325	7,312,938	23,307,746	16,463,045
Restricted Net Assets	528,263	2,520,446	-	-	528,263	2,520,446
Unrestricted Net Assets	-	2,248,364	2,190,692	3,264,905	2,190,692	5,513,269
Total Net Assets	\$15,378,684	\$13,918,917	\$10,648,017	\$10,577,843	\$26,026,701	\$24,496,760

The largest portion of the City’s net assets (\$16,463,045) represents its investment in capital assets (e.g. land, buildings and improvements, machinery and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City’s net assets (\$2,520,446) represents resources that are subject to external restrictions on how they may be used. The remaining net assets (\$5,513,269) represent unrestricted net assets, which may be used to meet the City’s ongoing obligations.

Government Activities

The following table indicates the changes in net assets for governmental and business-type activities:

Changes in Net Assets For the Fiscal Year Ended June 30, 2004

	Governmental Activities		Business-type Activities		Total	
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004
Revenues						
Program Revenues:						
Charges for services	\$1,682,946	\$2,005,545	\$12,095,726	\$13,641,789	\$13,778,672	\$15,647,334
Operating grants and contributions	3,751,675	7,482,463	-	-	3,751,675	7,482,463
Capital grants and contributions	2,245,681	1,266,990	-	-	2,245,681	1,266,990
General Revenues:						
Real estate & property taxes	5,513,676	5,605,260	-	-	5,513,676	5,605,260
Other taxes	4,427,120	4,872,223	-	-	4,427,120	4,872,223
Revenue Sharing from Counties	1,273,965	1,094,768	-	-	1,273,965	1,094,768
Unrestricted investment earnings	61,152	64,895	3,500	-	64,652	64,895
Other			5,822	19,660	5,822	19,660
Miscellaneous	203,068	287,280	188,013	289,358	391,081	576,638
Total Revenues	\$19,159,283	22,679,424	\$12,293,061	\$13,950,807	\$31,452,344	\$36,630,231
Expenses						
General government	\$1,975,927	\$2,136,656	-	-	\$ 1,975,927	\$ 2,136,656
Judicial	267,988	107,674	-	-	267,988	107,674
Public safety	3,940,130	4,172,103	-	-	3,940,130	4,172,103
Public works	3,996,765	3,711,353	-	-	3,996,765	3,711,353
Health and welfare	1,807,915	2,148,536	-	-	1,807,915	2,148,536
Education	4,264,145	7,271,975	-	-	4,264,145	7,271,975
Parks, recreation, cultural	871,299	869,713	-	-	871,299	869,713
Community development	3,477,458	4,464,002	-	-	3,477,458	4,464,002
Interest on long-term debt	609,309	715,071	-	-	609,309	715,071
Bond costs	4,044	36,068	-	-	4,044	36,068
Nondepartmental	536,786	546,196	-	-	536,786	546,196
Water & Sewer	-	-	2,603,237	2,714,447	2,603,237	2,714,447
Electric	-	-	7,926,959	8,645,465	7,926,959	8,645,465
Airport	-	-	570,952	620,913	570,952	620,913
Total Expenses	21,751,766	26,179,347	11,101,148	11,980,825	32,852,914	38,160,172
Excess of revenue over expenses	(2,592,483)	(3,499,923)	\$ 1,191,913	\$1,969,982	(1,400,570)	(1,529,941)
Transfers	1,953,142	2,040,156	(1,953,142)	(2,040,156)	-	-
Decrease in net assets	(639,341)	(1,459,767)	(761,229)	(70,174)	(1,400,570)	(1,529,941)
Net assets – beginning of year	16,018,025	15,378,684	11,409,246	10,648,017	27,427,271	26,026,701
Net assets – ending of year	\$15,378,684	\$13,918,917	\$10,648,017	\$10,577,843	\$26,026,701	\$24,496,760

Real estate taxes, the City's largest revenue source, and personal property tax revenue, was \$5,605,260. The City's assessed value of real estate increased by 7.7 % for the current fiscal year. The current City real estate tax rate is \$0.90 per \$100 of assessed value. The last general increase was in July of 1997. Personal Property is taxed \$4.50 per \$100 of assessed value.

The other local tax revenue totaling \$4,872,223 consisted of the 1% local sales tax, consumer utility taxes, franchise license tax, motor vehicle licenses, meals tax, and a variety of other local taxes.

Revenues from other counties of \$1,094,768 represent revenue sharing payments received from Isle of Wight and Southampton Counties as part of annexation and service providing agreements. The \$179,197 decrease is due to a decrease in the Isle of Wight payments due to decrease in tax revenues in the shared area.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,615,872.

General fund. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance was \$2,018,421, all of which represents undesignated fund balance of the general fund. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Capital projects fund. The capital projects fund accounts for all construction projects of general public improvements, excluding capital projects related to business-type activities, which are accounted for elsewhere. At the end of the current fiscal year, the fund balance was \$1,097,958 all of which was encumbered for contracts in process.

Debt service fund. The debt service fund has a undesignated balance of \$-0-. This fund is used to handle current debt payment needs of the City.

Emergency disaster fund. The emergency disaster fund accounts for the revenues and expenditures related to recovery efforts from Hurricane Isabel and has no fund balance.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net assets of the proprietary funds at the end of the current fiscal year totaled \$10,577,843.

Enterprise funds. The City's enterprise funds account for its water and sewer operations, municipal electric operations as well as the City's airport operations. Unrestricted net assets of the major enterprise fund, the electric municipal fund, were \$4,186,143 at the end of the current fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations. Annual operating budgets are adopted by ordinance for the General Fund, Debt Service Fund, Water & Sewer Fund, Electric Fund, Airport Fund and several Special Revenue Funds. However, the Consolidated Grants Fund, Fiduciary Funds, and the Capital Projects Fund are excluded from the annual operating budget.

Differences between the general fund original budget and the final amended budget resulted in a \$797,292 increase in appropriations. \$189,708 in property rents was added to recognize the handling of industrial building rents and related debt service and \$43,145 of the amended increase was related to social services rent and expenses. \$298,822 of the increase was due State and Federal grants awards into departmental budgets. \$204,612 of general fund balances for projects or grants that were approved in previous years but not spent were also included in amendments. Other general fund amendments totaled \$61,005 for numerous small items.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounted to \$42,469,122, net of accumulated depreciation. This investment in capital assets includes land and easements, buildings, improvements other than buildings, infrastructure, machinery and equipment and construction in progress. This is a 0.8% increase is due to the construction of the incubator building.

Major capital asset events during the current fiscal year included the following:

- Incubator building construction started – due to finish in February 2005.
- Drilling and testing for a new Hunterdale well.

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-type Activities		Total	
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004
Land	\$ 4,038,826	\$ 4,082,909	\$ -	\$ -	\$ 4,038,826	\$ 4,082,909
Construction in progress	303,886	2,003,078	-	-	303,886	2,003,078
Buildings	11,074,332	10,849,852	896,198	852,187	11,970,530	11,702,039
Improvements other than buildings	1,924,235	1,880,740	13,876,109	12,941,075	15,800,344	14,821,815
Machinery and equipment	3,128,895	2,847,960	726,237	619,264	3,855,132	3,467,224
Infrastructure	2,726,173	3,190,047	-	-	2,726,173	3,190,047
Allocation of School Board assets	3,299,772	3,202,010	-	-	3,299,772	3,202,010
Total	\$26,496,119	\$28,056,596	\$15,498,544	\$14,412,526	\$41,994,663	\$42,469,122

Additional information on the City's capital assets can be found in Note 5.

Debt Administration. The City's total outstanding general obligation debt at June 30, 2004 was \$24,216,611. This includes \$6,511,124 of School related debt and \$10,605,899 of general government debt. Of this total, \$17,117,023 is considered to be net direct tax supported debt. \$7,099,588 of the total is from water and sewer, electric and airport fund debt which is supported by revenue from operations in business type activities.

State statutes limit the amount of general obligation debt a government may issue to 10% of its total assessed valuation of real and public service corporations.

Summary of Debt (exclusive of capital leases of \$229,584 at June 30, 2004):

	<u>FY 2003</u>	<u>FY 2004</u>
General Governmental Activities:		
Bonds Payable – General	\$9,373,189	\$10,605,899
School Related Bonds & Notes	3,299,755	6,511,124
Total Tax Supported Debt	<u>\$12,672,964</u>	<u>17,117,023</u>
Business-type Activities	<u>\$7,041,219</u>	<u>7,099,588</u>
Total Long-Term Debt	<u>\$19,914,183</u>	<u>\$24,216,611</u>
Per Capita Tax Supported	<u>\$1,518</u>	<u>\$2,078</u>
Total Debt Per Capita	<u>\$2,386</u>	<u>\$2,929</u>

During the current fiscal year, the City issued the following General Obligation Bonds:
 \$1,000,000 in a QZAB loan for School Capital projects
 \$1,500,000 for a School Gym
 \$966,000 for school re-alignment project.
 \$257,000 for King Recreation Center repairs
 \$617,000 for Water Well Project
 \$565,000 for the incubator project..

Additional information on the City's long-term debt can be found in Note 6.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The average unemployment rate for 2003 for the City of Franklin was 4.6%, which is an increase from the 4.2% average for 2002. This compares to the state's average unemployment rate of 4.1% (2003) and 4.1% (2002) and the average national rate of 6.0% (2003) and 5.8% (2002).

In September 2003 the City incurred significant impact from Hurricane Isabel. Approximately \$2,546,000 costs were incurred that should be recovered from FEMA and VDEM. At June 30, 2004 all but \$778,414 of costs had been received.

REQUEST FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, 207 W. Second Avenue, Franklin, Virginia 23851.

Basic Financial Statements

City of Franklin, Virginia

Statement of Net Assets

June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 1,097,063	\$ 1,068,974	\$ 2,166,037	\$ 158,986
Restricted assets - cash and investments	1,422,488	-	1,422,488	2,481,959
Property taxes receivable-net	586,242	-	586,242	-
Receivables - net	425,389	1,293,028	1,718,417	-
Due from primary government	-	2,786,644	2,786,644	150,091
Due from component units	340,347	-	340,347	-
Due from other governments	2,925,104	-	2,925,104	349,467
Due from proprietary funds	1,313,433	-	1,313,433	-
Inventories	-	5,729	5,729	16,377
Prepaid items	-	-	-	196,040
Deposits	-	12,633	12,633	-
Deferred charges	-	51,917	51,917	-
Capital assets - net	28,056,596	14,412,526	42,469,122	9,015,486
Total assets	\$ 36,166,662	\$ 19,631,451	\$ 55,798,113	\$ 12,368,406
Liabilities				
Accounts payable and accrued liabilities	\$ 1,207,604	\$ 7,183	\$ 1,214,787	\$ 131,800
Accrued payroll	-	197,315	197,315	891,755
Accrued compensated absences	672,787	116,603	789,390	233,118
Due to business type funds	2,786,644	-	2,786,644	-
Due to primary government	-	1,313,433	1,313,433	340,347
Due to component units	150,091	-	150,091	-
Deposits	71,575	319,486	391,061	-
Deferred revenue	12,437	-	12,437	-
Noncurrent liabilities:				
Due within one year	1,256,001	605,843	1,861,844	-
Due in more than one year	16,090,606	6,493,745	22,584,351	-
Total liabilities	22,247,745	9,053,608	31,301,353	1,597,020
Net Assets				
Invested in capital assets - net of related debt	9,150,107	7,312,938	16,463,045	9,015,486
Restricted:				
Capital projects	2,520,446	-	2,520,446	2,487,225
Unrestricted	2,248,364	3,264,905	5,513,269	(731,325)
Total net assets	13,918,917	10,577,843	24,496,760	10,771,386
Total liabilities and net assets	\$ 36,166,662	\$ 19,631,451	\$ 55,798,113	\$ 12,368,406

The accompanying notes are an integral part of the basic financial statements.

City of Franklin, Virginia
Statement of Activities

Exhibit B

Year Ended June 30, 2004	Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			Component Units
		Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		
							Business-Type Activities	Total	
	Primary Government								
	Government activities:								
	General government	\$ 2,136,656	\$ 1,479,829	\$ 225,959	\$ -	\$ (430,868)	\$ -	\$ (430,868)	\$ -
	Judicial	107,674	76,031	-	-	(31,643)	-	(31,643)	-
	Public safety	4,172,103	191,226	556,645	76,775	(3,347,457)	-	(3,347,457)	-
	Public works	3,711,353	-	1,120,183	-	(2,591,170)	-	(2,591,170)	-
	Health and welfare	2,148,536	17,429	1,553,392	-	(577,715)	-	(577,715)	-
	Education	7,271,975	-	-	-	(7,271,975)	-	(7,271,975)	-
	Parks, recreation, cultural	869,713	241,030	5,000	-	(623,683)	-	(623,683)	-
	Community development	4,464,002	-	4,021,284	1,190,215	747,497	-	747,497	-
	Interest and fees on long-term debt	715,071	-	-	-	(715,071)	-	(715,071)	-
	Bond service costs	36,068	-	-	-	(36,068)	-	(36,068)	-
	Nondepartmental	546,196	-	-	-	(546,196)	-	(546,196)	-
	Total governmental activities	26,179,347	2,005,545	7,482,463	1,266,990	(15,424,349)	-	(15,424,349)	-
	Business-type activities:								
	Water and sewer	2,714,447	2,731,355	-	-	-	16,908	16,908	-
	Electric	8,645,465	10,643,873	-	-	-	1,998,408	1,998,408	-
	Airport	620,913	266,561	-	-	-	(354,352)	(354,352)	-
	Total business-type activities	11,980,825	13,641,789	-	-	-	1,660,964	1,660,964	-
	Total primary government	38,160,172	15,647,334	7,482,463	1,266,990	(15,424,349)	1,660,964	(13,763,385)	-
	Component Units								
	Franklin Public Schools	12,777,477	162,579	2,382,690	3,663,486	-	-	-	(6,568,722)
	Industrial Development Authority	244,228	-	-	-	-	-	-	(244,228)
	Total component units	\$ 13,021,705	\$ 162,579	\$ 2,382,690	\$ 3,663,486	-	-	-	(6,812,950)
	General Revenues								
	Real estate and personal property taxes					5,605,260		5,605,260	
	Other local taxes					4,872,223		4,872,223	
	Payments from City of Franklin					-		-	3,918,801
	Commonwealth of Virginia					-		-	5,495,729
	Shared intergovernmental revenues					-		-	924,359
	Reimbursements from other agencies					-	19,660	19,660	-
	Revenue sharing from counties					1,094,768		1,094,768	-
	Revenues from use of money and property					64,895	2,939	67,834	16,635
	Recovery of costs					-		-	93,409
	Universal services					-		-	66,442
	Miscellaneous					287,280	286,419	573,699	78
	Transfers					2,040,156	(2,040,156)	-	-
	Total general revenues, transfers and miscellaneous					13,954,582	(1,731,138)	12,223,444	10,515,453
	Change in net assets					(1,459,767)	(70,174)	(1,529,941)	3,702,503
	Net assets - July 1, 2003					15,378,684	10,648,017	26,026,701	7,068,883
	Net assets - June 30, 2004					\$ 13,918,917	\$ 10,577,843	\$ 24,496,760	\$ 10,771,386

The accompanying notes are an integral part of the basic financial statements.

City of Franklin, Virginia

Balance Sheet - Governmental Funds

June 30, 2004

Assets					Nonmajor	Total
	General	Capital Projects	Debt Service	Emergency Disaster	Governmental Funds	Governmental Funds
Cash and investments:						
Unrestricted	\$ 576,982	\$ -	\$ -	\$ -	\$ 520,081	\$ 1,097,063
Restricted	-	1,422,488	-	-	-	1,422,488
Property taxes receivable-net	586,242	-	-	-	-	586,242
Other receivables	100,445	323,787	-	-	1,157	425,389
Due from other funds	3,041,545	-	-	-	-	3,041,545
Due from component units	340,347	-	-	-	-	340,347
Due from other governments	1,443,382	-	-	778,414	703,308	2,925,104
Total assets	\$ 6,088,943	\$ 1,746,275	\$ -	\$ 778,414	\$ 1,224,546	\$ 9,838,178
Liabilities						
Vouchers and accounts payable	\$ 832,245	\$ 265,036	\$ -	\$ 37,167	\$ 73,154	\$ 1,207,602
Deposits	23,260	-	-	-	-	23,260
Tenant escrow accounts	-	-	-	-	48,315	48,315
Due to component units	150,091	-	-	-	-	150,091
Due to other funds	2,786,644	383,281	-	741,247	603,584	4,514,756
Deferred revenue	278,280	-	-	-	-	278,280
Total liabilities	4,070,520	648,317	-	778,414	725,053	6,222,304
Fund Balances						
Reserved:						
Capital projects	-	1,097,958	-	-	-	1,097,958
Unreserved:						
Specific programs	-	-	-	-	132,014	132,014
Unreserved and undesignated	2,018,421	-	-	-	367,479	2,385,900
Total fund balances	2,018,421	1,097,958	-	-	499,493	3,615,872
Total liabilities and fund balances	\$ 6,088,941	\$ 1,746,275	\$ -	\$ 778,414	\$ 1,224,546	\$ 9,838,176

**Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets**

Total fund balances - governmental funds	\$ 3,615,872
Amount 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.	28,056,596
Other long-term assets not available to pay for current period expenditures and therefore are deferred in the funds.	265,843
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(18,019,394)</u>
Total net assets - governmental activities	\$ 13,918,917

The accompanying notes are an integral part of the basic financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds**

Year Ended June 30, 2004						
	General	Capital Projects	Debt Service Fund	Emergency Disaster	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Real estate and personal property taxes	\$ 5,523,583	\$ -	\$ -	\$ -	\$ -	\$ 5,523,583
Other local taxes	4,801,060	-	-	-	-	4,801,060
Permits, fees and licenses	72,184	-	-	-	-	72,184
Fines and forfeitures	62,331	-	-	-	-	62,331
Revenue from use of money and property	303,907	11,235	-	-	53,655	368,797
Intergovernmental	1,982,018	1,190,215	225,959	2,545,787	3,033,469	8,977,448
Charges for services	1,410,296	-	-	-	-	1,410,296
Recovered costs	60,814	-	-	-	-	60,814
Revenue sharing from counties	1,094,767	-	-	-	-	1,094,767
Donations and gifts	6,365	-	-	-	31,004	37,369
Miscellaneous	167,187	-	-	-	2,250	169,437
Total revenues	15,484,512	1,201,450	225,959	2,545,787	3,120,378	22,578,086
Expenditures						
Current:						
General government	1,898,128	-	-	-	-	1,898,128
Judicial	166,707	-	-	-	-	166,707
Public safety	3,970,890	-	-	-	15,367	3,986,257
Public works	4,048,957	-	-	-	-	4,048,957
Health and welfare	177,616	-	-	-	1,920,314	2,097,930
Parks, recreation, and cultural	804,574	-	-	-	34,514	839,088
Community development	353,922	-	-	2,545,787	1,564,293	4,464,002
Education	3,918,801	-	-	-	-	3,918,801
Nondepartmental	546,291	-	-	-	5,270	551,561
Debt service:						
Principal retirement	-	-	715,570	-	-	715,570
Interest and fiscal charges	-	-	679,110	-	-	679,110
Bond issuance costs	-	-	36,068	-	-	36,068
Capital outlays	-	1,453,738	-	-	-	1,453,738
Total expenditures	15,885,886	1,453,738	1,430,748	2,545,787	3,539,758	24,855,917
Deficiency of revenues over expenditures	(401,374)	(252,288)	(1,204,789)	-	(419,380)	(2,277,831)
Other financing sources (uses)						
Proceeds from bonds issued	-	821,983	3,466,257	-	-	4,288,240
Transfers in	2,106,438	-	1,204,789	-	431,803	3,743,030
Transfers out	(1,737,368)	-	(3,536,426)	-	-	(5,273,794)
Total other financing sources	369,070	821,983	1,134,620	-	431,803	2,757,476
Net change in fund balances	(32,304)	569,695	(70,169)	-	12,423	479,645
Fund balances - July 1, 2003	2,050,725	528,263	70,169	-	487,070	3,136,227
Fund balances - June 30, 2004	\$ 2,018,421	\$ 1,097,958	\$ -	\$ -	\$ 499,493	\$ 3,615,872

The accompanying notes are an integral part of the basic financial statements.

City of Franklin, Virginia

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds**

Year Ended June 30, 2004

**Reconciliation of the Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds	\$ 479,645
Amount 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 these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.	
Capital outlays	2,973,761
Depreciation expense	(1,303,836)
Proceeds from bond issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	
Bond issuance	(4,288,240)
Capital leases	(20,500)
Repayment of debt principal	715,570
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(81,678)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	65,511
Change in net assets of governmental activities	\$ (1,459,767)

The accompanying notes are an integral part of these basic financial statements.

City of Franklin, Virginia

Statement of Net Assets - Proprietary Funds

June 30, 2004

Assets	Business-type Activities Proprietary Funds			Totals
	Water and Sewer Fund	Electric Fund	Airport Fund	
Current assets				
Cash and investments	\$ 224,213	\$ 844,561	\$ 200	\$ 1,068,974
Receivables - net	272,662	1,010,293	10,073	1,293,028
Due from general fund	-	2,786,644	-	2,786,644
Inventory	-	-	5,729	5,729
Deferred charges-bond issue costs - current portion	16,571	1,945	490	19,006
Total current assets	513,446	4,643,443	16,492	5,173,381
Noncurrent assets				
Deposits	-	-	12,633	12,633
Deferred charges-bond issue costs - less current portion	-	31,605	1,306	32,911
Capital assets:				
Buildings	-	-	1,245,101	1,245,101
Construction in progress	-	-	19,383	19,383
Infrastructure	14,672,150	12,773,109	2,591,935	30,037,194
Equipment	397,086	999,909	251,013	1,648,008
Less - accumulated depreciation	(9,268,860)	(7,629,849)	(1,638,451)	(18,537,160)
Total noncurrent assets	5,800,376	6,174,774	2,482,920	14,458,070
Total assets	\$ 6,313,822	\$ 10,818,217	\$ 2,499,412	\$ 19,631,451
Liabilities				
Current liabilities				
Vouchers and accounts payable	\$ 1,664	\$ 5,015	\$ 504	\$ 7,183
Accrued payroll	101,109	93,626	2,580	197,315
Bonds payable - current portion	395,700	186,687	23,456	605,843
Total current liabilities	498,473	285,328	26,540	810,341
Noncurrent liabilities				
Deposits	-	319,486	-	319,486
Accrued compensated absences	40,534	70,778	5,291	116,603
Due to other funds	398,304	-	915,129	1,313,433
Bonds payable - less current portion	4,868,851	1,545,730	79,164	6,493,745
Total noncurrent liabilities	5,307,689	1,935,994	999,584	8,243,267
Total liabilities	5,806,162	2,221,322	1,026,124	9,053,608
Net Assets				
Invested in capital assets - net of related debt	535,825	4,410,752	2,366,361	7,312,938
Unrestricted	(28,165)	4,186,143	(893,073)	3,264,905
Total net assets	507,660	8,596,895	1,473,288	10,577,843
Total liabilities and net assets	\$ 6,313,822	\$ 10,818,217	\$ 2,499,412	\$ 19,631,451

The accompanying notes are an integral part of the basic financial statements.

City of Franklin, Virginia

Statement of Revenues, Expenses, and Changes in Fund Net Assets -
Proprietary Funds

Year Ended June 30, 2004

	Business-type Activities Proprietary Funds			Totals
	Water and Sewer Fund	Electric Fund	Airport Fund	
Operating revenues				
Charges for services	\$ 2,731,355	\$ 10,643,873	\$ 266,561	\$ 13,641,789
Reimbursement from other agencies	-	-	19,660	19,660
Miscellaneous	1,055	5,747	7,348	14,150
Total operating revenues	2,732,410	10,649,620	293,569	13,675,599
Operating expenses				
Personnel	609,256	973,335	88,691	1,671,282
Purchased services-for resale	-	6,413,244	186,736	6,599,980
Contractual services	125,367	154,856	16,939	297,162
Supplies	71,920	70,274	3,124	145,318
Utilities	149,476	24,350	10,813	184,639
Insurance and bonds	40,194	23,331	16,580	80,105
Repairs and maintenance	213,743	-	-	213,743
Taxes	6,536	1,336	-	7,872
Travel and training	12,080	19,401	-	31,481
Depreciation and amortization	959,116	576,716	281,758	1,817,590
Payment to general fund for services and taxes	294,535	288,700	1,848	585,083
Other charges	22,145	15,806	9,111	47,062
Total operating expenses	2,504,368	8,561,349	615,600	11,681,317
Operating income (loss)	228,042	2,088,271	(322,031)	1,994,282
Nonoperating revenues (expenses)				
Connection fees	119,645	43,776	-	163,421
Interest income	2,924	15	-	2,939
Cut-off fees and penalties	-	108,848	-	108,848
Interest expense	(210,079)	(84,116)	(5,313)	(299,508)
Total nonoperating revenues (expenses)	(87,510)	68,523	(5,313)	(24,300)
Income (loss) before transfers	140,532	2,156,794	(327,344)	1,969,982
Transfers				
Transfers in	-	-	66,282	66,282
Transfers out	-	(2,106,438)	-	(2,106,438)
Net transfers	-	(2,106,438)	66,282	(2,040,156)
Change in net assets	140,532	50,356	(261,062)	(70,174)
Total net assets - July 1, 2003	367,128	8,546,539	1,734,350	10,648,017
Total net assets - June 30, 2004	\$ 507,660	\$ 8,596,895	\$ 1,473,288	\$ 10,577,843

The accompanying notes are an integral part of the basic financial statements.

City of Franklin, Virginia

Statement of Cash Flows - Proprietary Type Funds

Year Ended June 30, 2004

	Business-type Activities Proprietary Funds				Component Unit
	Water and Sewer Fund	Electric Fund	Airport Fund	Totals	Industrial Development Authority
Cash flows from operating activities					
Received from customers and users	\$ 2,661,261	\$ 10,567,097	\$ 294,063	\$ 13,522,421	\$ -
Payments to suppliers for goods and services	(1,668,007)	(7,070,540)	(228,487)	(8,967,034)	-
Payments to employees	(599,863)	(881,027)	(83,706)	(1,564,596)	-
Net cash from operating activities	393,391	2,615,530	(18,130)	2,990,791	-
Cash flows from noncapital financing activities					
Transfers from other funds	-	-	66,282	66,282	-
Transfers to other funds	-	(2,106,438)	-	(2,106,438)	-
Net cash from noncapital financing activities	-	(2,106,438)	66,282	(2,040,156)	-
Cash flows from capital and related financing activities					
Proceeds from capital debt	616,760	-	-	616,760	-
Principal paid on capital debt	(360,813)	(174,125)	(23,456)	(558,394)	(2,070,000)
Interest paid on capital debt	(210,079)	(84,116)	(5,313)	(299,508)	(99,107)
Acquisition and construction of capital assets	(337,615)	(353,701)	(19,383)	(710,699)	-
Connection and cutoff fees	119,645	152,624	-	272,269	-
Net cash from capital and related financing activities	(172,102)	(459,318)	(48,152)	(679,572)	(2,169,107)
Cash flows from investing activities					
Interest received	2,924	15	-	2,939	49
Net increase (decrease) in cash and investments	224,213	49,789	-	274,002	(2,169,058)
Cash and investments - beginning of year	-	794,772	200	794,972	2,182,888
Cash and investments - end of year	\$ 224,213	\$ 844,561	\$ 200	\$ 1,068,974	\$ 13,830
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 228,042	\$ 2,088,271	\$ (322,031)	\$ 1,994,282	\$ (145,121)
Adjustments:					
Depreciation and amortization	959,116	576,716	281,758	1,817,590	145,121
Changes in assets and liabilities:					
Receivables - net	(71,149)	(82,523)	495	(153,177)	-
Inventory	-	-	17,690	17,690	-
Vouchers and accounts payable	5,308	(59,242)	(14,876)	(68,810)	-
Accrued payroll	-	93,626	2,580	96,206	-
Accrued compensated absences	9,393	(1,318)	2,350	10,425	-
Due to other governments	(737,319)	-	13,904	(723,415)	-
Deposits	-	-	-	-	-
Net cash provided by (used in) operating activities	\$ 393,391	\$ 2,615,530	\$ (18,130)	\$ 2,990,791	\$ -

The accompanying notes are an integral part of the basic financial statements.

City of Franklin, Virginia

Statement of Fiduciary Net Assets

June 30, 2004

Assets	Agency Funds			
	Special Welfare	Special Welfare	Franklin- Southampton Economic Development Commission	Flexible Benefits
Cash, cash equivalents and investments	\$ -	\$ -	\$ 100,126	\$ 4,644
Restricted cash	16,330	100	-	-
Total assets	\$ 16,330	\$ 100	\$ 100,126	\$ 4,644
Liabilities and Fund Balances				
Liabilities				
Amount held for others	\$ 16,330	\$ 100	\$ 100,126	\$ 4,644
Total liabilities	16,330	100	100,126	4,644
Total liabilities and fund balances	\$ 16,330	\$ 100	\$ 100,126	\$ 4,644

The accompanying notes are an integral part of the basic financial statements.

City of Franklin, Virginia

Statement of Changes in Fiduciary Net Assets

Year Ended June 30, 2004

	Special Welfare - SSI
Operating revenues	
Contribution	\$ 100
Operating and net income (loss)	
Fund balances - beginning of year	-
Fund balances - end of year	\$ 100

The accompanying notes are an integral part of the basic financial statements.

City of Franklin, Virginia

Statement of Net Assets - Component Units

June 30, 2004

	Franklin Public Schools	Industrial Development Authority	Total
Assets			
Cash and investments	\$ 146,046	\$ 12,940	\$ 158,986
Restricted cash and investments	2,481,069	890	2,481,959
Receivables	349,467	-	349,467
Due from primary government	150,091	-	150,091
Inventory	16,377	-	16,377
Prepaid items	196,040	-	196,040
Capital assets - net	7,152,828	1,862,658	9,015,486
Total assets	\$ 10,491,918	\$ 1,876,488	\$ 12,368,406
Liabilities			
Vouchers and accounts payable	\$ 131,800	\$ -	\$ 131,800
Accrued payroll	891,755	-	891,755
Accrued compensated absences	233,118	-	233,118
Due to primary government	-	340,347	340,347
Total liabilities	1,256,673	340,347	1,597,020
Net Assets			
Invested in capital assets	7,152,828	1,862,658	9,015,486
Restricted for capital projects	2,487,225	-	2,487,225
Unrestricted	(404,808)	(326,517)	(731,325)
Total net assets	9,235,245	1,536,141	10,771,386
Total liabilities and net assets	\$ 10,491,918	\$ 1,876,488	\$ 12,368,406

The accompanying notes are an integral part of the basic financial statements.

City of Franklin, Virginia

Statement of Activities - Component Units

Year Ended June 30, 2004	Program Revenues		Net (Expense) Revenues and Changes in Net Assets				
	Charges for Services	Operating Grants and Contributions	Capital Contributions	Franklin			Totals
				Public Schools	Industrial Development Authority		
Franklin Public Schools Education	\$ 12,777,477	\$ 2,382,690	\$ 3,663,486	\$ (6,568,722)	\$ -	\$ (6,568,722)	
Industrial Development Authority Economic Development	244,228	-	-	(244,228)		(244,228)	
Total component units	\$ 13,021,705	\$ 2,382,690	\$ 3,663,486	\$ (6,568,722)	\$ (244,228)	\$ (6,812,950)	

General revenues

Payments from the City of Franklin Commonwealth of Virginia	\$ 3,918,801	\$ -	\$ 3,918,801
Shared intergovernmental revenues	5,495,729	-	5,495,729
Revenues from use of property and money	924,359	-	924,359
Recovery of costs	16,586	49	16,635
Universal services	93,409	-	93,409
Miscellaneous	66,442	-	66,442
	78	-	78
Total general revenues	10,515,404	49	10,515,453
Change in net assets	3,946,682	(244,179)	3,702,503
Net assets - beginning of year	5,288,563	1,780,320	7,068,883
Net assets - end of year	\$ 9,235,245	\$ 1,536,141	\$ 10,771,386

The accompanying notes are an integral part of the basic financial statements.

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Notes to Basic Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

The *City of Franklin, Virginia* (City) is a political subdivision of the Commonwealth of Virginia operating under the council-manager form of government. The elected seven-member City Council, vested with legislative powers, appoints the City Manager who is the executive and administrative head of the City's government.

The financial statements of the *City of Franklin, Virginia* have been prepared in conformity with accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB). The more significant of the government's accounting policies are described below.

Financial Reporting Model

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement) which establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. Because of the significant changes in financial reporting under the Statement, implementation was phased in (based on the size of the government) beginning with fiscal year ended 2002 (for larger governments). As part of the Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional delay of implementation to fiscal year 2007. The City has implemented the basic model in fiscal year 2003 and anticipates completing the implementation of the infrastructure-related portion of the Statement by fiscal year 2007.

Management's Discussion and Analysis

GASB Statement No. 34 and GASB Statement No. 37 requires financial statements to be accompanied by a narrative introduction of the basic financial statements and an analytical overview of the government's financial activities in the form of Management's Discussion and Analysis (MD&A).

Government-wide Financial Statements

The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenue and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

1. **Summary of Significant Accounting Policies** *(Continued)*

Statement of Net Assets

The statement of net assets is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets - in the Statement of Activities. The net assets of the government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities

The government-wide statement of activities reports expenses and revenues in the format that focuses on the cost of each government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or grants).

Budgetary Comparison Schedules

Demonstrating compliance with the adopted budget is an important component of a government’s accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments, however, revise their original budget over the course of the year for a variety of reasons. Under the new reporting model, governments will continue to provide budgetary comparison information in their annual report. An important change is the requirement to add the government’s original budget to the current comparison of final budget and actual results.

Government-Wide and Fund Accounting Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund accounting financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the current reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund accounting financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities is reported using the economic resources measurement focus and the accrual basis of accounting which reflect both the gross and net cost per functional category (public safety, public works, health and welfare, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

1. **Summary of Significant Accounting Policies (Continued)**

Government-Wide and Fund Accounting Financial Statements (Continued)

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource measurement focus using modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile funds based on financial statements with the governmental column of the government-wide presentation.

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the revised model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund Classification

The focus of governmental and proprietary fund financial statements is on major funds. Fund statements present the financial information of each major fund in a separate column. Nonmajor funds are aggregated and displayed in a single column.

The main operating fund, the general fund, is always reported as a major fund. Other individual governmental or enterprise funds are reported in separate columns as major funds based on these criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the fund are at least 10% of the corresponding total for all funds of that category or type (that is, total governmental or total enterprise funds), and
- b. Total assets, liabilities, revenues, or expenditures/expense of the fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that management believes is particularly important to financial statement users may be reported as a major fund.

1. Summary of Significant Accounting Policies *(Continued)*

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed.

▪ ***General Fund***

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and interest income. A significant part of the General Fund's revenues is transferred to other funds and component units, principally to finance the operations of the City of Franklin Public Schools.

▪ ***Special Revenue Fund***

The Special Revenue Fund accounts for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities.

- ***Virginia Public Assistance Fund*** - accounts for revenues and expenditures related to services provided by the Department of Social Services. Most revenues are derived from the Commonwealth of Virginia and the federal government.
- ***Regional Fire Training Grounds Fund*** - accounts for revenues and expenditures related to maintenance of the Regional Fire Training grounds. Most revenues are derived from interest earned on bank deposits.
- ***Police Federal Forfeiture Fund*** - accounts for revenues and expenditures related to police forfeitures. Revenues are derived from entitlement funds received from the federal government.
- ***Community Development Grant Fund*** - accounts for all entitlement funds received under Title I of the Housing and Community Development Act of 1974, commonly known as the Community Development Block Grant Program.
- ***Foundation Grants Fund*** - accounts for revenues and expenditures related to local grants. Revenues are derived from local grants.
- ***Comprehensive Services Act Fund*** - accounts for revenues and expenditures related to the Comprehensive Services Act for At-risk Youth and Families. Revenues are derived from categorical aid received from the Commonwealth of Virginia.
- ***Western Tidewater Home Consortium*** – accounts for revenues and expenditures related to a joint venture with the City of Suffolk and Isle of Wight County to provide affordable housing.
- ***Police State Forfeiture Fund*** – accounts for revenues and expenditures related to police forfeitures. Revenues are derived from entitlement funds received from the Commonwealth of Virginia.
- ***Police Evidence Holding Fund*** – accounts for revenues and expenditures related to police evidence that is held for the courts.
- ***Willie Camp Younts*** – accounts for revenues and expenditures related to the maintenance of the Willie Camp Younts cemetery.
- ***Community Development Downtown Grant Fund*** - accounts for revenues and expenditures related to development and rehabilitation of the downtown area. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.

1. Summary of Significant Accounting Policies *(Continued)*

Governmental Funds (Continued)

▪ *Special Revenue Funds (Continued)*

- ***Cobbtown Grant Fund*** - accounts for revenues and expenditures related to development and rehabilitation of the Cobbtown area of the City. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.
- ***Emergency Disaster Fund*** - accounts for revenues and expenditures related to the reconstruction of the City area caused by the devastation of Hurricane Isabel. Revenues are derived from aid received from the Commonwealth of Virginia and the federal government. This fund is considered a major fund for government-wide reporting purposes.
- ***Fire and Rescue Volunteers*** – accounts for revenues and expenditures related to the activities of the fire and rescue volunteers.

▪ *Debt Service Fund*

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The Debt Service Fund is considered a major fund for government-wide reporting purposes.

▪ *Capital Projects Fund*

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types). The Capital Projects Fund is considered a major fund for government-wide reporting purposes.

▪ *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. Previously presented as expendable Trust Funds, the City's Permanent Funds are used to account for perpetual care and endowed care of certain City-owned cemeteries. Permanent Fund balances are included in governmental activities for both the government-wide and fund financial statements. The Charles Smith Cemetery Trust, Cemetery Perpetual Care Trust, Employee Emergency Trust, and Southview Cemetery Trust funds are accounted for as Permanent funds.

Proprietary Funds

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the primary government's business activities are accounted for through proprietary funds. The measurement focus is on the determination of net income, financial position, and cash flows. Proprietary Funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Proprietary Funds are charges for services. Operating expenses include cost of sales and services, personnel, contractual services, and depreciation. The City has implemented private sector guidance issued after November 30, 1989, in reporting business-type activities of the proprietary funds. The City's proprietary funds consist of only enterprise funds.

1. Summary of Significant Accounting Policies (*Continued*)

Enterprise Funds

The Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

- ***Water and Sewer Fund*** - accounts for the provision of water and sewer services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, financing and related debt service and fixed assets of the water and sewage systems.
- ***Electric Fund*** - accounts for the provision of electrical services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, financing and related debt service and fixed assets of the electrical systems.
- ***Airport Fund*** - accounts for the operations of the City-owned airport. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, financing and related debt service and fixed assets of the airport.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individual, private organizations and other governments. Fiduciary funds are not included in the government-wide financial statements.

■ ***Trust and Agency Funds***

Trust and Agency Funds include nonexpendable trust funds and agency funds. Nonexpendable trust funds are accounted for and reported as Proprietary Fund types because capital maintenance is critical. Nonexpendable trust funds account for the expenditure of income earned by principal held in trust, the principal amount of which cannot be expended.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. In addition to the funds listed below, the Franklin Public School's Combined School Activity Funds are also Agency Funds.

- ***Agency Funds***
 - ***Special Welfare Fund*** - accounts for receipt of welfare checks and foster children support checks from the state government and payments made on behalf of individuals.
 - ***Franklin-Southampton Economic Development Commission*** - accounts for monies received from the City and Southampton County to promote business development.
 - ***Flexible Benefits*** - accounts for monies received from employees to pay for medical claims.

1. **Summary of Significant Accounting Policies (Continued)**

Discretely Presented Component Units

▪ ***City of Franklin Public Schools***

The City of Franklin Public Schools (School Board) is responsible for elementary and secondary education within the City. The Schools are fiscally dependent upon the City because the City Council approves the annual budget of the Schools, levies the necessary taxes to finance the Schools' operations and approves the borrowing of money.

- ***School Operating Fund*** – accounts for revenues and expenditures relating to the operation of the City of Franklin Public Schools. Revenues are derived from the General Fund and from state and federal funds.
- ***School Food Service Fund*** – accounts for revenues and expenditures relating to the operation of school cafeterias. Revenues are derived from state and federal funds and the sale of commodities.
- ***School Textbook Fund*** – accounts for revenues and expenditures relating to the purchase of school textbooks. Revenues are derived from state and federal funds.
- ***Combined School Activity Funds*** – accounts for revenues and expenditures of the various activity funds of each of the three Franklin public schools. Revenues are derived from school fundraisers and event receipts.
- ***School Capital Projects*** – accounts for financial resources to be used for the construction of a major capital facility.

▪ ***Industrial Development Authority***

The Industrial Development Authority of the City of Franklin (IDA) was established under the Industrial Development and Revenue Bond Act - *Code of Virginia*. A separate board appointed by the City Council governs the IDA. The IDA is authorized to acquire, own, lease and dispose of properties and to conduct related activities to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises to locate or to remain in the City. The City makes significant capital contributions toward the property the IDA develops and markets. Separate audited financial statements may be obtained from the IDA.

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The government-wide statements of net assets and statement of activities and all proprietary funds and trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting.

With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on their statement of net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The Statement of Net Assets and Statement of Activities of the Proprietary Funds and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balances.

The fund financial statements of the General, Capital Projects, Debt Service, and Special Revenue Funds are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenues and other local taxes, the term "available" is limited to collections within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and state reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

Allowance for Uncollectible Accounts

The City calculates its allowances for uncollectibles on property and other taxes and utility service charges using historical collection data. At June 30, 2004, the allowance was \$710,177 for the governmental funds and \$510,185 for the enterprise funds.

Cash and Cash Equivalents and Investments

Cash, cash equivalents, and temporary investments are stated at cost which approximates fair value. Interest income on investments is allocated to the appropriate funds based upon the average monthly cash balance of each fund. Interest income is accrued as earned.

1. **Summary of Significant Accounting Policies (Continued)**

Basis of Presentation (Continued)

Inventories

Inventories of materials and supplies in the governmental and proprietary fund types are recorded at cost. The cost of inventory is recorded as an expenditure at the time individual inventory items are consumed (consumption method) on a first-in, first-out basis.

Capital Assets

Capital outlays are recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. In accordance with GASB Statement No. 34, a portion of infrastructure has been capitalized retroactively to 1980, with the remaining portion to be capitalized by fiscal year 2007. Depreciation is recorded on capital assets on a government-wide basis.

Capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the fund's basis and the government-wide basis. Interest expense is capitalized on proprietary fund type assets acquired with tax-exempt debt. The amount of interest expense capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project against interest income earned on invested proceeds over the same period.

The City's capitalization policy threshold is \$5,000, or \$1,000 or more for office equipment. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated assets are valued at their estimated fair market value on the date donated. Assets acquired under capital leases are capitalized at the net present value of all lease payments.

The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Buildings	40
Improvements other than buildings	20 - 50
Machinery and equipment	3 - 50

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Restricted Cash and Investments

Restricted cash and investments in the General Fund is comprised of unspent bond proceeds restricted for various capital projects in the Capital Projects Fund. Restricted cash and investments in the Agency Funds is comprised of social services' client funds and monies collected for the Commonwealth of Virginia.

Compensated Absences

City employees are granted vacation and sick pay in varying amounts based on years of service. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at specified rates. The cost of accumulated vacation and sick pay expected to be paid from future expendable resources is accounted for as a liability in the government-wide statements and proprietary fund statements.

1. **Summary of Significant Accounting Policies (Continued)**

Deferred Revenue

Deferred revenue in the governmental fund types consists of revenues that are measurable but not available for use during the current period. Property taxes receivable at June 30 not collected within 45 days after that date are reported as deferred revenue in the fund financial statements. In the business-type funds, connection fees received in advance of performance of the related service are recorded as deferred revenue.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, all highly liquid investments (including restricted assets) with original maturities of three months or less are considered to be cash equivalents.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenditures/expenses. Actual results could differ from those estimates and assumptions.

Credit Risk

The assessed value of real estate and personal property for the City's ten largest taxpayers comprises 14.19% and 7.29% of the City's real estate and personal property tax base, respectively. Concentration of credit risk with respect to receivables is limited due to the large number of citizens comprising the City's taxpayer base.

2. **Deposits and Investments**

The City maintains a cash and investment pool for all funds except the Franklin Public Schools Activity Funds, the Police Federal Forfeiture Fund, the Police State Forfeiture Fund, the Permanent Funds and the Special Welfare Fund. Each fund's portion of the pool is reported in the balance sheet as cash and cash equivalents and/or restricted assets.

Deposits

• ***Primary Government***

At June 30, 2004, the carrying value of the City's deposits with banks and savings and loan institutions was \$3,587,925 and the bank balance was \$3,387,241.

• ***Component Units***

At June 30, 2004, the carrying value of deposits for the Franklin Public Schools, a discretely presented component unit, was \$2,627,115 and the bank balance was \$2,627,115.

The carrying value and bank balance of the IDA, a discretely presented component unit, was \$13,830 at June 30, 2004.

The aforementioned amounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 with each financial institution. Of the bank balance, 100% was covered by the FDIC or collateralized in accordance with the Virginia Security for Public Deposits Act (Act).

2. **Deposits and Investments** *(Continued)*

Deposits (Continued)

Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

However, all qualified banks' public deposits are considered 100% "insured" (per GASB 3, paragraph 11) because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2004, no balances of the primary government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

Investments

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, mutual fund shares of Virginia State Non-Arbitrage Program (SNAP), "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 consists of investments that are insured or registered or for which securities are held by the City or its safekeeping agent in the City's name, as applicable. Category 2 includes uninsured or unregistered investments for which securities are held by the bank's trust department or safekeeping agent in the City's name, as applicable. Category 3, which includes all investments of the City at June 30, 2004, consists of uninsured and unregistered investments for which securities are held by the broker or dealer, or by the bank's trust department or its safekeeping agent but not in the City's name, as applicable. These investments are generally short-term in nature and are reported as cash equivalents in the basic financial statements.

The City invests funds in overnight repurchase agreements with major banks in Virginia for which the underlying securities are held by the banks.

2. **Deposits and Investments (Continued)**

Investments (Continued)

A reconciliation of the carrying value of deposits and temporary investments discussed above to amounts reported in the basic financial statements is as follows:

	Governmental Activities	Business- Type	School Board	IDA	Total
Deposits	\$ 1,096,463	\$ 1,068,974	\$ 146,046	\$ 12,940	\$ 2,324,423
Investments	1,422,488	-	2,481,069	890	3,904,447
Cash on hand	600	-	-	-	600
	<u>\$ 2,519,551</u>	<u>\$ 1,068,974</u>	<u>\$ 2,627,115</u>	<u>\$ 13,830</u>	<u>\$ 6,229,470</u>

Cash and investments	\$ 2,325,023
Restricted assets - cash and investments	3,904,447
	<u>\$ 6,229,470</u>

The cash and investment balances presented above exclude the following fiduciary funds: Franklin Public Schools Activity Funds, \$89,309; Flexible Benefits Fund, \$4,644; Special Welfare Foster Care Fund, \$16,430; and the Economic Development Fund, \$100,126 as these are not the City's assets.

The City's investments included as cash equivalents, restricted assets and restricted investments in the basic financial statements consist of the following:

	Carrying Value	Fair Value
Mutual Funds - State Non-Arbitrage Program	<u>\$ 3,904,447</u>	<u>\$ 3,904,447</u>

3. **Receivables**

Receivables in the fund statements at June 30, 2004, are as follows:

Primary Government

	General	Capital Projects	Nonmajor Governmental Funds	Business- type Activities	Total
Real estate taxes	\$ 293,347	\$ -	\$ -	\$ -	\$ 293,347
Personal property taxes	165,702	-	-	-	165,702
Other taxes	675,047	-	-	-	675,047
Accounts receivable	262,768	323,787	1,157	1,803,213	2,390,925
	<u>1,396,864</u>	<u>323,787</u>	<u>1,157</u>	<u>1,803,213</u>	<u>3,525,021</u>
Less - allowance for uncollectible accounts	(710,177)	-	-	(510,185)	(1,220,362)
Receivables - net	<u>\$ 686,687</u>	<u>\$ 323,787</u>	<u>\$ 1,157</u>	<u>\$ 1,293,028</u>	<u>\$ 2,304,659</u>

4. **Due From Other Governments**

Due from other governments consists of the following at June 30, 2004:

<i>Primary Government</i>	General	Emergency Disaster Fund	Nonmajor Governmental Funds	Total
Commonwealth of Virginia				
Sales tax	\$ 116,889	\$ -	\$ -	\$ 116,889
Street and highway maintenance	280,046	-	-	280,046
Rolling stock tax	4,922	-	-	4,922
Recordation tax	3,629	-	-	3,629
Compensation Board	10,261	-	-	10,261
Comprehensive Services Act	-	-	11,288	11,288
Department of Social Services	-	-	96,136	96,136
Economic Development and Housing	-	-	595,884	595,884
Public Assistance Grant	-	778,414	-	778,414
Total due from the Commonwealth of Virginia	\$ 415,747	\$ 778,414	\$ 703,308	\$ 1,897,469
Local Governments				
Isle of Wight County - revenue sharing	1,004,627	-	-	1,004,627
Southampton County - various taxes	23,008	-	-	23,008
Total due from local governments	1,027,635	-	-	1,027,635
Total due from other governments	\$ 1,443,382	\$ 778,414	\$ 703,308	\$ 2,925,104

Component Units

Commonwealth of Virginia	<u>School Board</u>
State sales taxes	\$ 80,477
Various grants	268,990
Total due from other governments	\$ 349,467

Interfund Receivables and Payables

Details of the receivables and payables between the primary government and component units at June 30, 2004, are as follows:

Component Unit Receivable Fund	Primary Government Payable	Amount
School General Fund	City General Fund	\$ 150,091
Primary Government Receivable Fund	Component Unit Payable	
City General Fund	Industrial Development Authority	\$ 340,347

5. **Capital Assets**

A summary of changes in capital assets for the primary government follows:

<u>Governmental activities</u>	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Capital assets not being depreciated				
Land	\$ 4,038,826	\$ 59,033	\$ 14,950	\$ 4,082,909
Construction in progress	303,886	1,734,751	35,559	2,003,078
Total capital assets not being depreciated	<u>4,342,712</u>	<u>1,793,784</u>	<u>50,509</u>	<u>6,085,987</u>
Other capital assets				
Buildings	12,557,890	26,197	-	12,584,087
Improvements other than buildings	2,426,943	70,489	-	2,497,432
Machinery and equipment	5,478,173	258,184	22,877	5,713,480
Infrastructure	9,680,757	771,636	-	10,452,393
Total other capital assets	<u>30,143,763</u>	<u>1,126,506</u>	<u>22,877</u>	<u>31,247,392</u>
Less - accumulated depreciation				
Buildings	(1,483,558)	(250,677)	-	(1,734,235)
Improvements other than buildings	(502,708)	(113,984)	-	(616,692)
Machinery and equipment	(2,349,278)	(533,652)	17,410	(2,865,520)
Infrastructure	(6,954,584)	(307,762)	-	(7,262,346)
Total accumulated depreciation	<u>(11,290,128)</u>	<u>(1,206,075)</u>	<u>17,410</u>	<u>(12,478,793)</u>
Other capital assets - net	<u>18,853,635</u>	<u>(79,569)</u>	<u>40,287</u>	<u>18,768,599</u>
	<u>23,196,347</u>	<u>1,714,215</u>	<u>90,796</u>	<u>24,854,586</u>
Allocation of School Board				
Assets - net	4,888,086	-	-	4,888,086
Less - accumulated depreciation				
Buildings	(1,588,314)	(97,762)	-	(1,686,076)
Total allocated to City	<u>3,299,772</u>			<u>3,202,010</u>
Total	<u>\$ 26,496,119</u>			<u>\$ 28,056,596</u>

Depreciation expense for governmental activities was charged to functions of the primary government as follows:

General Governmental Administration	\$ 204,746
Public Safety	389,227
Public Works	454,531
Health and Welfare	63,744
Parks, Recreation, and Cultural	93,826
Education	97,762
	<u>\$ 1,303,836</u>

5. **Capital Assets (Continued)**

A summary of changes in capital assets for the enterprise funds follows:

	Balance			Balance
	July 1, 2003	Increases	Decreases	June 30, 2004
Buildings	\$ 1,245,101	\$ -	\$ -	\$ 1,245,101
Other improvements	29,407,301	649,276	-	30,056,577
Machinery and equipment	1,586,580	61,428	-	1,648,008
	<u>32,238,982</u>	<u>710,704</u>	<u>-</u>	<u>32,949,686</u>
Less - accumulated depreciation				
Buildings	(348,903)	(44,011)	-	(392,914)
Other improvements	(15,531,192)	(1,584,310)	-	(17,115,502)
Machinery and equipment	(860,343)	(168,401)	-	(1,028,744)
	<u>(16,740,438)</u>	<u>(1,796,722)</u>	<u>-</u>	<u>(18,537,160)</u>
Total	<u>\$ 15,498,544</u>	<u>\$ (1,086,018)</u>	<u>\$ -</u>	<u>\$ 14,412,526</u>

A summary of changes in capital assets for the Component Unit - School Board follows:

	Balance			Balance
	July 1, 2003	Increases	Decreases	June 30, 2004
Land improvements	\$ 63,621	\$ 16,420	\$ -	\$ 80,041
Buildings	10,327,229	921,214	5,893	11,242,550
Infrastructure	25,799	1,511,382	-	1,537,181
Machinery and equipment	2,980,148	168,419	109,429	3,039,138
	<u>13,396,797</u>	<u>2,617,435</u>	<u>115,322</u>	<u>15,898,910</u>
Less - accumulated depreciation				
Land improvements	63,621	205	-	63,826
Buildings	3,648,575	220,178	5,893	3,862,860
Infrastructure	25,798	46	-	25,844
Machinery and equipment	1,387,299	300,317	96,074	1,591,542
	<u>5,125,293</u>	<u>520,746</u>	<u>101,967</u>	<u>5,544,072</u>
Other capital assets - net	<u>8,271,504</u>	<u>2,096,689</u>	<u>13,355</u>	<u>10,354,838</u>
Allocation to City - assets - net	(4,888,086)	-	-	(4,888,086)
Less - accumulated depreciation				
Buildings	1,588,314	97,762	-	1,686,076
Total allocated to City	<u>(3,299,772)</u>			<u>(3,202,010)</u>
Total	<u>\$ 4,971,732</u>			<u>\$ 7,152,828</u>

5. **Capital Assets (Continued)**

A summary of changes in capital assets for the Component Unit - Industrial Development Authority

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Land	\$ 47,670	\$ -	\$ -	\$ 47,670
Building	2,104,277	-	-	2,104,277
	<u>2,151,947</u>	<u>-</u>	<u>\$ -</u>	<u>2,151,947</u>
Less - accumulated depreciation				
Buildings	(236,681)	(52,608)	-	(289,289)
	<u>\$ 1,915,266</u>	<u>\$ (52,608)</u>	<u>\$ -</u>	<u>\$ 1,862,658</u>

6. **Noncurrent Liabilities – Governmental Activities**

Following is a summary of the changes in long-term liabilities for governmental activities and its Component Unit-School Board, respectively, for the year ended June 30, 2004.

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amount due within one year
General obligation debt	\$ 12,104,429	\$ 4,288,241	\$ 410,647	\$ 15,982,023	\$ 937,635
Loans payable	1,380,000	-	245,000	1,135,000	245,000
Capital lease obligations	275,949	20,500	66,865	229,584	73,366
Compensated absences	607,276	65,511	-	672,787	-
	<u>\$ 14,367,654</u>	<u>\$ 4,374,252</u>	<u>\$ 722,512</u>	<u>\$ 18,019,394</u>	<u>\$ 1,256,001</u>
Component Unit - School Board					
Accrued compensated absences	<u>\$ 181,201</u>	<u>\$ 51,917</u>	<u>\$ -</u>	<u>\$ 233,118</u>	<u>\$ -</u>

6. **Noncurrent Liabilities – Governmental Activities (Continued)**

General obligation debt of the governmental activities at June 30, 2004, is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate %	Authorized and Issued	Outstanding June 30, 2004
Bonds payable:					
General obligation bonds -					
Public Improvement and					
Refunding Series 1998A	03/05/98	01/15/12	3.60-4.60	\$ 1,679,916	\$ 1,567,103
Public Improvement Series 1998B	03/05/98	01/15/18	3.60-4.87	458,382	143,810
Public Improvement Series 2001B	10/01/01	01/15/24	3.00-5.00	3,105,000	3,015,000
Public Improvement Series 2001C	10/01/01	01/15/22	6.00	685,000	650,000
Public Improvement Series 2002	10/02/02	09/01/42	4.625	2,500,000	2,484,476
Public Improvement Series 2003	06/24/03	10/01/08	4.875	1,880,000	1,880,000
Public Improvement Series 1999A	05/28/99	07/15/19	3.970	2,041,330	1,290,200
Public Improvement Series 2003A	12/04/03	01/15/06	1.930	1,500,000	1,500,000
Public Improvement Series 2003B	12/04/03	01/15/24	3.640	966,258	966,258
Public Improvement Series 2003B	12/04/03	01/15/24	3.640	256,983	256,983
Public Improvement Series 2003C	12/04/03	01/15/27	5.550	565,000	565,000
Virginia Public School Authority					
Series 1992	11/01/92	07/15/12	4.90-6.35	285,325	149,814
Virginia Public School Authority					
Series 1995A	12/21/95	01/15/16	5.10-6.10	567,942	375,985
Virginia General Obligation Qualified					
Zone Academy Bond, Series 2003	12/31/03	12/31/17	-	1,000,000	1,000,000
Southampton County					
debt assumed *	01/01/96	06/30/14	N/A	N/A	137,394
Total bonds payable					<u>15,982,023</u>
Loans payable:					
Literary Fund loan-Elementary	04/01/87	04/01/07	3.000	2,000,000	300,000
Literary Fund loan-Middle School	03/15/91	03/15/11	2.000	2,000,000	700,000
Literary Fund loan-High School	06/01/87	06/01/07	3.000	879,413	135,000
Total loans payable					<u>1,135,000</u>
Total general obligation debt					<u>\$ 17,117,023</u>

* On March 27, 1995, the City entered into an annexation agreement with Southampton County and agreed to assume 2.04% of the County's general obligation debt.

6. **Noncurrent Liabilities – Governmental Activities (Continued)**

Debt service on the preceding general obligation debt payable for future fiscal years is as follows:

Fiscal Year Ending June 30,	Principal	Interest
2005	\$ 937,635	\$ 671,102
2006	2,452,584	617,124
2007	980,017	554,094
2008	2,298,503	518,709
2009	866,393	423,324
2010-2014	3,953,590	1,633,227
2015-2019	2,318,422	1,007,479
2020-2024	1,551,133	558,534
2025-2029	390,484	363,021
2030-2034	423,347	288,225
2035-2039	533,253	219,475
2040-2044	411,662	126,729
	<u>\$ 17,117,023</u>	<u>\$ 6,981,043</u>

Following is a schedule of capital lease obligations:

	Issue Date	Final Maturity	Interest Rate %	Authorized and Issued	Outstanding June 30, 2004
Street sweeper	02/01/02	02/01/06	4.79	\$ 103,861	\$ 42,446
Police recorder	05/01/03	05/01/07	8.00	25,578	15,328
Caterpillar tractor	01/06/03	01/06/08	4.50	81,650	48,927
Caterpillar trailer	01/06/03	01/06/08	4.50	11,517	6,902
E-911 Equipment	09/05/02	10/05/07	5.90	92,424	63,113
E-911 Equipment	09/05/02	09/05/07	8.90	46,336	32,399
Copiers	02/28/03	02/27/09	12.00	20,500	20,469
					<u>\$ 229,584</u>

Future minimum lease payments under capital leases with the present value (outstanding principal) of the net minimum lease payments as of June 30, 2004, are as follows:

Fiscal Year Ending June 30,	
2005	\$ 87,111
2006	87,111
2007	64,351
2008	13,747
2009	6,002
	<u>258,322</u>
Less-amount representing interest	<u>(28,738)</u>
Present value of net minimum lease payments	<u>\$ 229,584</u>

6. **Noncurrent Liabilities – Governmental Activities (Continued)**

General Obligation Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which may be issued by the City. As of June 30, 2004, the City's aggregate general obligation indebtedness is approximately \$13 million less than the Commonwealth's limit as summarized in the following table:

Total assessed value of taxed real property		
Assessed value of real estate		<u>\$ 374,745,082</u>
Debt limit - 10% of total assessed value		\$ 37,474,508
Amount of debt applicable to debt limit		
General obligation debt:		
Primary government	\$ 15,844,630	
Business-type	6,240,844	
Capital leases	229,584	
Virginia Resources Authority line of credit	858,743	
State Literary Fund loans - Component Unit - School Board	1,135,000	
Debt assumed - Southampton County - primary government	<u>137,394</u>	<u>24,446,195</u>
Legal debt margin		<u>\$ 13,028,313</u>

The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2004.

Long-Term Liabilities – Business-Type Activities

Following is a summary of the changes in noncurrent liabilities of the business-type activities:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due within one year
Deposits	\$ 333,482	\$ 76,161	\$ 90,157	\$ 319,486	\$ -
Bonds payable	6,137,734	616,761	513,650	6,240,845	605,842
Line of credit	903,485	-	44,742	858,743	-
	<u>7,374,701</u>	<u>692,922</u>	<u>648,549</u>	<u>7,419,074</u>	<u>605,842</u>
Compensated absences	106,178	11,743	1,318	116,603	-
	<u>\$ 7,480,879</u>	<u>\$ 704,665</u>	<u>\$ 649,867</u>	<u>\$ 7,535,677</u>	<u>\$ 605,842</u>

6. **Noncurrent Liabilities – Governmental Activities (Continued)**

Noncurrent liabilities of the business-type activities at June 30, 2004, are comprised of the following:
Debt service on the business-type funds, bonds payable, and line of credit are as follows:

Description	Issue Date	Final Maturity	Interest Rate %	Authorized and issued	Outstanding June 30, 2004
Bonds payable:					
General Obligation Bonds-					
Public Improvement and Refunding					
Series 1998A	03/05/98	01/15/12	3.60-4.60	2,265,084	\$ 2,081,190
Public Improvement Series 1998B	03/05/98	01/15/08	3.60-4.87	2,876,618	2,112,894
Public Improvement Series 2001B	10/01/01	01/15/22	3.00-5.00	1,540,000	1,430,000
Public Improvement Series 2003B	12/03/03	01/15/24	3.64	616,760	616,761
Total bonds payable					6,240,845
Virginia Resources Authority -					
line of credit	04/30/99	07/01/19	3.00	1,050,000	858,743
Total bonds payable and line of credit					\$ 7,099,588

Fiscal Year Ending June 30,	Principal	Interest
2005	\$ 605,842	\$ 287,591
2006	572,861	262,202
2007	601,307	239,003
2008	531,444	216,426
2009	484,362	195,301
2010-2014	2,179,630	671,838
2015-2019	1,595,709	277,805
2020-2024	528,433	39,185
	\$ 7,099,588	\$ 2,189,351

Component Unit – Industrial Development Authority (IDA)

Following is a summary of debt transactions of the IDA for the fiscal year ended June 30, 2004:

IDA	July 1, 2003	Additions	Reductions	June 30, 2004	Due within one year
General obligation bond	\$ 2,070,000	\$ -	\$ 2,070,000	\$ -	\$ -

6. Noncurrent Liabilities – Governmental Activities (Continued)

Defeased Debt

On March 5, 1998, the City issued General Obligation Public Improvement Refunding Bonds, Series 1998A, of \$3,945,000 with an interest rate of 3.6% to 4.6% to advance refund a portion of the 1992 General Obligation Bonds with an interest rate of 5.2% to 6.4%. The 1992 bonds mature on January 15, 2012, were callable on January 15, 2002, and were recorded in part in the governmental funds and in part in the proprietary funds. The General Obligation Public Improvement Refunding Bonds Series 1998A were issued at a discount of \$79,691, and after paying issuance costs of \$27,939, the net proceeds were \$3,837,370. The net proceeds of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the 1992 General Obligation Bonds are due. The advance refunding met the requirements of an in-substance debt defeasance and was recorded in the governmental activities (\$1,679,916) and in the business-type activities (\$2,265,084), corresponding to the debt defeased.

As a result of the advance refunding, the City reduced its debt service requirements for the 1992 bonds by \$265,474, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$203,548.

7. Compensated Absences

City employees earn annual leave at the rate of 17 to 29 days per year depending on length of service. A maximum of 34 to 58 days of annual leave, depending on length of service, may be carried over to succeeding years and may be paid if not used prior to termination. The governmental and business-type activities have outstanding accrued vacation totaling \$534,494 and \$84,229, respectively, as of June 30, 2004.

City employees no longer earn sick leave. A new policy was adopted on January 1, 2002, in which all compensated absences are classified as annual leave. Any unused sick leave accrued as of January 1, 2002, was placed in a “sick leave bank” which can be used in the event of illness or injury in lieu of using paid time off days. Up to 3 days of banked sick leave may also be used annually for the sickness of an immediate family member. Employees who leave employment after 5 years or more of continuous service are paid for 25% of their sick leave balance (earned prior to January 1, 2002) based on their final rate of pay; however, the total amount of sick leave compensation may not exceed \$2,500. At June 30, 2004, accumulated unpaid sick leave for the governmental and business-type activities amounted to \$138,293 and \$32,374, respectively.

Twelve-month employees of the City of Franklin School System earn annual vacation leave as follows:

<u>Years of Experience</u>	<u>Rate</u>	<u>Days Per Year</u>
1 - 7	1 day per month	12
8 - 12	1-1/4 days per month	15
13 and over	1-1/2 days per month	18

Vacation leave is accumulated monthly. Employees may accumulate leave not to exceed the total of 24 months' accumulation at June 30 unless authorized by the Superintendent. Upon resignation or retirement from employment with the school system, an employee will be paid for unused vacation leave up to 24 months' accumulation.

7. Compensated Absences (Continued)

All employees of the City of Franklin School System earn one day per month of sick leave. Employees who retire under provisions of the Virginia Retirement System Act while employed by Franklin City Public Schools will receive severance compensation for unused sick leave accumulation at a rate of \$15 per day, not to exceed payment for 125 days. The School System will accept transfer of a 90-day accumulation of unused sick leave earned by an employee while employed by another local school division or an institution accredited by the Virginia Department of Education.

8. Retirement Plan

A. Plan Description

The City contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer public employee defined benefit pension plan. In addition, professional and nonprofessional employees of the School Board are covered by the VRS. Professional employees participate in a VRS statewide teacher cost-sharing pool and nonprofessional employees participate as a separate group in the agent and cost sharing multiple-employer public employee defined benefit pension plan.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service (age 50 with 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary.

Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the VRS at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the system. This 5% member contribution has been assumed by the City and School Board. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and School Board's contribution rates for fiscal years ended 2004, 2003, and 2002 were 10.25%, 8.50% and 7.50%, 3.00%, 3.00%, and 3.00%, respectively, of annual covered payroll. The School Board's required employer contributions to the teacher cost-sharing pool for all professional employees for the fiscal years ended 2004, 2003, and 2002 were \$597,466, \$564,390 and \$558,057, respectively.

8. **Retirement Plan (Continued)**

C. **Annual Pension Cost**

For fiscal year 2003, the City and School Board's annual pension costs of \$721,457 and \$31,641, respectively, were equal to the City and School Board's required and actual contributions. The required contribution was determined as part of the 2000 experience study using the entry age normal actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return, (b) projected salary increases of 4.25% to 6.10% and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City and School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City and School Board's unfunded actuarial accrued liability is being amortized as a level percentage of payrolls on an open basis over a period of 20 years.

The Schedules of Funding and Progress and Employer Contributions are presented as required supplementary information. The information presented in the Schedules of Employer Contributions and Funding Progress was determined as part of the actuarial valuation on June 30, 2003. Actuarial assumptions used include an investment rate of return of 8%.

9. **Certain Interfund Transactions and Fund Results**

Interfund Receivables and Payables

	Due To	Due From
General	\$ 1,313,433	\$ 2,786,644
Water and Sewer	-	398,304
Airport	-	915,129
Electric	2,786,644	-
	\$ 4,100,077	\$ 4,100,077

Purpose:

Due to General Fund:

\$ 398,304 Water and Sewer Fund: Advances for prior year projects.
 \$ 915,129 Airport Fund: Advances for prior year projects.

Due to Electric Fund:

\$ 2,786,644 General Fund: Advances from prior years.

Receivable and payable balances between the primary government and component units at June 30, 2004, are as follows:

	Due To	Due From
Primary government	\$ 340,347	\$ 150,091
Component units:		
School Board	-	340,347
Industrial Development Authority	150,091	-
	\$ 490,438	\$ 490,438

9. **Certain Interfund Transactions and Fund Results (Continued)**

Interfund Transfers

Transfers to:	Transfers from:			
	General	Electric	Debt Service	Total
General Fund	\$ -	\$ 2,106,438	\$ -	\$ 2,106,438
Capital Projects	-	-	-	-
Virginia Public Assistance	360,455	-	-	360,455
Comprehensive Services	71,348	-	-	71,348
School Capital Projects	34,494	-	3,536,426	3,570,920
Airport	66,282	-	-	66,282
Debt Service	1,204,789	-	-	1,204,789
	<u>\$ 1,737,368</u>	<u>\$ 2,106,438</u>	<u>\$ 3,536,426</u>	<u>\$ 7,380,232</u>

Purpose:

Transfers from General Fund:

- \$ 360,455 Virginia Public Assistance Fund: Funding for operational support of existing programs.
- \$ 71,348 Comprehensive Services Fund: Funding for operational support of existing programs.
- \$ 34,494 School Capital Projects Fund: Funding capital projects.
- \$ 66,282 Airport Fund: Funding for operational support of existing programs.
- \$ 1,204,789 Debt Service Fund: Funding debt service.

Transfers from Electric Fund:

- \$ 2,106,438 General Fund: Funding for operational support of existing programs.

Transfers from Debt Service Fund:

- \$ 3,536,426 School Capital Project: Fund capital projects

10. **Joint Ventures and Related Organizations**

Blackwater Regional Library

The City participates in the operation of the Blackwater Regional Library that serves Southampton County, City of Franklin, Towns of Smithfield, Wakefield and Waverly and three neighboring counties. Separate financial statements are available from the Blackwater Regional Library.

Franklin-Southampton Economic Development Commission

The City participates in the operation of the Franklin-Southampton Economic Development Commission that operates in the City of Franklin and Southampton County. Separate financial statements are available from the Franklin-Southampton Economic Development Commission.

Western Tidewater Regional Jail Authority

The City participated in the construction of the facilities for the Western Tidewater Regional Jail Authority located in the City of Franklin. The jail became operational in July 1992. Operational funding surpluses and deficiencies are shared by member jurisdictions based on their ownership percentages. Separate financial statements are available from the Western Tidewater Regional Jail Authority.

10. Joint Ventures and Related Organizations (Continued)

Western Tidewater Community Services Board

The City participates in the operation of the Western Tidewater Community Services Board that serves the City of Franklin and the counties of Isle of Wight and Southampton. Separate financial statements are available from the Western Tidewater Community Service Board.

11. Contingent Liabilities

Federal programs in which the City participates were audited in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Pursuant to these provisions, certain programs were tested for compliance with applicable grant requirements. The Federal government may subject grant programs to additional compliance tests that may result in disallowed expenditures. In the opinion of management, future disallowances of current program expenditures, if any, would be immaterial.

General obligation bonds of \$6,240,845 have been recorded in the Enterprise Funds from which repayment is anticipated. The General Fund has a contingent liability for repayment of the aforementioned amounts should the Enterprise Funds be unable to pay.

The Airport Fund obtained a grant from the Department of Aviation, Commonwealth of Virginia, for rehabilitation of the airport entrance road. Grant provisions require the City to operate and maintain the airport as a public use facility for a period of twenty years from the final payment date of this grant. The final payment was received in September 1998. If the airport should cease to be used as a public use facility prior to September 2018, the City would be required to repay the Commonwealth a pro-rata share (computed monthly) of all monies received under this grant based on the period of operation and maintenance.

Health insurance coverage for full-time salaried employees of the City of Franklin and the Component Unit - School Board is obtained through Local Choice. This employee health insurance fund is an account established by the Commonwealth Treasury and maintained by the Department of Accounts within which contributions to the plan are deposited. The yearly premiums paid into the plan are adjusted for deviations in claim experience. Employees may choose to terminate participation in the health benefits program with 90 days notice. The local employer is responsible for any adverse experience adjustments that apply to the terminating year and any prior year within which the employer participated in the program. No estimate can be made as to possible future costs in excess of monthly premiums paid.

12. Post Employment Benefits

In addition to the pension benefits described in the Retirement Plan footnote, the City provides post employment health care benefits, in accordance with City ordinances, to all employees who retire from the City in accordance with criteria listed in the Retirement Plan footnote. Currently, 16 retirees meet those eligibility requirements.

For those employees who terminate without retirement, health care benefits continue through the end of the month of termination. At that time, the former employee has continuation rights to health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA) law of 1985.

12. Post Employment Benefits (Continued)

During the fiscal year 2003, retirees' health insurance was provided as a combination of Health Maintenance Organization (HMO) and indemnity coverage with the retiree selecting the type of coverage. The City paid for a major portion or all of the total health insurance cost for retirees depending on the coverage election. The City paid for approximately 50% of the cost of coverage for dependents and surviving spouses eligible to participate in the group plan. The remainder of the premium was paid by the retirees for their dependents or the surviving spouses for themselves. Expenditures for post employment health care are recognized as claims or premiums are paid. During the fiscal year ended June 30, 2004, the cost for health care benefits for retirees, dependents, and surviving spouses was \$55,252.

13. Landfill Postclosure Care Costs

State and federal laws and regulations require that the City perform certain maintenance and monitoring functions subsequent to closure of the City's landfill site. The City ceased accepting solid waste at the landfill in 1984 and completed initial closure measures in 1987. In letters dated January 13, 1995, and February 1, 1995, the Virginia Department of Environmental Quality informed the City that the ten-year postclosure period would begin in 1995 and that the landfill closure had been completed in accordance to the Virginia Solid Waste Management Regulations, respectively. The original estimated total cost of the postclosure care of approximately \$132,608 was based on the expected costs for all equipment, facilities, and services required to monitor and maintain the landfill's postclosure care. However, the actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in applicable laws and regulations. Through June 30, 2004, the City had expended \$227,439 in postclosure costs.

14. Personal Property Tax Relief Act of 1998

The General Assembly enacted the Personal Property Tax Relief Act of 1998. The effect of the legislation has resulted in a steady decline in personal property tax revenue with a corresponding increase in intergovernmental revenue from the Commonwealth of Virginia. The Commonwealth of Virginia directly reimbursed taxpayers for tangible personal property tax levies paid on qualifying vehicles for calendar year 1998. The Commonwealth has paid to the City a percentage of the reimbursable amount for calendar year 1999 and subsequent years. In fiscal year 2003, the effect of the legislation shifted \$986,950 from general property taxes to state revenue.

The amount of the payments to the Treasurer for tax years after 1998 will be 100% for qualifying vehicles with a value of \$1,000 or less and for each qualifying vehicle with a value of more than \$1,000, on the first \$20,000 the reimbursement will be as follows:

<u>Tax Year Beginning Calendar Year</u>	<u>Percentage Level</u>
1998	12.5%
1999	27.5%
2000	47.5%
2001 - 2003	70.0% *

* Subject to change by the legislature.

15. Surety Bonds

Surety bonds of the City of Franklin are as follows:

John R. Cornwell, III, Treasurer	Commonwealth of Virginia Faithful Performance of Duty Bond Plan	\$ 500,000
Brenda B. Rickman Commissioner of Revenue	Commonwealth of Virginia Faithful Performance of Duty Bond Plan	\$ 3,000

16. Annexation

Southampton County

The City entered into an annexation agreement with Southampton County (County) that provided for annexation in two phases. Annexation of Phase I area, 3.93 square miles with 3.1% of population per 1980 census, was effective December 31, 1985. Annexation of Phase II area, 0.73 square miles with 1.96% of population, was effective December 31, 1995. As part of Phase I, the City agreed to pay to the County 3.798% of all the County's future obligations on general obligation debt existing at December 31, 1985. As part of Phase II, the City agreed to pay the County 2.04% of all the County's future obligations on general obligation debt existing at December 31, 1996. In addition, the City will compensate the County for estimated loss of tax revenue through fiscal year 2005. The City further agreed not to institute, participate in or support, directly or indirectly, any further annexation of Southampton County prior to December 31, 2010. The exact amount of future revenue sharing payments due the County are not exactly determinable. The amount for 2003 was \$510,000, and the amount for 2004 was \$515,000.

The City adopted a Revenue-Sharing Agreement with the County in January 1997. County residents approved this agreement in November 1997. The agreement was reviewed and recommended for Court approval by the Commission on Local Government of the Commonwealth of Virginia in January 1999. The Revenue Sharing Agreement covers approximately 17.1 square miles in Southampton County immediately contiguous to the City of Franklin. The agreement provides that the County will pay to the City on October 15th of each year, 30% of local tax revenue collected through June 30 of that year by industries and commercial establishments located within this area that are served by City water and sewer treatment. The City is required to provide potable water for non-residential use to industrial and commercial businesses in the designated area and receive wastewater from such businesses. The agreement is to remain in effect in perpetuity as adopted, subject to amendment by agreement of the parties, except that if the City, or a City water and/or sewer authority decides to discontinue operation of both its water and sewer treatment systems, the agreement may be voided upon two years' notice to the County. The designated area, which includes all portions of the County immediately contiguous to the City, is immune from annexation as long as the agreement remains in force and the City exists as a political subdivision in the nature of a city.

For the year ending June 30, 2004, the City received \$90,140 in tax revenue from the County.

16. **Annexation (Continued)**

County of Isle of Wight

On March 11, 1986, the City entered into an agreement with the County of Isle of Wight whereby the City waived any and all of its rights and power to seek annexation of the County of Isle of Wight's territory within a designated area adjacent to the City. The agreement became effective when approved by the Court on April 13, 1987.

In return, the County of Isle of Wight agreed to share with the City all local tax revenues collected within the designated area using the following percentages:

<u>Fiscal Year</u> <u>Ending</u>	<u>Percentage</u>
1986	5%
1987	10%
1988 - 1995	20%
1996 and thereafter	17-23% as adjusted by formula

The local revenues are payable to the City by the County of Isle of Wight on August 1, following the end of the fiscal year. During the year ended June 30, 2004, the City received \$1,004,627 related to County tax revenues collected for the year ended June 30, 2003. For the year ending June 30, 2004, the City will receive approximately \$1,000,000 related to County tax revenues collected for the year ended June 30, 2004 which is included in intergovernmental receivables.

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Required Supplementary Information

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues and other financing sources				
Property taxes				
Real estate	\$ 3,363,600	\$ 3,363,600	\$ 3,363,700	\$ 100
Personal property	2,083,000	2,083,000	1,844,699	(238,301)
Machinery and tools	18,500	18,500	22,320	3,820
Public service corporations	86,700	86,700	82,464	(4,236)
Penalties and interest on taxes	115,000	115,000	210,400	95,400
Total other local property taxes	5,666,800	5,666,800	5,523,583	(143,217)
General taxes				
Local sales and use	1,346,481	1,346,481	1,375,925	29,444
Consumer's utility	735,000	735,000	724,680	(10,320)
Cellular utility	125,000	125,000	115,664	(9,336)
Electric consumption	20,000	20,000	29,272	9,272
Business licenses	650,000	650,000	702,000	52,000
Franchise licenses	66,600	66,600	69,743	3,143
Motor vehicle licenses	147,000	147,000	147,727	727
Bank stock	91,000	91,000	64,901	(26,099)
Right of way use	29,000	29,000	33,254	4,254
Recordation	25,000	25,000	31,370	6,370
Restaurant meals	750,000	760,200	925,578	165,378
Lodging	168,000	168,000	177,984	9,984
E-911 emergency telephone	165,000	165,000	162,069	(2,931)
Tobacco tax	200,400	200,400	240,893	40,493
Total local taxes	4,518,481	4,528,681	4,801,060	272,379
Permits, fees and licenses				
Animal licenses	4,800	4,800	3,573	(1,227)
Permits and other licenses	47,180	47,180	68,611	21,431
Total permits, fees and licenses	51,980	51,980	72,184	20,204
Fines and forfeitures	77,400	77,400	62,331	(15,069)
Use of money and property				
Interest on investments	45,000	45,000	5	(44,995)
General property rental	124,900	314,608	303,902	(10,706)
Total use of money and property	169,900	359,608	303,907	(55,701)
Charges for services				
Armory operation and maintenance	14,000	42,500	40,662	(1,838)
Law library fees	4,200	4,200	5,130	930
Fire and emergency services - counties	47,000	47,000	28,752	(18,248)
Ambulance and fire services	150,000	150,000	146,584	(3,416)
Alarm service	5,100	5,100	1,728	(3,372)
Police services	-	13,863	13,863	-
Administration - water and sewer	270,800	270,800	270,800	-
Administration - electric	243,800	243,800	243,800	-
Administration - airport	1,848	1,848	1,848	-
Administration - jail	-	-	300	300
Waste collection and disposal	561,420	561,420	597,345	35,925
Recreational fees and admissions	24,000	24,000	27,357	3,357
Dog boarding fees	350	350	90	(260)
Weed cutting charges	-	-	17,525	17,525
Utility tax collection fees	2,000	2,000	1,974	(26)
Demolition and debris removal	-	-	1,750	1,750
Miscellaneous	4,050	4,050	10,788	6,738
Total charges for services	1,328,568	1,370,931	1,410,296	39,365

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues and other financing sources (Continued)				
Miscellaneous				
Payment in lieu of taxes - from enterprise activities	68,635	68,635	68,635	-
Annexation payments - County of Isle of Wight	1,175,000	1,175,000	1,004,627	(170,373)
Revenue sharing - Southampton County	71,141	71,141	90,140	18,999
Payment in lieu of taxes	18,000	18,000	15,534	(2,466)
Sale of real estate	-	-	44,154	44,154
Sale of supplies and publications	1,200	1,200	1,422	222
Sale of fire and rescue books	-	606	606	-
Bad check charges	-	-	1,872	1,872
Other donations	-	6,365	6,365	-
Sale of cemetery lots	25,000	25,000	28,050	3,050
Miscellaneous other revenue	-	1,471	6,914	5,443
Total miscellaneous revenue	1,358,976	1,367,418	1,268,319	(99,099)
Recovered costs				
Insurance recovery - liability	3,000	46,145	43,145	(3,000)
Insurance recovery - workers' compensation	10,000	10,000	14,676	4,676
Personal property seizure	-	-	2,509	2,509
Miscellaneous recoveries	-	-	484	484
Total recovered costs	13,000	56,145	60,814	4,669
Intergovernmental				
Revenue from the Commonwealth				
Noncategorical aid				
ABC profits	4,893	4,893	12,728	7,835
Wine tax	5,129	5,129	7,889	2,760
Railroad rolling stock tax	7,000	7,000	4,922	(2,078)
Auto rental tax	35,000	35,000	32,395	(2,605)
Total noncategorical aid	52,022	52,022	57,934	5,912
Categorical aid	1,647,681	1,801,566	1,766,694	(34,872)
Total revenue from the Commonwealth of Virginia	1,699,703	1,853,588	1,824,628	(28,960)
Revenue from the federal government				
Police grants	-	3,692	3,692	-
Fire INS	12,000	12,000	12,453	453
Firefighter assistance grant	-	48,645	48,645	-
Homeland security grant	-	92,600	92,600	-
Total revenue from the federal government	12,000	156,937	157,390	453
Other financing sources				
Transfer from Electric Fund	2,106,438	2,106,438	2,106,438	-
Carryover from prior year budget	35,000	239,612	-	(239,612.00)
Total other financing sources	2,141,438	2,346,050	2,106,438	(239,612)
Total revenue and other financing sources	\$ 17,038,246	\$ 17,835,538	\$ 17,590,950	\$ (244,588)

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures and other financing uses				
General government administrative				
Legislative:				
City Council	\$ 257,454	\$ 263,180	\$ 253,239	\$ 9,941
General and financial administration:				
City Manager	201,737	201,737	191,010	10,727
City Attorney	114,528	114,528	111,683	2,845
LAN operations	132,820	132,820	101,106	31,714
Insurance	87,000	87,000	87,587	(587)
Commissioner of the Revenue	186,349	185,849	179,433	6,416
City Assessor	58,070	60,570	64,360	(3,790)
City Treasurer	226,776	226,776	207,536	19,240
Finance	246,563	246,563	222,153	24,410
Utility Collections	172,087	172,087	165,217	6,870
Management Services	243,861	243,861	162,036	81,825
Purchasing	62,637	62,637	60,890	1,747
Board of elections:				
Registrar	102,682	102,682	91,878	10,804
Total general government administration	2,092,564	2,100,290	1,898,128	202,162
Judicial administration				
Courts:				
Clerk of Circuit Court	26,197	26,197	26,197	-
Sheriff - courts	34,865	34,865	49,285	(14,420)
Other courts	95,837	95,837	91,225	4,612
Commonwealth's Attorney	12,091	12,091	-	12,091
Total judicial administration	168,990	168,990	166,707	2,283
Public safety				
Police	2,040,132	2,118,966	2,158,976	(40,010)
Communications	441,953	494,656	450,798	43,858
Fire	791,685	889,693	888,463	1,230
Bureau of Inspections	296,829	402,802	324,944	77,858
Other protection	132,549	132,914	147,709	(14,795)
Total public safety	3,703,148	4,039,031	3,970,890	68,141
Health and welfare				
Health department	122,320	126,320	128,318	(1,998)
Mental health and retardation	49,298	49,298	49,298	-
Tax relief for the elderly	13,000	13,000	-	13,000
Total health and welfare	184,618	188,618	177,616	11,002
Parks, recreation and cultural				
Parks and recreation	564,280	564,280	591,252	(26,972)
Public libraries	215,634	220,834	213,322	7,512
Total parks, recreation and cultural	779,914	785,114	804,574	(19,460)
Community development				
Planning and community development	202,402	355,714	353,922	1,792

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures and other financing uses (Continued)				
Public works				
Highways, streets, bridges and sidewalks	1,982,438	2,083,201	2,134,977	(51,776)
Snow removal	20,000	20,000	16,686	3,314
Engineering	201,743	201,743	204,232	(2,489)
Refuse collection	654,259	654,259	773,688	(119,429)
Maintenance building and grounds	762,295	822,995	885,463	(62,468)
Mosquito control	35,724	35,724	33,911	1,813
Total public works	3,656,459	3,817,922	4,048,957	(231,035)
Nondepartmental				
Industrial corridor revenue sharing	525,000	525,000	520,000	5,000
Miscellaneous	15,432	15,432	26,291	(10,859)
Total nondepartmental	540,432	540,432	546,291	(5,859)
Other financing uses				
Transfer to Virginia Public Assistance Fund	230,747	360,455	360,455	-
Transfer to Comprehensive Services Act Fund	39,093	39,093	71,348	(32,255)
Transfer to Airport Fund	66,282	66,282	66,282	-
Transfer to Debt Service Fund	942,508	942,508	885,051	57,457
Transfer to Fixed Asset Fund	-	-	34,995	(34,995)
Transfers to component units	4,431,089	4,431,089	4,238,038	193,051
Total other financing uses	5,709,719	5,839,427	5,656,169	183,258
Total expenditures and other financing uses	\$ 17,038,246	\$ 17,835,538	\$ 17,623,254	\$ 212,284

Notes to Required Supplementary Information

Notes to Required Supplementary Information

June 30, 2004

1. Budgets and Budgetary Accounting

The City utilizes the following procedures in establishing the budgetary data reflected in the required supplementary information:

- At least 60 days prior to June 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.
- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than seven days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted before July 1. If City Council does not adopt the proposed budget before July 1, the budget as submitted is automatically adopted.
- Additional appropriations may be made by City Council only if there is an undesignated fund balance or additional funding becomes available.
- The City Manager is authorized to transfer budgeted amounts within departments. Expenditures over the original budget of any department must be approved by City Council. The School Board is authorized to transfer budgeted amounts within the school system's categories.
- Appropriations lapse on June 30 for all City units, except for the Capital Projects Fund which carries unexpended balances into the following year on a project by project basis.
- All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America as applicable to governmental entities.

1. **Budgets and Budgetary Accounting** *(Continued)*

Formal budgetary integration is employed as a management control device. Annual operating budgets are adopted by ordinance passed by City Council for the General Fund, several Special Revenue Funds, the Debt Service Fund and the Proprietary Funds.

Budgets for proprietary fund types are prepared on the accrual basis of accounting. The General, Special Revenue and Debt Service Funds' budgets are adopted on the modified accrual basis of accounting.

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Other Supplementary Information

City of Franklin, Virginia

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2004

	Special Revenue						
	Virginia Public Assistance	Comprehensive Services Act	Regional Fire Training Grounds	Foundation Grants	Community Development Grant	Community Development Grant	Community Development Grant
Assets							
Cash and investments	\$ 57,484	\$ 10,832	\$ 19,476	\$ 112,293	\$ 80,830	\$ 21,280	
Accounts receivable	-	-	-	-	-	-	
Due from other governments	96,136	11,288	-	-	-	148,723	
Total assets	\$ 153,620	\$ 22,120	\$ 19,476	\$ 112,293	\$ 80,830	\$ 170,003	
Liabilities							
Vouchers and accounts payable	\$ 2,792	\$ 22,120	-	\$ 3,067	-	\$ 21,347	
Tenants escrow accounts	-	-	-	-	-	20,240	
Due to other funds	-	-	-	-	-	121,416	
Total liabilities	2,792	22,120	-	3,067	-	163,003	
Fund Balances							
Reserved:							
Specific programs	150,828	-	19,476	109,226	80,830	7,000	
Unreserved	150,828	-	19,476	109,226	80,830	7,000	
Total fund balances	\$ 153,620	\$ 22,120	\$ 19,476	\$ 112,293	\$ 80,830	\$ 170,003	

City of Franklin, Virginia

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue					
	Western Tidewater Home Consortium	Cobbtown Grant	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	
Cash and investments	\$ -	\$ -	\$ 753	\$ 1,734	\$ 1,749	\$ 1,749
Loans receivable	-	-	-	-	-	-
Due from other governments	211,827	235,334	-	-	-	-
Total assets	\$ 211,827	\$ 235,334	\$ 753	\$ 1,734	\$ 1,734	\$ 1,749
Liabilities						
Vouchers and accounts payable	\$ 500	\$ 23,328	\$ -	\$ -	\$ -	\$ -
Tenants escrow accounts	-	28,075	-	-	-	-
Due to other funds	211,327	270,841	-	-	-	-
Total liabilities	211,827	322,244	-	-	-	-
Fund Balances						
Reserved:						
Specific programs	-	-	-	-	-	-
Unreserved	-	(86,910)	753	1,734	1,749	1,749
Total fund balances	-	(86,910)	753	1,734	1,734	1,749
Total liabilities and fund balances	\$ 211,827	\$ 235,334	\$ 753	\$ 1,734	\$ 1,734	\$ 1,749

City of Franklin, Virginia

Combining Balance Sheet - Nonmajor Governmental Funds

	Special Revenue		Permanent Funds					Total Nonmajor Governmental Funds
	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund		
Assets								
Cash and investments	\$ 56,417	\$ 26,376	\$ 4,351	\$ 14,782	\$ 99,908	\$ 11,816	\$ 520,081	
Accounts receivable	-	-	-	1,157	-	-	1,157	
Due from other governments	-	-	-	-	-	-	703,308	
Total assets	\$ 56,417	\$ 26,376	\$ 4,351	\$ 15,939	\$ 99,908	\$ 11,816	\$ 1,224,546	
Liabilities								
Vouchers and accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,154	
Tenants escrow accounts	-	-	-	-	-	-	48,315	
Due to other funds	-	-	-	-	-	-	603,584	
Total liabilities	-	-	-	-	-	-	725,053	
Fund Balances								
Reserved:								
Specific programs	-	-	4,351	15,939	99,908	11,816	132,014	
Unreserved	56,417	26,376	-	-	-	-	367,479	
Total fund balances	56,417	26,376	4,351	15,939	99,908	11,816	499,493	
Total liabilities and fund balances	\$ 56,417	\$ 26,376	\$ 4,351	\$ 15,939	\$ 99,908	\$ 11,816	\$ 1,224,546	

City of Franklin, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds

Year Ended June 30, 2004

	Special Revenue					
	Virginia Public Assistance	Comprehensive Services Act	Regional Fire Training Grounds	Foundation Grants	Community Development Grant	Community Development Grant
Revenues						
Intergovernmental	\$ 1,489,870	\$ 63,522	-	\$ 165,100	\$ -	\$ 451,852
Use of money and property	-	-	-	-	52,054	-
Donations and gifts	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total revenues	1,489,870	63,522	-	165,100	52,054	451,852
Expenditures						
Current:						
Public safety	-	-	642	11,656	-	-
Health and welfare	1,780,461	134,870	-	-	-	-
Parks, recreation, cultural	-	-	-	34,514	-	-
Community development	-	-	-	129,327	40,031	448,332
Nondepartmental	-	-	-	-	-	-
Total expenditures	1,780,461	134,870	642	175,497	40,031	448,332
Excess (deficiency) of revenues over expenditures	(290,591)	(71,348)	(642)	(10,397)	12,023	3,520
Other financing sources						
Transfers in	360,455	71,348	-	-	-	-
Net change in fund balances	69,864	-	(642)	(10,397)	12,023	3,520
Fund balances - beginning of year	80,964	-	20,118	119,623	68,807	3,480
Fund balances (accumulated deficit) - end of year	\$ 150,828	\$ -	\$ 19,476	\$ 109,226	\$ 80,830	\$ 7,000

City of Franklin, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds

Year Ended June 30, 2004

	Special Revenue					
	Western Tidewater Home Consortium	Cobbtown Grant	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	
Revenues						
Intergovernmental	\$ 298,026	\$ 560,519	\$ -	\$ 4,580	\$ -	
Use of money and property	-	-	-	-	-	
Donations and gifts	-	-	-	-	-	
Miscellaneous	-	-	-	156	1,749	
Total revenues	298,026	560,519	-	4,736	1,749	
Expenditures						
Current:						
Public safety	-	-	-	3,069	-	
Health and welfare	-	-	-	-	-	
Parks, recreation, cultural	-	-	-	-	-	
Community development	298,026	648,577	-	-	-	
Nondepartmental	-	-	-	-	-	
Total expenditures	298,026	648,577	-	3,069	-	
Excess (deficiency) of revenues over expenditures	-	(88,058)	-	1,667	1,749	
Other financing sources						
Transfers in	-	-	-	-	-	
Net change in fund balances	-	(88,058)	-	1,667	1,749	
Fund balances - beginning of year	-	1,148	753	67	-	
Fund balances (accumulated deficit) -end of year	\$ -	\$ (86,910)	\$ 753	\$ 1,734	\$ 1,749	

City of Franklin, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds

Year Ended June 30, 2004

	Special Revenue		Permanent Funds				Total Nonmajor Governmental Funds
	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	
Revenues							
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,033,469
Use of money and property	489	10	-	398	426	278	53,655
Donations and gifts	-	31,004	-	-	-	-	31,004
Miscellaneous	-	345	-	-	-	-	2,250
Total revenues	489	31,359	-	398	426	278	3,120,378
Expenditures							
Current:							
Public safety	-	-	-	-	-	-	15,367
Health and welfare	-	4,983	-	-	-	-	1,920,314
Parks, recreation, cultural	-	-	-	-	-	-	34,514
Community development	-	-	-	-	-	-	1,564,293
Nondepartmental	2,706	-	64	2,500	-	-	5,270
Total expenditures	2,706	4,983	64	2,500	-	-	3,539,758
Excess (deficiency) of revenues over expenditures	(2,217)	26,376	(64)	(2,102)	426	278	(419,380)
Other financing sources							
Transfers in	-	-	-	-	-	-	431,803
Net change in fund balances	(2,217)	26,376	(64)	(2,102)	426	278	12,423
Fund balances - beginning of year	58,634	-	4,415	18,041	99,482	11,538	487,070
Fund balances (accumulated deficit) - end of year	\$ 56,417	\$ 26,376	\$ 4,351	\$ 15,939	\$ 99,908	\$ 11,816	\$ 499,493

City of Franklin, Virginia

Statement of Changes in Assets and Liabilities - Agency Funds

Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Special Welfare				
Assets:				
Cash and investments	\$ 21,874	\$ 27,072	\$ 32,616	\$ 16,330
Liabilities:				
Other liabilities	\$ 21,874	\$ 27,027	\$ 32,616	\$ 16,285
Total liabilities	\$ 21,874	\$ 27,027	\$ 32,616	\$ 16,285
Special Welfare - SSI				
Assets:				
Cash and investments	\$ -	\$ 100	\$ -	\$ 100
Liabilities:				
Other liabilities	\$ -	\$ 100	\$ -	\$ 100
Total liabilities	\$ -	\$ 100	\$ -	\$ 100
Franklin Southampton Economic Development Commission				
Assets:				
Cash and investments	\$ 100,126	\$ -	\$ -	\$ 100,126
Accounts receivable	40,000	-	40,000	-
Total assets	\$ 140,126	\$ -	\$ 40,000	\$ 100,126
Liabilities:				
Other liabilities	\$ 140,126	\$ -	\$ -	\$ 140,126
Total liabilities	\$ 140,126	\$ -	\$ -	\$ 140,126
Flexible Benefits				
Assets:				
Cash and investments	\$ 8,026	\$ 10,467	\$ 13,849	\$ 4,644
Liabilities:				
Other liabilities	\$ 8,026	\$ 10,467	\$ 13,849	\$ 4,644
Total liabilities	\$ 8,026	\$ 10,467	\$ 13,849	\$ 4,644

City of Franklin, Virginia

Capital Projects Fund
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental	\$ 1,295,011	\$ 2,514,433	\$ 1,008,320	\$ (1,506,113)
Real estate and personal property taxes	246,500	-	-	-
Use of money and property	-	-	11,235	11,235
Miscellaneous	-	18,000	-	(18,000)
Total revenues	1,541,511	2,532,433	1,019,555	(1,512,878)
Other financing sources				
Transfers in	106,735	-	-	-
Bond proceeds	1,262,514	821,983	1,003,878	181,895
Total revenues and other financing sources	\$ 2,910,760	\$ 3,354,416	\$ 2,023,433	\$ (1,330,983)
Expenditures				
Capital outlays	\$ 2,910,760	\$ 3,354,416	\$ 1,453,738	\$ 1,900,678
Total expenditures	2,910,760	3,354,416	1,453,738	1,900,678
Other financing uses				
Transfers out	-	-	-	-
Total expenditures and other financing uses	\$ 2,910,760	\$ 3,354,416	\$ 1,453,738	\$ 1,900,678

City of Franklin, Virginia

Debt Service Fund
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental	\$ 225,101	\$ 225,101	\$ 225,959	\$ 858
Total revenues	<u>225,101</u>	<u>225,101</u>	<u>225,959</u>	<u>858</u>
Other financing sources				
Transfers in	1,431,788	1,431,788	1,204,789	(226,999)
Total revenues and other financing sources	<u>1,656,889</u>	<u>1,656,889</u>	<u>1,430,748</u>	<u>(226,141)</u>
Expenditures				
Principal	\$ 749,315	\$ 749,315	\$ 715,570	\$ 33,745
Interest	902,574	902,574	679,110	223,464
Bond service and miscellaneous	5,000	5,000	36,068	(31,068)
Total expenditures	<u>1,656,889</u>	<u>1,656,889</u>	<u>1,430,748</u>	<u>226,141</u>
Other financing sources				
Transfers out	-	-	70,169	(70,169)
Total expenditures and other financing uses	<u>\$ 1,656,889</u>	<u>\$ 1,656,889</u>	<u>\$ 1,500,917</u>	<u>\$ 155,972</u>

**Combining Balance Sheet - Governmental Funds -
Component Unit - School Board**

June 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Assets			
Cash and temporary investments	\$ -	\$ 146,046	\$ 146,046
Restricted cash and investments	-	2,481,069	2,481,069
Receivables - net	349,226	241	349,467
Due from primary government	150,091	-	150,091
Inventories	-	16,377	16,377
Prepaid expenses	196,040	-	196,040
Total assets	\$ 695,357	\$ 2,643,733	\$ 3,339,090
Liabilities and Equity			
Liabilities			
Vouchers and accounts payable	\$ 61,350	\$ 70,450	\$ 131,800
Accrued payroll	891,755	-	891,755
Total liabilities	953,105	70,450	1,023,555
Fund Balances			
Fund balances:			
Reserved			
Inventories	-	16,377	16,377
Capital projects	-	2,470,848	2,470,848
Unreserved	(257,748)	86,058	(171,690)
Total fund balances	(257,748)	2,573,283	2,315,535
Total liabilities and fund balances	\$ 695,357	\$ 2,643,733	\$ 3,339,090

**Reconciliation of Component Units Combining Balance Sheet to
Statement of Net Assets - Component Unit - School Board**

Total fund balances - component unit	\$ 2,315,535
Amount reported for component unit 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, net of accumulated depreciation	7,152,828
Noncurrent liabilities such as compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(233,118)
Total net assets - component unit - School Board	\$ 9,235,245

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds - Component Unit - School Board**

Year Ended June 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$ 8,401,006	\$ 399,191	\$ 8,800,197
Revenues from use of money and property	1,618	14,968	16,586
Revenue from the primary government	3,918,801	3,629,796	7,548,597
Recovery of costs	91,498	1,911	93,409
Charges for services	13,335	149,244	162,579
Donations and special gifts	33,271	-	33,271
Universal services	66,442	-	66,442
Miscellaneous	-	78	78
Total revenues	<u>12,525,971</u>	<u>4,195,188</u>	<u>16,721,159</u>
Expenditures			
Education:			
Instruction	9,984,674	274,808	10,259,482
Administration, attendance and health services	794,019	-	794,019
Pupil transportation	380,111	-	380,111
Operations and maintenance	1,400,658	-	1,400,658
Technology	424,501	-	424,501
Total education	<u>12,983,963</u>	<u>274,808</u>	<u>13,258,771</u>
Food services	-	523,430	523,430
Capital outlay	-	1,124,456	1,124,456
Total expenditures	<u>12,983,963</u>	<u>1,922,694</u>	<u>14,906,657</u>
Net changes in fund balances	(457,992)	2,272,494	1,814,502
Fund balances - beginning of year	200,244	297,789	498,033
Fund balances - end of year	<u>\$ (257,748)</u>	<u>\$ 2,570,283</u>	<u>\$ 2,312,535</u>

**Reconciliation of the Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds	\$ 1,814,502
Amount 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 these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.	2,181,098
In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In governmental funds, expenditures for those items are measured by the amount of financial resources used.	(51,918)
Change in net assets of governmental activities	<u>\$ 3,943,682</u>

City of Franklin, Virginia

Combining Balance Sheet - Other Governmental Funds -
Component Unit - School Board

June 30, 2004				
	Textbook	Cafeteria	Capital Projects	Total Other Governmental Funds
Assets				
Cash and investments	\$ 91,517	\$ 5,845	\$ 48,684	\$ 146,046
Restricted cash and investments	-	-	2,481,069	2,481,069
Receivables - net	241	-	-	241
Inventory	-	16,377	-	16,377
Total assets	\$ 91,758	\$ 22,222	\$ 2,529,753	\$ 2,643,733
Liabilities				
Vouchers and accounts payable	\$ 6,695	\$ 4,850	\$ 58,905	\$ 70,450
Total liabilities	6,695	4,850	58,905	70,450
Fund Balances				
Unreserved:				
Designated:				
Inventories	-	16,377	-	16,377
Capital projects	-	-	2,470,848	2,470,848
Undesignated:	85,063	995	-	86,058
Total fund balances	85,063	17,372	2,470,848	2,573,283
Total liabilities and fund balances	\$ 91,758	\$ 22,222	\$ 2,529,753	\$ 2,643,733

City of Franklin, Virginia

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds - Component Unit - School Board**

Year Ended June 30, 2004

	Textbook	Cafeteria	Capital Projects	Total Other Governmental Funds
Revenues				
Intergovernmental	\$ -	\$ 399,191	\$ -	\$ 399,191
Revenues from use of money and property	156	-	14,812	14,968
Revenue from the primary government	96,935		3,535,861	3,632,796
Recovery of costs	1,806	105	-	1,911
Charges for services	-	149,244	-	149,244
Miscellaneous	-	78	-	78
Total revenues	98,897	548,618	3,550,673	4,198,188
Expenditures				
Education				
Instruction	274,808	-	-	274,808
Total education	274,808	-	-	274,808
Food services	-	523,430	-	523,430
Capital outlay	-	-	1,124,456	1,124,456
Total expenditures	274,808	523,430	1,124,456	1,922,694
Net changes in fund balance	(175,911)	25,188	2,426,217	2,275,494
Fund balances - July 1, 2003	260,974	(7,816)	44,631	297,789
Fund balances - June 30, 2004	\$ 85,063	\$ 17,372	\$ 2,470,848	\$ 2,573,283

City of Franklin, Virginia

**Budgetary Comparison Schedule - General Fund -
School Board**

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Budget As Amended	Actual	
Year Ended June 30, 2004				
Revenue				
Intergovernmental:				
City of Franklin	\$ 4,057,434	\$ 4,077,517	\$ 3,918,801	\$ (158,716)
Commonwealth of Virginia	6,666,141	6,688,290	6,700,373	12,083
Federal government	5,000	2,054,973	1,700,633	(354,340)
Recovery of costs	73,140	91,498	91,498	-
Universal services fund	37,360	66,442	66,442	-
Charges for services	19,500	13,335	13,335	-
Revenues from use of property	2,200	1,618	1,618	-
Donations and gifts	-	33,271	33,271	-
Total revenue	\$ 10,860,775	\$ 13,026,944	\$ 12,525,971	\$ (500,973)
Expenditures				
Current:				
Instruction	\$ 8,208,488	\$ 10,102,351	\$ 9,984,674	\$ 117,677
Administration, attendance, and health	769,261	787,215	794,019	(6,804)
Transportation	398,392	380,111	380,111	-
Operations and maintenance	1,087,986	1,331,053	1,400,658	(69,605)
Technology	396,648	426,214	424,501	1,713
Total expenditures	\$ 10,860,775	\$ 13,026,944	\$ 12,983,963	\$ 42,981

Statement of Changes in Assets and Liabilities
Agency Funds - School Board

June 30, 2004

Assets	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Restricted cash	\$ 161,707	\$ 311,836	\$ 384,234	\$ 89,309
Total assets	\$ 161,707	\$ 311,836	\$ 384,234	\$ 89,309
Liabilities				
Cash held for others	\$ 161,707	\$ 311,836	\$ 384,234	\$ 89,309
Total liabilities	\$ 161,707	\$ 311,836	\$ 384,234	\$ 89,309

Statistical Schedules

City of Franklin, Virginia

Government-Wide Revenues - Primary Government

Year Ended June 30,	Program Revenues				General Revenues					Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Revenue Sharing from Counties	Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous		
2004	\$ 15,647,334	\$ 7,482,463	\$ 1,266,990	\$ 10,477,483	\$ 1,094,768	\$ -	\$ 64,895	\$ 287,280	\$ 36,321,213	
2003	\$ 13,778,672	\$ 3,751,675	\$ 2,245,681	\$ 9,940,796	\$ 1,273,965	\$ -	\$ 61,152	\$ 203,068	\$ 31,255,009	

City of Franklin, Virginia

Government-Wide Expenditures by Function - Primary Government

Fiscal Year	General Government	Judicial	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Non-Departmental	Interest on Long-term Debt	Water and Sewer	Electric	Airport	Total Expenditures
2004	\$2,136,656	\$ 107,674	\$4,172,103	\$3,711,353	\$2,148,536	\$7,271,975	\$ 869,713	\$4,464,002	\$ 546,196	\$ 751,139	\$2,714,447	\$8,645,465	\$ 620,913	\$38,160,172
2003	\$1,975,927	\$ 267,988	\$3,940,130	\$3,996,765	\$1,807,915	\$4,264,145	\$ 871,299	\$3,477,458	\$ 536,786	\$ 613,353	\$2,603,237	\$7,926,959	\$ 570,952	\$32,852,914

City of Franklin, Virginia

General Governmental Revenues by Source

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General property taxes	\$ 5,523,583	\$ 5,509,757	\$ 5,306,578	\$ 5,191,290	\$ 4,865,250	\$ 4,928,999	\$ 4,781,708	\$ 4,665,219	\$ 4,065,383	\$ 3,869,626
Other local taxes	4,801,060	4,366,505	4,250,437	3,804,429	3,775,567	3,846,160	3,442,774	2,913,325	2,693,342	2,674,729
Permits, fees and licenses	72,184	43,889	39,303	50,365	53,836	98,658	51,799	42,988	62,223	47,675
Fines and forfeitures	62,331	49,407	57,330	79,354	59,381	75,383	83,683	83,063	71,054	66,293
Use of money and property	385,383	249,722	376,718	362,681	199,522	137,237	214,618	189,029	176,198	154,490
Charges for services	1,572,875	1,469,736	1,393,338	1,205,154	1,098,471	1,154,149	1,277,089	1,214,081	1,136,046	1,023,846
Miscellaneous and donations	1,368,093	1,582,999	1,981,749	1,725,897	1,761,408	2,078,866	1,355,673	1,453,829	1,361,851	1,217,753
Recovered costs	154,223	92,106	156,802	174,407	579,373	133,123	60,442	65,546	108,887	116,543
Intergovernmental	21,443,712	19,708,670	13,732,213	16,474,100	13,850,616	10,638,182	9,717,046	9,507,710	8,507,095	8,218,452
Totals	\$ 35,383,444	\$ 33,072,791	\$ 27,294,468	\$ 29,067,677	\$ 26,243,424	\$ 23,090,757	\$ 20,984,832	\$ 20,134,790	\$ 18,182,079	\$ 17,389,407

NOTE:

Includes General, Special Revenue, Debt Service, School Operating, School Food Service, and the School Grants Fund. School Funds are reported in the component unit section of the financial statements, but are included here since they are part of the general government function.

City of Franklin, Virginia

General Governmental Expenditures by Function

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Last Ten Fiscal Years Ended June 30,										
General government administration	\$ 1,898,128	\$ 1,921,302	\$ 1,859,894	\$ 1,905,069	\$ 1,871,245	\$ 1,626,325	\$ 1,405,959	\$ 1,279,758	\$ 1,396,696	\$ 1,309,455
Judicial administration	166,707	267,988	132,119	125,702	65,900	75,981	65,505	66,199	52,106	47,210
Public safety	3,986,257	4,242,378	3,454,288	3,364,673	3,374,754	3,081,393	2,809,891	2,454,035	2,253,029	2,338,709
Public works	4,048,957	4,159,512	4,060,813	3,404,675	3,340,481	3,869,386	3,437,317	2,842,812	2,956,135	2,405,665
Health and welfare	2,097,930	1,794,405	1,815,008	1,543,135	1,542,786	1,500,570	1,295,600	1,106,130	1,031,549	950,088
Education	12,777,477	13,906,854	13,067,817	12,322,151	14,287,541	11,756,385	11,088,959	10,719,943	10,225,362	9,533,928
Parks, recreation and cultural	839,088	831,648	724,478	766,057	803,071	669,776	660,786	607,739	506,210	413,277
Community development	4,464,002	2,272,636	1,613,500	2,626,464	6,695,831	886,427	287,085	349,843	150,008	290,621
Nondepartmental	551,561	535,925	522,669	531,476	451,868	637,915	723,687	672,952	322,534	348,682
Capital projects	1,453,738	4,055,653	5,265,185	786,255	88,018	78,021	194,000	-	-	-
Debt service:										
Bond service and miscellaneous	36,068	4,044	4,425	2,925	32,559	900	1,900	1,125	1,750	1,475
Principal retirement	715,570	3,446,839	739,387	721,464	633,245	286,921	450,782	585,209	1,596,523	938,618
Interest and fiscal charges	679,110	609,309	369,963	317,942	295,555	157,789	181,786	320,067	315,557	570,372
Totals	\$33,714,593	\$38,048,493	\$33,629,546	\$28,417,988	\$33,482,854	\$24,627,789	\$22,603,257	\$21,005,812	\$20,807,459	\$19,148,100

NOTE: Includes General, Special Revenue, Debt Service, School Operating, School Food Service, and the School Grants Fund. School Funds are reported in the component unit section of the financial statements, but are included here since they are part of the general government function.

+ Capital projects included beginning in 1998.

City of Franklin, Virginia

Property Tax Levies and Collections

Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1) (2)	Total Tax Collections	Percent of		
						Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes to Tax Levy	
2004	\$ 5,463,530	\$ 5,220,437	95.55%	\$ 286,425	\$ 5,506,862	100.79%	\$ 459,049	8.40%
2003	\$ 5,221,065	\$ 5,067,596	97.06%	\$ 329,579	\$ 5,397,175	103.37%	\$ 498,463	9.55%
2002	\$ 5,153,719	\$ 4,896,547	95.01%	\$ 230,318	\$ 5,126,865	99.48%	\$ 452,614	8.78%
2001	\$ 5,093,699	\$ 4,858,060	95.37%	\$ 250,038	\$ 5,108,098	100.00%	\$ 528,145	10.33%
2000	\$ 4,900,600	\$ 4,610,558	94.09%	\$ 265,457	\$ 4,876,015	99.50%	\$ 610,911	12.47%
1999 (3)	\$ 5,002,971	\$ 4,625,962	92.46%	\$ 184,033	\$ 4,809,995	96.14%	\$ 1,003,509	20.06%
1998	\$ 4,671,297	\$ 4,445,954	95.18%	\$ 209,451	\$ 4,655,405	99.66%	\$ 549,011	11.75%
1997	\$ 4,466,799	\$ 4,328,582	96.91%	\$ 221,078	\$ 4,549,660	101.86%	\$ 566,779	12.69%
1996	\$ 4,118,440	\$ 3,689,632	89.60%	\$ 279,046	\$ 3,968,678	96.36%	\$ 647,677	15.73%
1995	\$ 3,780,761	\$ 3,519,265	93.08%	\$ 229,553	\$ 3,748,818	99.16%	\$ 594,620	15.73%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

(3) 1999 amounts are estimated due to flood damage to records.

NOTE: Includes Real Estate, Personal Property, Mobile Homes, Machinery and Tools and Public Service Corporation property.

City of Franklin, Virginia

Assessed Value of Taxable Property

Year	Last Ten Fiscal Years Ended June 30,						Public Service Corporations			Total
	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Real Estate	Personal Property	Real Estate	Personal Property		
2004	\$ 365,775,221	\$ 53,422,381	\$ 166,080	\$ 971,160	\$ 8,969,861	\$ 38,567	\$ 429,343,270			
2003	\$ 365,657,221	\$ 53,422,381	\$ 166,080	\$ 971,160	\$ 8,969,861	\$ 38,567	\$ 429,225,270			
2002	\$ 339,435,343	\$ 53,684,686	\$ 259,368	\$ 764,613	\$ 11,150,501	\$ 12,254	\$ 405,306,765			
2001	\$ 346,907,411	\$ 43,006,770	\$ 469,560	\$ 822,593	\$ 10,248,575	\$ 21,255	\$ 401,476,164			
2000	(1) \$ 336,027,995	\$ 47,915,578	-	\$ 598,937	\$ 10,202,502	\$ 69,851	\$ 394,814,863			
1999	\$ 298,000,000	\$ 42,014,422	-	\$ 797,506	\$ 9,286,671	\$ 64,535	\$ 350,163,134			
1998	\$ 297,441,044	\$ 41,573,378	-	\$ 797,506	\$ 9,286,671	\$ 64,535	\$ 349,163,134			
1997	\$ 291,895,700	\$ 40,808,266	-	\$ 1,170,640	\$ 9,302,508	\$ 92,733	\$ 343,269,847			
1996	\$ 278,663,920	\$ 36,982,248	-	\$ 1,043,627	\$ 9,610,675	\$ 49,161	\$ 326,349,631			
1995	\$ 265,395,706	\$ 31,095,871	-	\$ 974,767	\$ 8,931,357	\$ 129,070	\$ 306,526,771			

(1) Estimated for all assessed value of taxable property due to flood damage to records.

City of Franklin, Virginia

*Property Tax Rates - Last Ten Fiscal Years
Tax Rates Per Hundred Dollars of Assessed Value*

Year	Real Estate		Personal Property	Mobile Homes	Machinery and Tools	Public Service Corporation	
	Real Estate	Real Estate *				Real Estate	Personal Property
2004	\$ 0.90 / \$ 1.14***		\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2003	\$ 0.90 / \$ 1.14***		\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2002	\$ 0.90 / \$ 1.14***		\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2001	\$ 0.90 / \$ 1.14***		\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2000	(1) \$ 0.90 / \$ 1.14***		\$ 4.50	-	\$ 2.00	\$ 0.90	\$ 4.50
1999	\$ 0.90 / \$ 1.14***		\$ 4.50	-	\$ 2.00	\$ 0.90	\$ 4.50
1998	\$ 0.90 / \$ 1.14***		\$ 4.50	-	\$ 2.00	\$ 0.90	\$ 4.50
1997	\$ 0.85 / \$ 1.09**		\$ 4.50	-	\$ 2.00	0.85	\$ 4.50
1996	\$ 0.85 / \$ 1.09**		\$ 4.50	-	\$ 2.00	0.85	\$ 4.50
1995	\$ 0.85 / \$ 1.09**		\$ 4.50	-	\$ 2.00	0.85	\$ 4.50

(1) Estimated for all assessed value of taxable property due to flood damage to records.

* Public Service Corporation property was taxed at real estate rates regardless of type.

** Downtown district real estate tax rate was \$1.09 and remaining areas were taxed at \$0.85 for real estate.

*** Downtown district real estate tax rate was \$1.14 and remaining areas were taxed at \$ 0.90 for real estate.

City of Franklin, Virginia

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt

Year	Assessed Value (in Thousands)	Gross Bonded Debt (1)	Less:		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value
			Debt Service Monies Available	Debt Payable from Enterprise Revenues (2)(3)		
2004	\$ 429,343	\$ 24,583,588	-	\$ 7,099,588	\$ 17,484,000	4.07%
2003	\$ 429,225	\$ 22,871,597	-	\$ 9,111,219	\$ 13,760,378	3.21%
2002	\$ 405,307	\$ 22,481,784	-	\$ 9,766,132	\$ 12,715,652	3.14%
2001	\$ 401,476	\$ 17,006,239	-	\$ 8,816,527	\$ 8,189,712	2.04%
2000	\$ 394,815	\$ 17,903,167	-	\$ 9,033,169	\$ 8,869,998	2.25%
1999	\$ 350,163	\$ 18,355,003	-	\$ 6,178,267	\$ 12,176,766	3.48%
1998	\$ 349,163	\$ 14,440,563	-	\$ 6,436,585	\$ 8,003,978	2.29%
1997	\$ 343,270	\$ 12,285,946	-	\$ 4,400,925	\$ 7,885,021	2.30%
1996	\$ 326,350	\$ 12,896,713	-	\$ 4,861,321	\$ 8,035,392	2.46%
1995	\$ 306,527	\$ 12,648,847	-	\$ 1,060,046	\$ 11,588,801	3.78%

- NOTE:**
- (1) Includes all long-term general obligation debt (excludes loss on net tax revenue obligation).
 - (2) Increase in debt payable from enterprise revenues in 1996 results from reclassification of general obligation debt.
 - (3) Enterprise Debt includes Proprietary Fund Types and Component Unit - IDA.

*City of Franklin, Virginia**Principal Taxpayers - Real Estate*

June 30, 2004

Taxpayer	Type of Business	2004 Assessed Valuation Real Estate	Percent of Total Assessed Valuation Real Estate
Franklin Hospital Corporation	Hospital	\$ 8,441,800	2.25%
James L. Rifkin Estate	Shopping Center	8,164,700	2.18%
F.P. Associates	Apartments	7,016,500	1.87%
Southampton Center, Joint Venture	Shopping Center	6,326,400	1.69%
The Village at Woods Edge	Retirement Home	5,903,600	1.58%
Meadowridge Association	Apartments	4,274,700	1.14%
Dorchester Associates	Apartments	3,618,200	0.97%
Adjacent Properties	Apartments	3,316,100	0.88%
Christopoulos Family LC	Shopping Center	3,248,400	0.87%
Nirvi Corporation	Shopping Center	2,848,800	0.76%
		\$ 53,159,200	14.19%

City of Franklin, Virginia

Principal Taxpayers - Personal Property

June 30, 2004

Taxpayer	Type of Business	2004 Assessed Valuation Personal Property	Percent of Total Assessed Personal Property
Franklin Hospital Corporation	Hospital	\$ 729,812	1.37%
Wal-Mart Stores Inc.	Retail - Variety	697,082	1.30%
Charter Communications, Inc.	Cable	467,855	0.88%
Winn Dixie Raleigh, Inc.	Retail - Grocery	411,854	0.77%
SMT Heath Services, Inc.	Health Care	310,984	0.58%
Butler Paper Recycling, Inc.	Retail	299,738	0.56%
Birdsong Corporation	Retail - Variety	288,898	0.54%
S W Rawls, Inc.	Retail - Variety	259,537	0.49%
Food Lion, Inc. LLC	Retail - Grocery	244,975	0.46%
CIT Financial USA, Inc.	Retail - Variety	184,690	0.35%
		<u>\$ 3,895,425</u>	<u>7.29%</u>

City of Franklin, Virginia

Schedule of Defeased Debt

Year Ended June 30, 2004	Original Debt Defeased	New Debt Obtained	Deferred at June 30, 2004	Debt Repaid June 30, 2004	Balance June 30, 2004	Allocation of Net Bond Cost at June 30, 2004	Expended, Expensed at June 30, 2004	Net Bond Cost at June 30, 2004
General Long-Term Obligations	\$ 1,496,308	\$ 1,679,916	\$ -	\$ 21,285	\$ 1,567,103	\$ -	\$ -	\$ -
Enterprise Funds:								
Water/Sewer	1,728,693	1,940,804	16,571	24,590	1,810,477	35,003	(18,432)	16,571
Electric	290,000	324,280	-	4,125	302,417	-	-	-
	\$ 3,515,001	\$ 3,945,000	\$ 16,571	\$ 50,000	\$ 3,679,997	\$ 35,003	\$ (18,432)	\$ 16,571

Compliance Section

***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards***

Honorable Mayor and City Council
City of Franklin, Virginia

We have audited the financial statements of the *City of Franklin, Virginia*, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Franklin's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of City Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company, L.L.P.

Newport News, Virginia
December 17, 2004

***Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133***

Honorable Mayor and City Council
City of Franklin, Virginia

Compliance

We have audited the compliance of the *City of Franklin, Virginia* (City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants, applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Honorable Mayor and City Council
City of Franklin, Virginia

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of City Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company, L.L.P.

Newport News, Virginia
December 17, 2004

Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

Honorable Mayor and City Council
City of Franklin, Virginia

We have audited the financial statements of the ***City of Franklin, Virginia*** (City), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 17, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts, and grants applicable to the ***City of Franklin, Virginia***, is the responsibility of the City's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the ***City of Franklin, Virginia's*** compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Enhanced 911 Services Taxes
- Personal Property Tax Relief Act

State Agency Requirements

- Education
- Comprehensive Services Act
- Highway Maintenance Funds
- Social Services

Honorable Mayor and City Council
City of Franklin, Virginia

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The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the *City of Franklin, Virginia*, had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of City Council, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company, L.L.P.

Newport News, Virginia
December 17, 2004

City of Franklin, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Granting Agency/Recipient State Agency Grant Program/Grant Number	Federal Catalogue Number	Expenditures
Department of Agriculture		
Pass-Through Payments:		
Department of Education:		
School Breakfast Program *	10.553	\$ 92,600
National School Lunch Program *	10.555	33,255
Special Milk Program for Children *	10.556	301,014
Summer Feeding Program	10.559	3,878
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Administration *	10.561	199,721
Department of Housing and Urban Development		
Pass-Through Payments:		
Department of Housing and Urban Development Community Development Block Grant/State's Program	14.228	1,060,744
Department of Justice		
Pass-Through Payments:		
Department of Justice: Financial Assistance for Administration	16.579	3,692
Department of Transportation		
Pass-Through Payments:		
National Highway Traffic Safety Administration	20.600	3,000

City of Franklin, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Granting Agency/Recipient State Agency Grant Program/Grant Number	Federal Catalogue Number	Expenditures
Department of Education		
Pass-Through Payments:		
Department of Education:		
Adult Literacy Services	84.002	9,015
Title I - Grants to Local Educational Agencies *	84.010	608,220
Special Education - Grants to States	84.027	16,544
Vocational Education - Basic Grants to States	84.048	50,986
Special Education - Preschool Grants	84.173	334,486
Safe and Drug-Free Schools and Communities - State Grants	84.186	16,492
Eisenhower Professional Development State Grants	84.281	9,020
Innovative Education Program Strategies	84.298	13,933
Literacy Challenge Grant	84.318	14,892
Comprehensive School Reform Demonstration	84.332	58,435
Reading for Excellence	84.338	67,345
Title VI-Class Size Reduction	84.340	324
School Renovation Grants	84.352	221,801
Reading First	84.357	153,647
Title VI-Rural Education	84.358	55,172
Title II	84.367	107,811
Department of Homeland Security		
Pass-Through Payments:		
Department of Military Affairs		
Homeland Security	97.004	92,600
Public Assistance Grant *	97.036	1,362,166
Emergency Management Preparedness	97.042	7,354
Department of Health and Human Services		
Pass-Through Payments:		
Department of Social Services:		
Temporary Assistance to Needy Families (TANF)	93.558	215,590
Refugee and Entrant Assistance State Administered Plans	93.566	14,565
Low-Income Home Energy Assistance	93.568	9,131
Child Care and Development Block Grant	93.575	72,505
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	109,121
Foster Care -Title IV-E	93.658	172,628
Adoption Assistance	93.659	27,509
Social Services Block Grant	93.667	94,821
Chafee Foster Care Independent Living	93.674	971
Medicaid Assistance Program *	93.778	150,567
Total Federal Expenditures		\$ 5,765,555

* Represents a major program of the City of Franklin

City of Franklin, Virginia

Notes to Schedule of Expenditures of Federal Awards

June 30, 2004

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the *City of Franklin, Virginia* and is presented on the modified accrual basis of accounting. The City's reporting entity is defined in Note 1 to the City's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

* * * * *

Schedule of Findings

June 30, 2004

1. Summary of Auditors' Results

- a) The auditor's report expresses an unqualified opinion on the basic financial statements of the City.
- b) There were no reportable conditions noted in internal control required to be disclosed.
- c) No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were noted during the audit.
- d) No reportable conditions requiring disclosure were noted during the audit of internal control over major federal programs.
- e) The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal award programs.
- f) The audit did not disclose any audit findings required to be reported.
- g) The major programs are:
 - i) Public Assistance Grant (CFDA No. 97.036)
 - ii) Title I Grants to LEA's (CFDA No. 84.010)
 - iii) Child Nutrition Cluster (CFDA No's 10.553, 10.555, 10.556)
 - iv) Medicaid Assistance Program (CFDA No. 93.778)
 - v) Food Stamp Administrative Grant (CFDA No. 10.561)
- h) The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
- i) The auditee qualified as a low-risk auditee.

2. Findings Relating to the Financial Statements which are Required to be Reported in Accordance With Generally Accepted Governmental Auditing Standards

None

3. Findings and Questioned Costs for Major Federal Awards Programs

None.

4. Prior Year Federal Awards Findings

None.

Schedule of Findings

June 30, 2004

5. State Compliance Findings

Finding 04-1

Condition:

Local treasurers hold special welfare funds for foster children and other individuals and receive SSI dedicated funds. These funds are not to be commingled with other funds or accounts of the locality.

Criteria:

The City maintains separate bank accounts to hold Special Welfare and SSI funds. However, during 2004, the City was only utilizing one of the accounts resulting in the commingling of these funds.

Effect:

The Special Welfare and SSI funds were commingled in one account.

Recommendation:

The Social Services Department should utilize the separate Special Welfare and SSI bank accounts which were established.

City Response:

The City has taken steps to ensure the separate accounts are used as required.

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