



*Comprehensive Annual
Financial Report*

Fiscal Year Ended June 30, 2008

CITY OF FRANKLIN, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

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CITY OF FRANKLIN, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2008

Mayor

James P. Council, III

Vice Mayor

Raystine D. Johnson

Council Members

Mark S. Fetherolf
Mary E. Hilliard
Rosa M. Lawrence

Joseph J. Scislowicz
Charles A. Wrenn

Constitutional Officer

Brenda B. Rickman

Commissioner of Revenue

Franklin City Public Schools

Bill Scarboro
William M. Pruett
Eileen T. Ritter

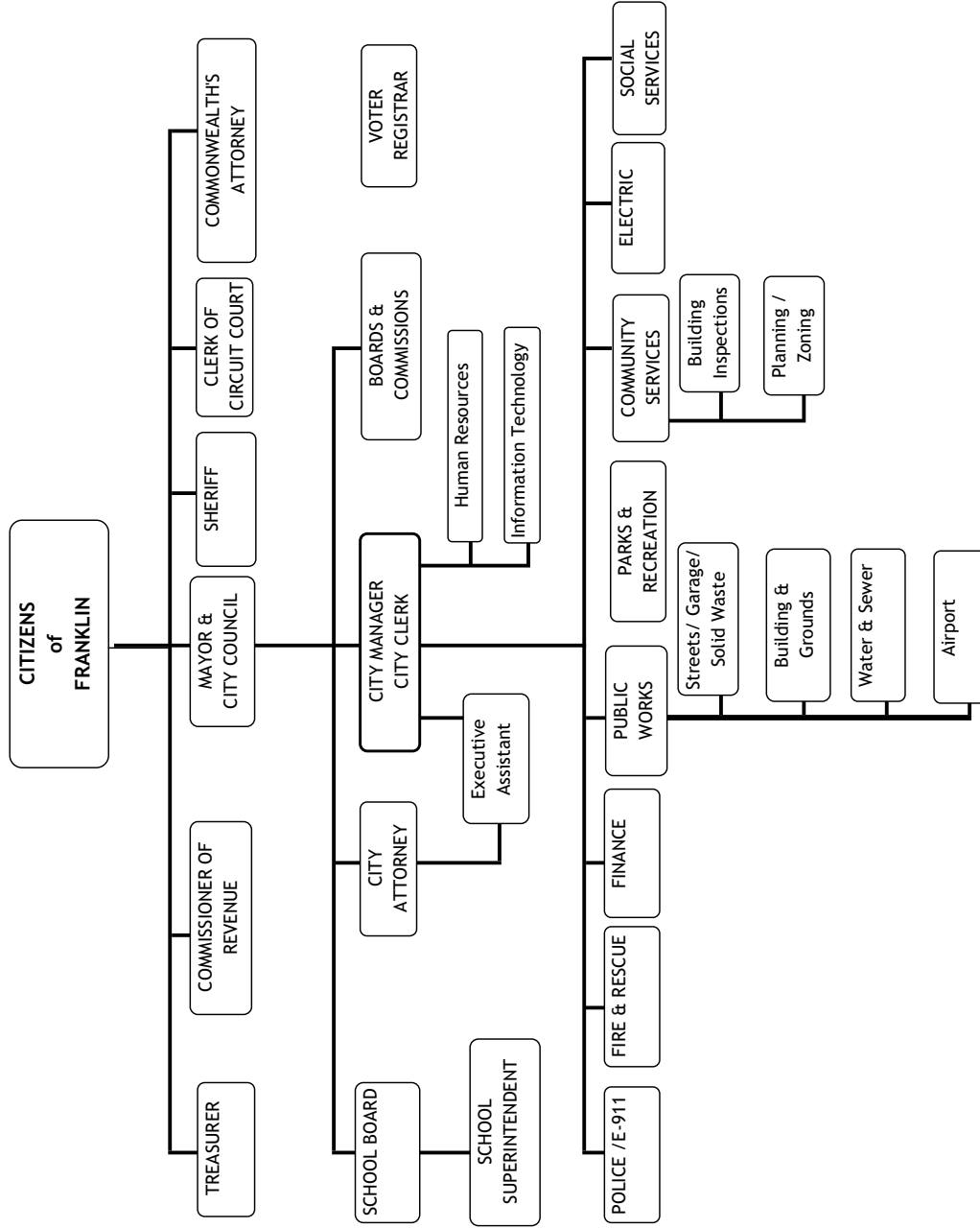
Chairman of School Board
Division Superintendent
Director of Finance

City Administration

Rowland L. Taylor
Andrew L. Rose
H. Taylor Williams, IV
Phillip Hardison
Dave A. Howe
Frank A. Davis
Sandra B. Holloman
Vincent P. Holt
Russell Pace
H. Elizabeth Reavis
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





October 3, 2008

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Franklin (the "City") for the fiscal year ended June 30, 2008. 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 Robinson, Farmer, Cox Associates PLLC, 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, 2008, 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, 2008, 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 after table 17 at the back of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

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 8,600 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.

Profile of the City of Franklin: (Continued)

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 municipal electric company which provides electrical services to all of the City of Franklin and some of 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 and starting in Exhibit 22 and 25.

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 by 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 101 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 primarily due to the 1996 annexation of the Hunterdale area.

Franklin's major industrial presence is International Paper (purchased Union Camp in 1999) which operates just across the City limits in Isle of Wight County. This company produces lumber, 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 the real estate tax rate. The City's tax rate was increased \$.05 to \$0.90 per \$100 of assessed value was for the fiscal year starting July 1, 2007. The new assessment has taken place for the year beginning July 1, 2008.

Factors Affecting Financial Condition: (Continued)

Long-Term Financial Planning. The City Council and City Management continue in their commitment to planning for future growth of the City of Franklin. A business incubator building was opened in the spring of 2005. Through an EDA grant and other sources, an old warehouse was renovated into space to house start-up businesses. In the upcoming year, the City has committed to jointly support with Southampton County and local foundations, a joint economic development authority. Franklin also developed Pretlow Industrial Park with industrial sites available off Pretlow Street adjacent to Rt. 58. Money-Mailer leased a building from the City in this park until the fall of 2006, and then the building was purchased by an investment firm for future planned expansion by Money-Mailer.

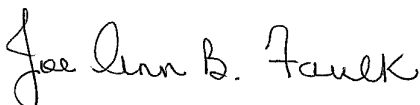
Cash Management Policies and Practices. The City uses a pooled cash concept to allow greater investment flexibility and, consequently, a better investment return. Cash from all funds, except that restricted for specific purposes or managed by fiscal agents, is pooled for investment purposes. All of the City's cash is deposited with the Director of Finance, 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 \$35,606 compared to \$47,192 for previous year. At June 30, 2008, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$3,476,175 for the Governmental Activities and \$2,123,130 for Business-type Activities, and \$13,072 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. For 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, and the Treasurer's Office, the Commissioner of the Revenue's Office and our Certified Public Accountants, Robinson, Farmer, Cox Associates, PLLC. 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,



Joe Ann Faulk
Acting Director of Finance

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

**To The Honorable Mayor and Members of the City Council
City of Franklin
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, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the School Textbook Fund of the School Board Component Unit, which represent 15 and 1 percent, 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 Textbook Fund, is based on the report of the 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 the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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, 2008, 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 October 3, 2008 on our consideration of the City of Franklin, Virginia'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis, Budgetary Comparison Information, and Schedule of Pension Funding Progress as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin, Virginia's, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Franklin, Virginia. The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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 express no opinion on them.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
October 3, 2008

Management's Discussion and Analysis

Fiscal Year July 1, 2007 - June 30, 2008

The management of the City of Franklin (the City's) provides this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2008. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statements information included in this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Franklin exceeded its liabilities at the close of fiscal year 2008 by \$31,545,488 (net assets). Of this amount, \$6,379,695 represents unrestricted net assets which may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$1,533,283 from the prior year. This is a 4.9% increase from the previous fiscal year.
- The General Fund, on a current financial resources basis, reported an overage of revenues and other financing sources over expenditures and other financing uses of \$904,197 primarily due to unspent budgeted funds (details in Exhibit 5).
- The City's total outstanding general obligation debt at June 30, 2008 was \$19,802,716. This includes \$4,788,132 in business-activity debt, and \$15,014,584 in general government activities (\$7,170,333 School related debt and \$7,844,251 other general government debt (details in Note 8 - Notes to the Financial Statements).

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.

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 (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, community development, public health, and cultural and recreation. The business-type activities of the City include Water and Sewer Utility, Electric Utility, and Airport Operations enterprise activities.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Government-wide financial statements: (Continued)

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component units for which the City is financially accountable: the City of Franklin Public Schools, and the City of Franklin Industrial Development Authority. Financial Information for these component units is reported separately from the financial information presented for the primary government and can be found on Exhibits 22 - 27 of this report.

Component Units - The City's statements include 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

A fund is a grouping 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. In the Basic Financial Statements, the emphasis is on major funds. All of the funds of the City can be 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 of 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. A reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The City maintains 17 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.

The governmental funds financial statements can be found on Exhibits 3 and 6 of this report.

The City adopts an annual budget for its various funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided in Exhibit 11 of 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 fund operations, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on each fund and can be found in Exhibits 7, 8 and 9 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Fiduciary Funds - The fiduciary funds are used to account for resources held for the benefit of parties outside the 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. The fiduciary fund statement can be found on Exhibit 10 of this report.

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 after Exhibit 10 in this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City including financial information of the School Board component unit. Supplementary information can be found on Exhibit 11 - 27 of this report.

Government-Wide Financial Statements Analysis

Over time, net assets may serve 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 \$ 31,545,488.

Statement of Net Assets June 30, 2008

	Governmental Activities		Business-Type Activities		Total	
	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007
Current and other assets	\$ 8,081,517	\$ 7,686,077	\$ 3,130,250	\$ 3,710,699	\$ 11,211,767	\$ 11,396,776
Capital assets	32,441,735	31,387,184	13,217,957	13,786,481	45,659,692	45,173,665
Total assets	\$ 40,523,252	\$ 39,073,261	\$ 16,348,207	\$ 17,497,180	\$ 56,871,459	\$ 56,570,441
Current and other liabilities	\$ 1,836,372	\$ 2,236,274	\$ 811,725	\$ 1,107,931	\$ 2,648,097	\$ 3,344,205
Long-term liabilities	17,720,999	17,699,533	4,956,875	5,514,498	22,677,874	23,214,031
Total liabilities	\$ 19,557,371	\$ 19,935,807	\$ 5,768,600	\$ 6,622,429	\$ 25,325,971	\$ 26,558,236
Net assets:						
Invested in capital assets, net of related debt	\$ 16,777,541	\$ 15,949,140	\$ 8,388,252	\$ 8,363,160	\$ 25,165,793	\$ 24,312,300
Unrestricted net assets	4,188,340	3,188,314	2,191,355	2,511,591	6,379,695	5,699,905
Total Net assets	\$ 20,965,881	\$ 19,137,454	\$ 10,579,607	\$ 10,874,751	\$ 31,545,488	\$ 30,012,205

The largest portion of the City's net assets (\$25,165,793) 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.

The remaining net assets totaling \$6,379,695 represent unrestricted net assets, which may be used to meet the City's ongoing obligations.

Government-Wide Financial Statements Analysis: (Continued)

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, 2008

	Governmental Activities		Business-Type Activities		Total	
	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007
Revenues						
Program Revenues:						
Charges for Services	\$ 2,191,192	\$ 2,012,401	\$ 16,122,348	\$ 15,589,327	\$ 18,313,540	\$ 17,601,728
Operating grants & contributions	2,520,711	4,096,205	-	-	2,520,711	4,096,205
Capital grants & contributions	2,532,197	1,207,312	5,453	400,143	2,537,650	1,607,455
General Revenues:						
Real estate & personal property taxes	6,376,419	6,052,770	-	-	6,376,419	6,052,770
Other taxes	5,612,005	5,683,002	-	-	5,612,005	5,683,002
Revenue Sharing from Counties	1,279,456	1,175,879	-	-	1,279,456	1,175,879
Use of money & property	380,114	460,631	94,278	73,346	474,392	533,977
Grants & gifts - non-restricted	1,323,968	1,132,497	-	-	1,323,968	1,132,497
Miscellaneous	1,015,319	1,154,938	-	-	1,015,319	1,154,938
Total Revenues	\$ 23,231,381	\$ 22,975,635	\$ 16,222,079	\$ 16,062,816	\$ 39,453,460	\$ 39,038,451
Expenses						
General government	\$ 2,648,658	\$ 2,418,619	\$ -	\$ -	\$ 2,648,658	\$ 2,418,619
Judicial	254,382	276,708	-	-	254,382	276,708
Public safety	5,244,287	5,199,732	-	-	5,244,287	5,199,732
Public works	4,360,802	4,049,898	-	-	4,360,802	4,049,898
Health and welfare	2,479,570	2,328,871	-	-	2,479,570	2,328,871
Education	5,005,226	5,877,702	-	-	5,005,226	5,877,702
Parks, recreation, cultural	1,030,677	1,035,540	-	-	1,030,677	1,035,540
Community development	1,551,031	1,658,873	-	-	1,551,031	1,658,873
Interest & fees on long-term debt	594,528	879,419	-	-	594,528	879,419
Water & Sewer	-	-	3,028,136	2,931,072	3,028,136	2,931,072
Electric	-	-	11,084,995	10,833,758	11,084,995	10,833,758
Airport	-	-	637,885	628,378	637,885	628,378
Total Expenses	\$ 23,169,161	\$ 23,725,362	\$ 14,751,016	\$ 14,393,208	\$ 37,920,177	\$ 38,118,570
Excess of revenue over expenses	\$ 62,220	\$ (749,727)	\$ 1,471,063	\$ 1,669,608	\$ 1,533,283	\$ 919,881
Transfers	1,766,207	1,926,907	(1,766,207)	(1,926,907)	-	-
Increase in net assets	\$ 1,828,427	\$ 1,177,180	\$ (295,144)	\$ (257,299)	\$ 1,533,283	\$ 919,881
Net assets - beginning of year	19,137,454	18,814,106	10,874,751	11,132,050	30,012,205	29,946,156
Prior period adjustment	-	(853,832)	-	-	-	(853,832)
Net assets - ending of year	\$ 20,965,881	\$ 19,137,454	\$ 10,579,607	\$ 10,874,751	\$ 31,545,488	\$ 30,012,205

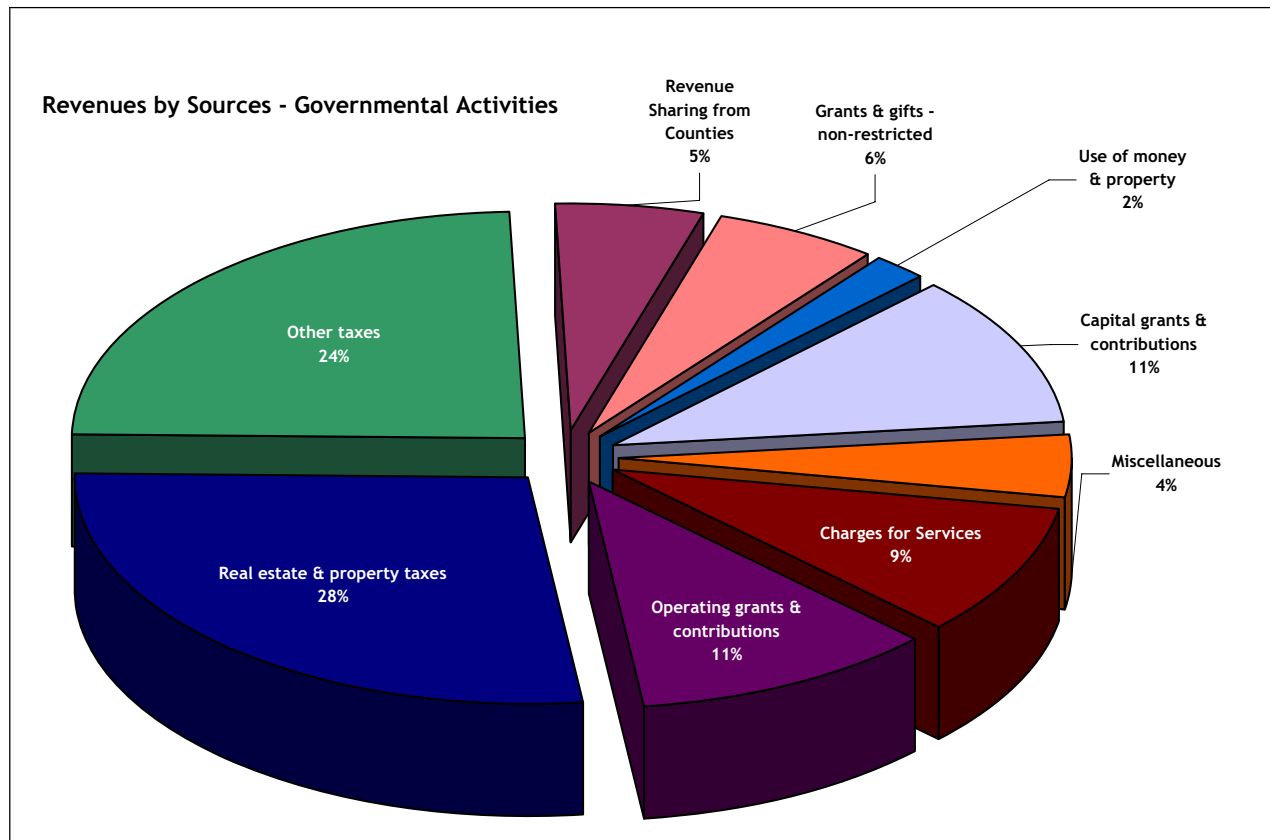
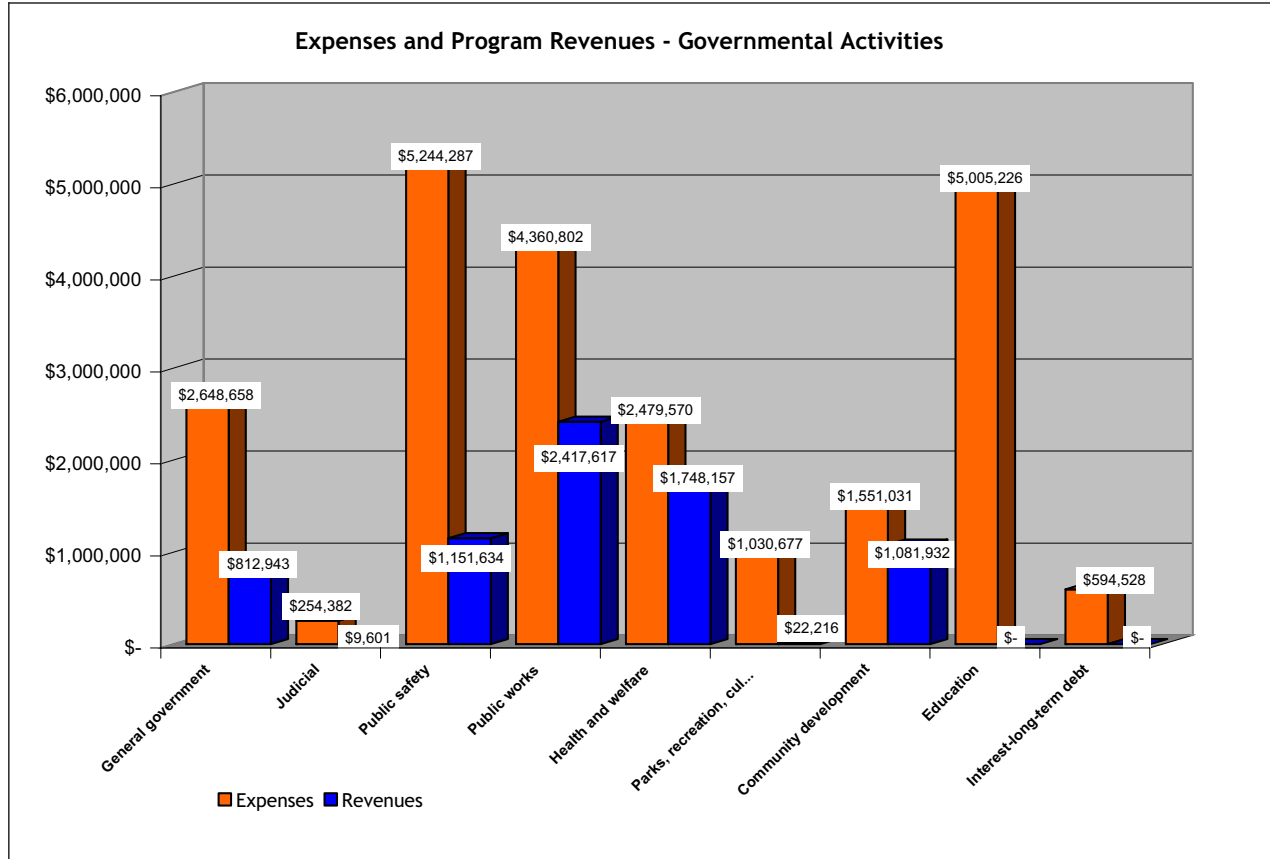
Government Activities

Real estate and personal property taxes, the City's largest revenue source, was \$6,376,419, up \$323,629 from the previous year. Of this 5.3% increase, most was due to real estate taxes. The City's real estate tax rate increased from \$0.85 to \$0.90 per hundred; the real estate is appraised every two years and this was not an appraisal year, therefore, the increase was not due to reappraisals. Personal Property was taxed \$4.50 per \$100 of assessed value. The State Car Tax (Personal Property Tax Relief) payment is listed on the Grants & gifts - non-restricted line and totals \$1,010,424. This amount has been frozen and will remain the same each year unless changed by some future legislation by the State General Assembly.

The other local tax revenue totaling \$5,612,005 consisted of the 1% local sales tax, consumer utility taxes, franchise license tax, motor vehicle licenses, meals tax, and of other local taxes. Starting in January 1, 2007, the State now collects all communications tax and remits to localities their share based on a historical percentage of the effective taxes the localities were collecting. The communication taxes the city was collecting and will now receive from the State include cable franchise tax, telephone tax, E-911 tax and cellular tax.

Government Activities: (Continued)

Revenues from other Counties of \$1,279,456 represent revenue sharing payments received from Isle of Wight and Southampton Counties as part of annexation and service providing agreements.



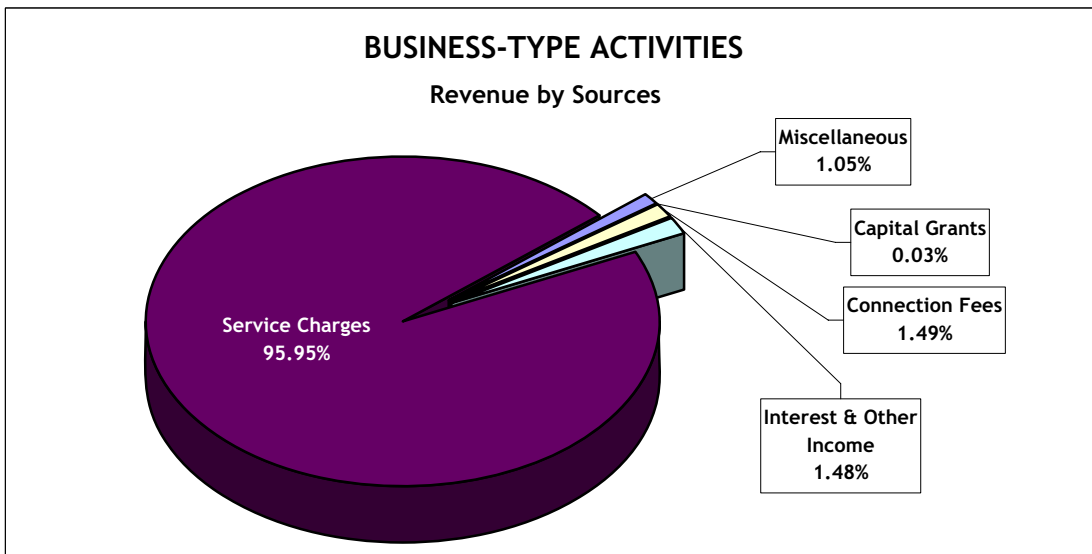
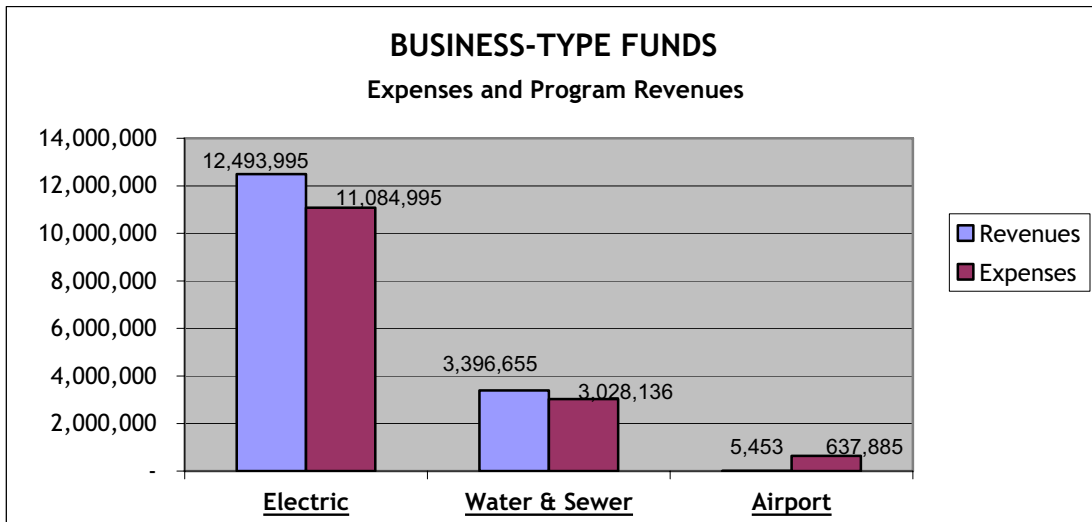
Business- Type Activities

Business-type activities increased the City's net assets before transfers and capital grants by \$1,465,610 and after transfers and capital grants decreased net assets by \$295,144. Key elements of the each fund were:

Water and Sewer Fund revenue increased slightly due to an increase in connection fees. There were no rate increases in water and sewer charges and only a slight increase in charges for basic service. Revenues totaled \$3,423,446 (\$3,349,292 in 2007) with operating expenses of \$2,868,026 (\$2,680,631 in 2007) and interest expense on debt of \$160,110 (\$250,441 in 2007). Consideration for future capital needs and retaining adequate cash balances for operations are reasons for the net increase in assets.

The Electric Fund net income before transfers was \$1,476,348 up \$247,862 from the previous year. The net change in net assets after transfers was a decrease of \$383,543 (\$781,405 in 2007). The Electric Fund has incurred four 2% increases in the wholesale costs of power over the past five years without any increase in rates. City Council reduced the contribution transfer to the general fund by \$150,000 and \$167,498 during the fiscal years ended in June 30, 2008 and 2007 and budgeted a decrease of \$150,000 in the transfer for the fiscal year ending June 30, 2009.

The Airport Fund decrease of \$306,911 in net assets was due primarily to depreciation on capital assets.



FINANCIAL ANALYSIS OF THE GOVERNMENT'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 \$6,238,441.

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 \$3,998,815, 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 \$192,338 all of which was encumbered for contracts in process or planned improvements.

Debt service fund. The debt service fund has an undesignated balance of \$0. This fund is used to report current debt payment requirements of the City. It contains a \$460,698 of restricted assets which are being held by the bond holder to satisfy terms of the QZAB loans incurred by the school board.

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 \$10,579,607.

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 \$2,191,355 at the end of the current fiscal year.

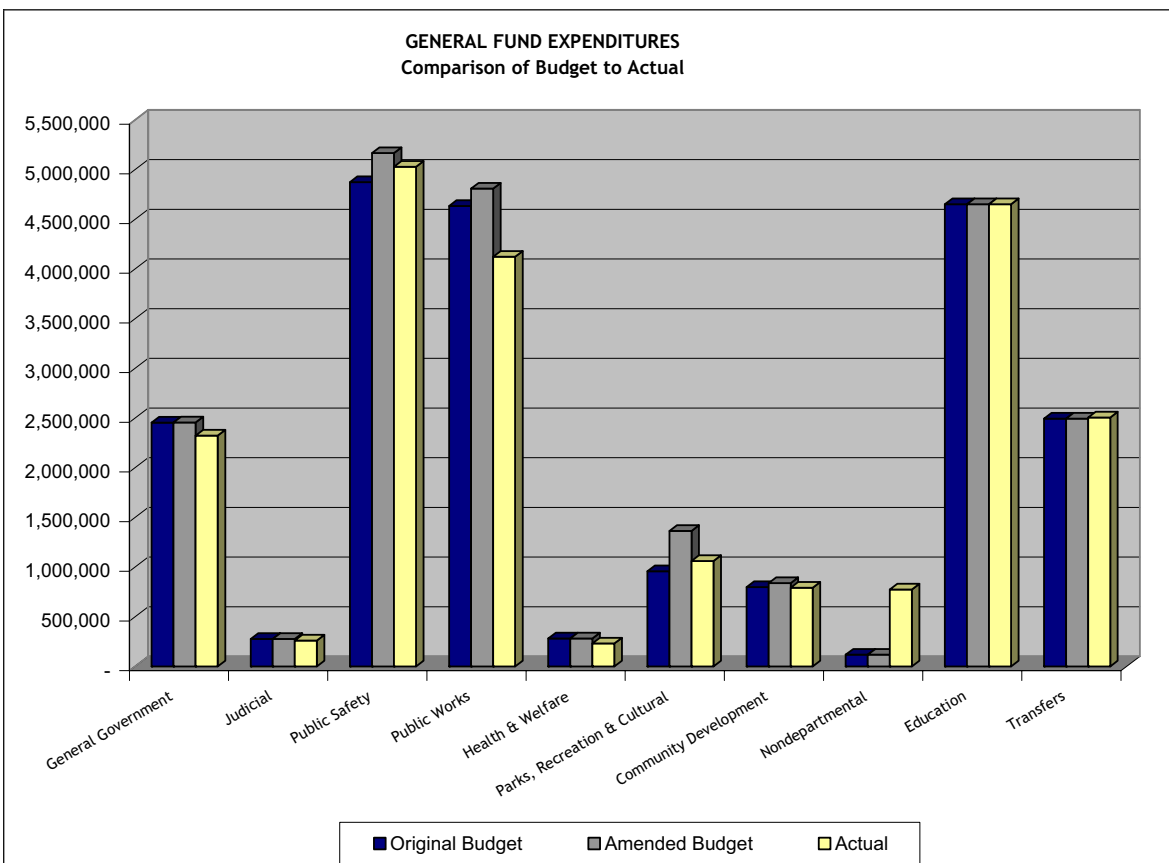
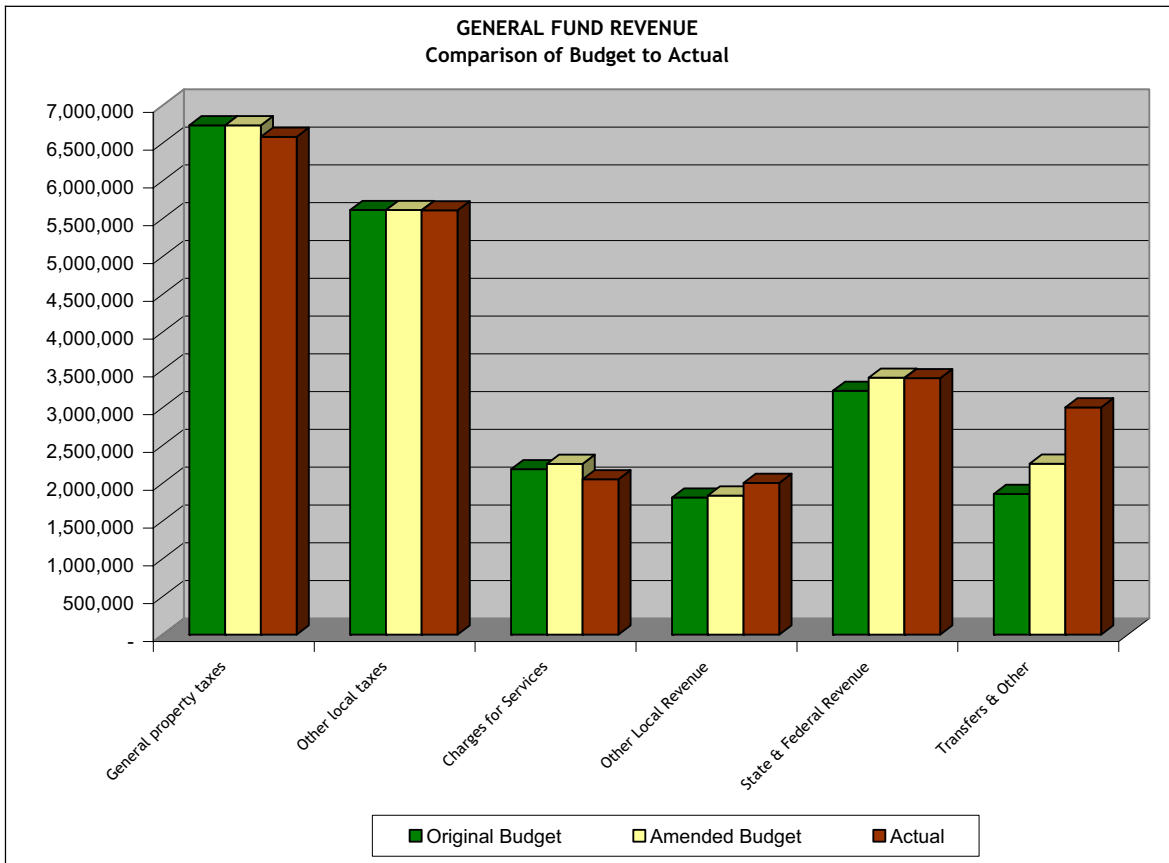
GENERAL FUND BUDGETARY HIGHLIGHTS

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 \$914,725 increase in appropriations. \$400,000 of this was for additional debt for expansion of Popular Springs Cemetery. \$342,750 of general fund balances for projects, grants or reserves that were approved in previous years but not spent were included in amendments; \$173,284 was for additional State and Federal grants awards.

GENERAL FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

The following charts show the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.



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, 2008, amounted to \$45,659,692, 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 \$526,073 or 1.17% increase due primarily to governmental expenditures for infrastructure and machinery and equipment greater than annual depreciation for these categories. Not included in this total are net capital assets of the school board totaling \$10,424,441.

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

- Visitor's Center - TEA 21 - Construction Completed in September
- Popular Springs Cemetery Expansion

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-Type Activities		Total	
	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007
Land	\$ 5,060,480	\$ 5,060,480	\$ -	\$ -	\$ 5,060,480	\$ 5,060,480
Construction in progress	1,660,769	1,664,306	-	134,714	1,660,769	1,799,020
Buildings	13,191,806	13,539,305	703,836	1,102,150	13,895,642	14,641,455
Improvements other than buildings	1,514,581	1,618,358	11,840,762	11,719,752	13,355,343	13,338,110
Machinery and equipment	3,341,314	2,669,048	673,359	789,189	4,014,673	3,458,237
Infrastructure	4,861,823	3,926,963	-	-	4,861,823	3,926,963
Allocations of Component Units	2,810,962	2,908,724	-	-	2,810,962	2,908,724
Totals	<u>\$ 32,441,735</u>	<u>\$ 31,387,184</u>	<u>\$ 13,217,957</u>	<u>\$ 13,745,805</u>	<u>\$ 45,659,692</u>	<u>\$ 45,132,989</u>

Debt Administration. The City's total outstanding general obligation debt at June 30, 2008 was \$19,802,716. This includes \$7,170,333 School related debt and \$7,844,251 of general government debt. Of this total \$15,014,584 is considered to be net direct tax supported debt. \$4,788,132 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.

	FY 2008	FY 2007
General Government Activities:		
Bonds Payable - General	\$ 7,844,251	\$ 7,953,595
School Related Bonds & Notes	7,170,333	7,558,477
Total Tax Supported Debt	<u>\$ 15,014,584</u>	<u>\$ 15,512,072</u>
Business-type Activities	4,788,132	5,319,576
Total Long-Term Debt	<u>\$ 19,802,716</u>	<u>\$ 20,831,648</u>
Per Capita Tax Supported	\$ 1,706	\$ 1,763
Total Debt Per Capita	\$ 2,250	\$ 2,367

During the current fiscal year, the City the following General Obligation Bonds occurred:

Issued General Obligation Bond for Cemetery Expansion \$400,000

Additional information on the City's long-term debt can be found in Note 8.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The June 30, 2008 unemployment rate for the City of Franklin was 6.4% compared to 4.2% for the Virginia and the national rate of 5.7%. The June 30, 2007 unemployment rate for the City of Franklin was 4.0%, compared to the state's unemployment rate of 3.0% and the average national rate of 4.5%.

New businesses locating in Franklin during 2007-08:

Lowe's Home Improvement
Farm Fresh Supermarket

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

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Government-wide Financial Statements

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Statement of Net Assets
June 30, 2008

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
ASSETS					
Cash and cash equivalents	\$ 3,015,477	\$ 2,123,130	\$ 5,138,607	\$ 461,190	\$ 13,072
Receivables (net of allowance for uncollectibles):					
Property taxes receivable	380,167	-	380,167	-	-
Other taxes receivable	209,651	-	209,651	-	-
Accounts receivable	312,770	1,897,403	2,210,173	-	-
Internal balances	969,874	(969,874)	-	-	-
Due from primary government	-	-	-	337,604	-
Due from component unit	339,486	-	339,486	-	-
Due from other governmental units	2,393,394	-	2,393,394	471,939	-
Inventories	-	41,187	41,187	8,402	-
Prepaid expenses	-	-	-	264,418	-
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	460,698	-	460,698	-	-
Capital assets (net of accumulated depreciation):					
Land	5,060,480	-	5,060,480	-	-
Land improvements	-	-	-	72,948	-
Buildings	16,002,768	703,836	16,706,604	5,019,552	-
Improvements other than buildings	1,514,581	-	1,514,581	-	-
Machinery and equipment	3,341,314	673,359	4,014,673	1,262,301	-
Infrastructure	4,861,823	11,840,762	16,702,585	4,069,640	-
Construction in progress	1,660,769	-	1,660,769	-	-
Deposits	-	12,633	12,633	-	-
Unamortized bond issue costs	-	25,771	25,771	-	-
Total assets	\$ 40,523,252	\$ 16,348,207	\$ 56,871,459	\$ 11,967,994	\$ 13,072
LIABILITIES					
Reconciled overdraft	\$ 610,227	\$ 70,484	\$ 680,711	\$ -	\$ -
Accounts payable	605,069	193,045	798,114	67,876	-
Accrued liabilities	-	7,558	7,558	1,248,549	-
Customers' deposits	6,010	455,224	461,234	-	-
Accrued interest payable	204,206	85,414	289,620	-	-
Due to primary government	-	-	-	-	339,486
Due to component unit	337,604	-	337,604	-	-
Deferred revenue	73,256	-	73,256	-	-
Long-term liabilities:					
Due within one year	1,846,957	633,853	2,480,810	320,711	-
Due in more than one year	15,874,042	4,323,022	20,197,064	-	-
Total liabilities	\$ 19,557,371	\$ 5,768,600	\$ 25,325,971	\$ 1,637,136	\$ 339,486
NET ASSETS					
Invested in capital assets, net of related debt	\$ 16,777,541	\$ 8,388,252	\$ 25,165,793	\$ 10,424,441	\$ -
Unrestricted (deficit)	4,188,340	2,191,355	6,379,695	(93,583)	(326,414)
Total net assets	\$ 20,965,881	\$ 10,579,607	\$ 31,545,488	\$ 10,330,858	\$ (326,414)

The notes to the financial statements are an integral part of this statement.

CITY OF FRANKLIN, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 2,648,658	\$ 607,034	\$ 205,909	\$ -
Judicial administration	254,382	9,601	-	-
Public safety	5,244,287	384,793	594,197	172,644
Public works	4,360,802	1,101,485	6,508	1,309,624
Health and welfare	2,479,570	34,060	1,714,097	-
Education	5,005,226	-	-	-
Parks, recreation, and cultural	1,030,677	22,216	-	-
Community development	1,551,031	32,003	-	1,049,929
Interest on long-term debt	594,528	-	-	-
Total governmental activities	\$ 23,169,161	\$ 2,191,192	\$ 2,520,711	\$ 2,532,197
Business-type activities:				
Water and Sewer	\$ 3,028,136	\$ 3,396,655	\$ -	\$ -
Electric	11,084,995	12,493,995	-	-
Airport	637,885	231,698	-	5,453
Total business-type activities	\$ 14,751,016	\$ 16,122,348	\$ -	\$ 5,453
Total primary government	\$ 37,920,177	\$ 18,313,540	\$ 2,520,711	\$ 2,537,650
COMPONENT UNITS:				
School Board	\$ 16,685,919	\$ 152,039	\$ 10,810,668	\$ -
Industrial Development Authority	-	-	-	-
Total component units	\$ 16,685,919	\$ 152,039	\$ 10,810,668	\$ -

General revenues:
 General property taxes
 Local sales and use taxes
 Restaurant food taxes
 Business licenses
 Consumers' utility taxes
 Other local taxes
 Revenue sharing from counties
 Unrestricted revenues from use of money and property
 Miscellaneous
 Contribution from City of Franklin
 Grants and contributions not restricted to specific programs
 Transfers
 Total general revenues
 Change in net assets
 Net assets - beginning
 Net assets - ending

The notes to the financial statements are an integral part of this statement.

**Net (Expense) Revenue and
Changes in Net Assets**

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
\$ (1,835,715)		\$ (1,835,715)		
(244,781)		(244,781)		
(4,092,653)		(4,092,653)		
(1,943,185)		(1,943,185)		
(731,413)		(731,413)		
(5,005,226)		(5,005,226)		
(1,008,461)		(1,008,461)		
(469,099)		(469,099)		
(594,528)		(594,528)		
<u>\$ (15,925,061)</u>		<u>\$ (15,925,061)</u>		
	\$ 368,519	\$ 368,519		
	1,409,000	1,409,000		
	(400,734)	(400,734)		
	<u>\$ 1,376,785</u>	<u>\$ 1,376,785</u>		
	<u>\$ 1,376,785</u>	<u>\$ (14,548,276)</u>		
			\$ (5,723,212)	\$ -
			<u>-</u>	<u>-</u>
			<u>\$ (5,723,212)</u>	<u>\$ -</u>
\$ 6,376,419	\$ -	\$ 6,376,419	\$ -	\$ -
1,615,626	-	1,615,626	-	-
1,089,906	-	1,089,906	-	-
950,528	-	950,528	-	-
543,113	-	543,113	-	-
1,412,832	-	1,412,832	-	-
1,279,456	-	1,279,456	-	-
380,114	94,278	474,392	832	44
1,015,319	-	1,015,319	266,639	-
-	-	-	5,005,226	-
1,323,968	-	1,323,968	-	-
1,766,207	(1,766,207)	-	-	-
<u>\$ 17,753,488</u>	<u>\$ (1,671,929)</u>	<u>\$ 16,081,559</u>	<u>\$ 5,272,697</u>	<u>\$ 44</u>
<u>\$ 1,828,427</u>	<u>\$ (295,144)</u>	<u>\$ 1,533,283</u>	<u>\$ (450,515)</u>	<u>\$ 44</u>
19,137,454	10,874,751	30,012,205	10,781,373	(326,458)
<u>\$ 20,965,881</u>	<u>\$ 10,579,607</u>	<u>\$ 31,545,488</u>	<u>\$ 10,330,858</u>	<u>\$ (326,414)</u>

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Fund Financial Statements

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Balance Sheet
 Governmental Funds
 June 30, 2008

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 1,501,859	\$ 278,673	\$ 310,199	\$ -	\$ 924,746	\$ 3,015,477
Receivables (net of allowance for uncollectibles):						
Property taxes receivable	380,167	-	-	-	-	380,167
Other taxes receivable	209,651	-	-	-	-	209,651
Accounts receivable	173,470	-	-	-	139,300	312,770
Due from other funds	969,874	239,253	-	-	-	1,209,127
Due from component unit	339,486	-	-	-	-	339,486
Due from other governmental units	1,664,743	95,642	495,606	-	137,403	2,393,394
Restricted assets:						
Temporarily restricted:						
Cash and cash equivalents	-	-	-	460,698	-	460,698
Total assets	\$ 5,239,250	\$ 613,568	\$ 805,805	\$ 460,698	\$ 1,201,449	\$ 8,320,770
LIABILITIES AND FUND BALANCES						
Liabilities:						
Reconciled overdraft	\$ -	\$ -	\$ 479,325	\$ -	\$ 130,902	\$ 610,227
Accounts payable	393,642	3,304	134,142	-	73,981	605,069
Customers' deposits	6,010	-	-	-	-	6,010
Due to other funds	239,253	-	-	-	-	239,253
Due to component unit	337,604	-	-	-	-	337,604
Deferred revenue	263,926	-	-	-	-	263,926
Deposits held in escrow	-	-	-	-	20,240	20,240
Total liabilities	\$ 1,240,435	\$ 3,304	\$ 613,467	\$ -	\$ 225,123	\$ 2,082,329
Fund balances:						
Reserved for:						
Debt service	\$ -	\$ -	\$ -	\$ 460,698	\$ -	\$ 460,698
Unreserved, reported in:						
General fund	3,998,815	-	-	-	-	3,998,815
Special revenue funds	-	610,264	-	-	850,296	1,460,560
Capital projects funds	-	-	192,338	-	-	192,338
Permanent funds	-	-	-	-	126,030	126,030
Total fund balances	\$ 3,998,815	\$ 610,264	\$ 192,338	\$ 460,698	\$ 976,326	\$ 6,238,441
Total liabilities and fund balances	\$ 5,239,250	\$ 613,568	\$ 805,805	\$ 460,698	\$ 1,201,449	\$ 8,320,770

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Assets
 June 30, 2008

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 6,238,441

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets, cost	\$ 52,263,295	
Less: accumulated depreciation	<u>(19,821,560)</u>	32,441,735

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Deferred revenue	\$ 190,670	
Deposits	<u>20,240</u>	210,910

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:

Bonds, notes and loans payable	\$ (15,414,584)	
Interest payable	(204,206)	
Capital lease obligations	(710,308)	
Compensated absences	(689,535)	
Landfill closure cost liability	<u>(906,572)</u>	<u>(17,925,205)</u>

Net assets of governmental activities \$ 20,965,881

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2008

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES						
General property taxes	\$ 6,583,034	\$ -	\$ -	\$ -	\$ -	\$ 6,583,034
Other local taxes	5,612,005	-	-	-	-	5,612,005
Permits, privilege fees, and regulatory licenses	85,785	-	-	-	-	85,785
Fines and forfeitures	51,650	-	-	-	-	51,650
Revenue from the use of money and property	276,600	-	-	11,457	92,057	380,114
Charges for services	2,053,757	-	-	-	-	2,053,757
Miscellaneous	1,509,618	-	4,144	-	781,013	2,294,775
Recovered costs	82,857	-	-	-	-	82,857
Intergovernmental revenues:						
Commonwealth	3,242,818	460,400	-	221,085	477,951	4,402,254
Federal	148,947	1,001,953	823,722	-	-	1,974,622
Total revenues	\$ 19,647,071	\$ 1,462,353	\$ 827,866	\$ 232,542	\$ 1,351,021	\$ 23,520,853
EXPENDITURES						
Current:						
General government administration	\$ 2,323,858	\$ -	\$ -	\$ -	\$ 18,913	\$ 2,342,771
Judicial administration	260,681	-	-	-	-	260,681
Public safety	5,027,853	-	-	-	104,235	5,132,088
Public works	4,122,450	-	-	-	156,688	4,279,138
Health and welfare	230,513	1,779,348	-	-	408,282	2,418,143
Education	4,651,368	-	-	-	-	4,651,368
Parks, recreation, and cultural	1,060,488	-	-	-	82,383	1,142,871
Community development	791,727	-	-	-	761,450	1,553,177
Nondepartmental	774,422	-	-	-	8,231	782,653
Capital projects	-	-	1,231,340	-	-	1,231,340
Debt service:						
Principal retirement	-	-	-	1,041,923	-	1,041,923
Interest and other fiscal charges	-	-	-	589,825	-	589,825
Total expenditures	\$ 19,243,360	\$ 1,779,348	\$ 1,231,340	\$ 1,631,748	\$ 1,540,182	\$ 25,425,978
Excess (deficiency) of revenues over (under) expenditures	\$ 403,711	\$ (316,995)	\$ (403,474)	\$ (1,399,206)	\$ (189,161)	\$ (1,905,125)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 1,859,891	\$ 412,384	\$ 50,000	\$ 1,580,668	\$ 368,247	\$ 4,271,190
Transfers out	(2,504,983)	-	-	-	-	(2,504,983)
Issuance of general obligation bonds	400,000	-	-	-	-	400,000
Issuance of capital leases	745,578	-	-	-	-	745,578
Total other financing sources (uses)	\$ 500,486	\$ 412,384	\$ 50,000	\$ 1,580,668	\$ 368,247	\$ 2,911,785
Net change in fund balances	\$ 904,197	\$ 95,389	\$ (353,474)	\$ 181,462	\$ 179,086	\$ 1,006,660
Fund balances - beginning	3,094,618	514,875	545,812	279,236	797,240	5,231,781
Fund balances - ending	\$ 3,998,815	\$ 610,264	\$ 192,338	\$ 460,698	\$ 976,326	\$ 6,238,441

The notes to the financial statements are an integral part of this statement.

Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2008

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$	1,006,660
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following is a computation of these differences.

Capital asset additions	\$	2,917,033	
Depreciation expense		<u>(1,803,982)</u>	1,113,051

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(58,500)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(206,615)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This following is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt	\$	(1,145,578)	
Principal payments		1,178,366	
Increase in landfill liability		<u>(21,248)</u>	11,540

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Compensated absences	\$	(33,006)	
Accrued interest		<u>(4,703)</u>	<u>(37,709)</u>

Change in net assets of governmental activities	\$	<u><u>1,828,427</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Assets
 Proprietary Funds
 June 30, 2008

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 619,949	\$ 1,503,181	\$ -	\$ 2,123,130
Accounts receivable, net of allowances for uncollectibles	473,327	1,413,709	10,367	1,897,403
Inventories	-	-	41,187	41,187
Unamortized bond issue costs - current portion	-	1,945	-	1,945
Total current assets	<u>\$ 1,093,276</u>	<u>\$ 2,918,835</u>	<u>\$ 51,554</u>	<u>\$ 4,063,665</u>
Noncurrent assets:				
Other assets:				
Deposits	\$ -	\$ -	\$ 12,633	\$ 12,633
Unamortized bond issue costs	-	23,826	-	23,826
Capital assets:				
Buildings	-	34,966	1,405,576	1,440,542
Equipment and furniture/fixtures	931,481	1,812,304	255,596	2,999,381
Infrastructure	14,094,864	12,245,707	3,378,893	29,719,464
Less: accumulated depreciation	(9,766,897)	(8,570,208)	(2,604,325)	(20,941,430)
Total capital assets	<u>\$ 5,259,448</u>	<u>\$ 5,522,769</u>	<u>\$ 2,435,740</u>	<u>\$ 13,217,957</u>
Total noncurrent assets	<u>\$ 5,259,448</u>	<u>\$ 5,546,595</u>	<u>\$ 2,448,373</u>	<u>\$ 13,254,416</u>
Total assets	<u>\$ 6,352,724</u>	<u>\$ 8,465,430</u>	<u>\$ 2,499,927</u>	<u>\$ 17,318,081</u>
LIABILITIES				
Current liabilities:				
Reconciled overdraft	\$ -	\$ -	\$ 70,484	\$ 70,484
Accounts payable	134,411	54,807	3,827	193,045
Accrued liabilities	2,375	4,511	672	7,558
Customers' deposits	-	455,224	-	455,224
Accrued interest payable	59,891	25,523	-	85,414
Due to other funds	-	-	969,874	969,874
Compensated absences	41,400	79,629	6,141	127,170
Current portion of long-term liabilities	419,362	87,321	-	506,683
Total current liabilities	<u>\$ 657,439</u>	<u>\$ 707,015</u>	<u>\$ 1,050,998</u>	<u>\$ 2,415,452</u>
Noncurrent liabilities:				
Long-term liabilities - less current portion	<u>\$ 3,168,771</u>	<u>\$ 1,154,251</u>	<u>\$ -</u>	<u>\$ 4,323,022</u>
Total noncurrent liabilities	<u>\$ 3,168,771</u>	<u>\$ 1,154,251</u>	<u>\$ -</u>	<u>\$ 4,323,022</u>
Total liabilities	<u>\$ 3,826,210</u>	<u>\$ 1,861,266</u>	<u>\$ 1,050,998</u>	<u>\$ 6,738,474</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 1,671,315	\$ 4,281,197	\$ 2,435,740	\$ 8,388,252
Unrestricted	855,199	2,322,967	(986,811)	2,191,355
Total net assets	<u>\$ 2,526,514</u>	<u>\$ 6,604,164</u>	<u>\$ 1,448,929</u>	<u>\$ 10,579,607</u>

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2008

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
OPERATING REVENUES				
Charges for services	\$ 3,204,920	\$ 12,128,850	\$ 230,572	\$ 15,564,342
Miscellaneous	2,235	167,133	1,126	170,494
Total operating revenues	<u>\$ 3,207,155</u>	<u>\$ 12,295,983</u>	<u>\$ 231,698</u>	<u>\$ 15,734,836</u>
OPERATING EXPENSES				
Salaries and benefits	\$ 777,215	\$ 1,113,868	\$ 104,419	\$ 1,995,502
Purchased services/goods - for resale	-	8,579,988	150,106	8,730,094
Contractual services	68,823	145,772	1,531	216,126
Utilities	188,350	20,098	17,879	226,327
Repairs and maintenance	80,042	37,241	15,769	133,052
Supplies and small equipment	315,676	128,687	13,584	457,947
Insurance	119,832	24,289	18,381	162,502
Taxes and licenses	12,878	711	-	13,589
Travel and training	8,917	5,405	500	14,822
Other charges	12,237	9,816	2,768	24,821
Payment to general fund for services and taxes	335,160	355,596	2,020	692,776
Depreciation and amortization	948,896	596,006	309,941	1,854,843
Total operating expenses	<u>\$ 2,868,026</u>	<u>\$ 11,017,477</u>	<u>\$ 636,898</u>	<u>\$ 14,522,401</u>
Operating income (loss)	<u>\$ 339,129</u>	<u>\$ 1,278,506</u>	<u>\$ (405,200)</u>	<u>\$ 1,212,435</u>
NONOPERATING REVENUES (EXPENSES)				
Connection fees	\$ 189,500	\$ 51,698	\$ -	\$ 241,198
Interest income	26,791	67,348	139	94,278
Cut-off fees and penalties	-	146,314	-	146,314
Interest expense	(160,110)	(67,518)	(987)	(228,615)
Total nonoperating revenues (expenses)	<u>\$ 56,181</u>	<u>\$ 197,842</u>	<u>\$ (848)</u>	<u>\$ 253,175</u>
Income before contributions and transfers	<u>\$ 395,310</u>	<u>\$ 1,476,348</u>	<u>\$ (406,048)</u>	<u>\$ 1,465,610</u>
Capital grants:				
Commonwealth	\$ -	\$ -	\$ 5,453	\$ 5,453
Transfers in	-	-	93,684	93,684
Transfers out	-	(1,859,891)	-	(1,859,891)
Change in net assets	<u>\$ 395,310</u>	<u>\$ (383,543)</u>	<u>\$ (306,911)</u>	<u>\$ (295,144)</u>
Total net assets - beginning	2,131,204	6,987,707	1,755,840	10,874,751
Total net assets - ending	<u>\$ 2,526,514</u>	<u>\$ 6,604,164</u>	<u>\$ 1,448,929</u>	<u>\$ 10,579,607</u>

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2008

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 3,213,279	\$ 12,025,378	\$ 233,284	\$ 15,471,941
Payments to suppliers for goods and services	(1,364,495)	(9,434,129)	(250,525)	(11,049,149)
Payments to and on behalf of employees	(774,533)	(1,101,482)	(103,137)	(1,979,152)
Net cash provided (used) by operating activities	<u>\$ 1,074,251</u>	<u>\$ 1,489,767</u>	<u>\$ (120,378)</u>	<u>\$ 2,443,640</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ -	\$ (1,859,891)	\$ -	\$ (1,859,891)
Transfers from other funds	-	-	93,684	93,684
Net cash provided (used) by noncapital financing activities	<u>\$ -</u>	<u>\$ (1,859,891)</u>	<u>\$ 93,684</u>	<u>\$ (1,766,207)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants	\$ -	\$ -	\$ 5,453	\$ 5,453
Acquisition and construction of capital assets	(971,386)	(353,900)	(1,706)	(1,326,992)
Principal paid on capital debt	(443,590)	(81,496)	(27,854)	(552,940)
Interest paid on capital debt	(167,172)	(59,855)	(1,220)	(228,247)
Connection and cut-off fees	189,500	198,012	-	387,512
Net cash provided (used) by capital and related financing activities	<u>\$ (1,392,648)</u>	<u>\$ (297,239)</u>	<u>\$ (25,327)</u>	<u>\$ (1,715,214)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 26,791	\$ 67,348	\$ 139	\$ 94,278
Net cash provided (used) by investing activities	<u>\$ 26,791</u>	<u>\$ 67,348</u>	<u>\$ 139</u>	<u>\$ 94,278</u>
Net increase (decrease) in cash and cash equivalents	\$ (291,606)	\$ (600,015)	\$ (51,882)	\$ (943,503)
Cash and cash equivalents - beginning	911,555	2,103,196	(18,602)	2,996,149
Cash and cash equivalents - ending	<u>\$ 619,949</u>	<u>\$ 1,503,181</u>	<u>\$ (70,484)</u>	<u>\$ 2,052,646</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 339,129	\$ 1,278,506	\$ (405,200)	\$ 1,212,435
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	\$ 948,896	\$ 596,006	\$ 309,941	\$ 1,854,843
(Increase) decrease in accounts receivable	6,124	(270,605)	1,586	(262,895)
(Increase) decrease in inventories	-	-	(9,873)	(9,873)
Increase (decrease) in accounts payable	(217,216)	(123,256)	(15,550)	(356,022)
Increase (decrease) in accrued liabilities	(4,704)	(5,894)	(1,069)	(11,667)
Increase (decrease) in compensated absences	2,022	(6,492)	(213)	(4,683)
Increase (decrease) in customer deposits	-	21,502	-	21,502
Total adjustments	<u>\$ 735,122</u>	<u>\$ 211,261</u>	<u>\$ 284,822</u>	<u>\$ 1,231,205</u>
Net cash provided (used) by operating activities	<u>\$ 1,074,251</u>	<u>\$ 1,489,767</u>	<u>\$ (120,378)</u>	<u>\$ 2,443,640</u>

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 180,238
Total assets	\$ <u>180,238</u>
LIABILITIES	
Amounts held for others	\$ 180,238
Total liabilities	\$ <u>180,238</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008

NOTE 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) and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The more significant of the government's accounting policies are described below.

A. Government-wide and Fund Financial Statements

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.

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).

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

A. Government-wide and Fund Financial Statements: (Continued)

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 GASB 34 reporting model, governments will continue to provide budgetary comparison information in their annual report including the government's original budget and a comparison of final budget and actual results.

B. Other Related Organizations

Included in the City's Financial Report

None

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

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. 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.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

Government-Wide and Fund Accounting Financial Statements: (Continued)

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.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource measurement focus using the 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 the fund based financial statements with the governmental column of the government-wide presentation.

The City's fiduciary funds 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 GASB 34 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.

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., expense) 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.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

Government-Wide and Fund Accounting Financial Statements: (Continued)

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 on the funds 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 sixty 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.

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.

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 the following 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/expenses 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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (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 grants and subsidies, 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. The General Fund is considered a major fund.

Special Revenue Funds

The Special Revenue Funds account 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. This fund is considered a major fund.

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 Block 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.

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

Special Revenue Funds: (Continued)

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.

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.

Disaster Recovery 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.

Fire and Rescue Volunteers-accounts for revenues and expenditures related to the activities of the fire and rescue volunteers.

Economic Development Fund-accounts for revenues and expenditures related to economic development efforts of the City including rental of the building in Pretlow Industrial Park and operation of the incubator building.

Camp Homestead Fund-accounts for revenues and expenditures related to the maintenance and upkeep of the Camp family home on Homestead Lane.

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.

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.

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

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.

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 capital 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 capital 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 capital assets of the airport.

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

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

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The following are agency funds reported by the City:

Special Welfare Fund and Special Welfare - SSI Fund-account for receipts 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 Spending Fund-accounts for monies received from employees to pay for medical claims.

Early Childhood Commission-accounts for monies received to promote early childhood growth.

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.

Cafeteria Fund-accounts for revenues and expenditures relating to the operation of school cafeterias. Revenues are derived from state and federal funds.

School Textbook Fund-accounts for revenues and expenditures relating to the purchase of school textbooks. Revenues are derived from state and federal funds.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

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.

D. 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.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Budgets and Budgetary Accounting: (Continued)

Formal budgetary information 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.

E. Allowance for Uncollectible Accounts

The City calculates its allowances for uncollectible property taxes, refuse collection and utility service charges using historical collection data. At June 30, 2008, the allowance attributed to property taxes amounted to \$376,190, refuse collection in the amount of \$29,452 and utility service charges in the amount of \$875,806.

F. Cash and Investments

Cash and 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.

G. 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.

H. 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. 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.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

H. Capital Assets: (Continued)

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.

I. 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.

J. 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.

K. Statement of Cash Flows

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

L. 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.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

M. Credit Risk

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 14.36% and 7.00% 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.

N. Net Assets/Fund Equity

Net assets in the government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other government or imposed by law through state statute.

In the fund financial statements, City funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2—DEPOSITS AND INVESTMENTS:

Deposits

All cash of the primary government and its discretely presented component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by 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. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

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, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

The City's investment policy authorizes the City to purchase investments consistent with obligations permitted by statutes of the Commonwealth of Virginia.

The policy requires that all investments shall be held by the City or purchased by a third-party custodial agent who may not otherwise be a counterparty to the investment transaction. At June 30, 2008 all of the City's investments are held in a bank's trust department in the City's name.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's or Fitch Investor's Service. Corporate notes, negotiable certificates of deposit and bank deposit notes maturing in less than one year must have short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investors Service.

The City's rated debt investments as of June 30, 2008 were rated by Standard & Poor's and the ratings are presented below using Standard & Poor's rating scale.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Interfund balances at June 30, 2008 were as follows:

	<u>Interfund receivable</u>	<u>Interfund payable</u>
Major funds:		
General	\$ 969,874	\$ 239,253
Virginia public assistance	239,253	-
Proprietary funds:		
Airport	-	969,874
	<u> </u>	<u> </u>
Total	<u>\$ 1,209,127</u>	<u>\$ 1,209,127</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 3—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS: (CONTINUED)

Interfund transfers for the year ended June 30, 2008 were as follows:

Fund	Transfer In	Transfer Out
Major funds:		
General	\$ 1,859,891	\$ 2,504,983
Virginia public assistance	412,384	-
Capital projects	50,000	-
Debt service	1,580,668	-
Nonmajor governmental funds:		
Comprehensive services act	164,774	-
Economic development	203,473	-
Proprietary funds:		
Airport	93,684	-
Electric	-	1,859,891
Total	<u>\$ 4,364,874</u>	<u>\$ 4,364,874</u>

Transfers between major funds and other nonmajor governmental and proprietary funds were primarily to support operations of the funds.

NOTE 4—RECEIVABLES:

Receivables in the fund statements at June 30, 2008, are as follows:

Primary Government

	General	Nonmajor Governmental Funds	Business- type Activities	Total
Real estate taxes	\$ 399,961	\$ -	\$ -	\$ 399,961
Personal property taxes	343,512	-	-	343,512
Public service corporation taxes	12,884	-	-	12,884
Other taxes	209,651	-	-	209,651
Accounts receivable	202,922	139,300	2,773,209	3,115,431
	<u>\$ 1,168,930</u>	<u>\$ 139,300</u>	<u>\$ 2,773,209</u>	<u>\$ 4,081,439</u>
Less-allowance for uncollectible accounts:				
Property taxes	(376,190)	-	-	(376,190)
Refuse collection	(29,452)	-	-	(29,452)
Utility service charges	-	-	(875,806)	(875,806)
Receivables - net	<u>\$ 763,288</u>	<u>\$ 139,300</u>	<u>\$ 1,897,403</u>	<u>\$ 2,799,991</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 5-DUE FROM OTHER GOVERNMENTS:

Due from other governments consists of the following at June 30, 2008:

Primary Government

	General	Virginia Public Assistance	Capital Projects	Nonmajor Governmental Funds	Total
Commonwealth of Virginia:					
Sales tax	\$ 290,667	\$ -	\$ -	\$ -	\$ 290,667
Rolling stock tax	5,504	-	-	-	5,504
Recordation tax	6,061	-	-	-	6,061
Communication tax	102,416	-	-	-	102,416
Compensation Board	13,296	-	-	-	13,296
Comprehensive Services Act	-	-	-	109,489	109,489
Emergency Response & Recovery	-	-	-	27,914	27,914
Department of Social Services	-	37,596	-	-	37,596
Total due from the Commonwealth of Virginia	\$ 417,944	\$ 37,596	\$ -	\$ 137,403	\$ 592,943
Federal Government:					
Department of Social Services	\$ -	\$ 58,046	\$ -	\$ -	\$ 58,046
Department of the Interior	-	-	495,606	-	495,606
Total due from federal government	\$ -	\$ 58,046	\$ 495,606	\$ -	\$ 553,652
Local Governments:					
Isle of Wight County-revenue sharing	\$ 1,212,507	\$ -	\$ -	\$ -	\$ 1,212,507
Southampton County-various taxes	34,292	-	-	-	34,292
Total due from local governments	\$ 1,246,799	\$ -	\$ -	\$ -	\$ 1,246,799
Total due from other governments	\$ 1,664,743	\$ 95,642	\$ 495,606	\$ 137,403	\$ 2,393,394

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 5–DUE FROM OTHER GOVERNMENTS: (CONTINUED)

Component Units

	<u>School Board</u>
Commonwealth of Virginia:	
State sales tax	\$ 191,591
Project graduation	<u>5,000</u>
Total due from the Commonwealth of Virginia	\$ 196,591
Federal Government:	
Title I	104,378
Title II, Part A	26,542
Special education cluster	78,711
School nutrition cluster	18,608
English as a second language	31,428
Other	<u>15,681</u>
Total due from federal government	\$ 275,348
Total due from other governments	\$ <u>471,939</u>

NOTE 6–DUE FROM/TO PRIMARY GOVERNMENT AND COMPONENT UNITS:

Details of the receivables and payables between the primary government and component units at June 30, 2008, are as follows:

<u>Component Unit Receivable Fund</u>	<u>Primary Government Payable</u>	<u>Amount</u>
School General Fund	City General Fund	\$ <u>337,604</u>
<u>Primary Government Receivable Fund</u>	<u>Component Unit Payable</u>	
City General Fund	Industrial Development Authority	\$ <u>339,486</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 7—CAPITAL ASSETS:

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

Governmental Activities

	Balance July 1, 2007	Increases	Decreases	Balance July 30, 2008
Capital assets not being depreciated				
Land	\$ 5,060,480	\$ -	\$ -	\$ 5,060,480
Construction in progress	1,664,306	1,108,524	1,112,061	1,660,769
Total capital assets not being depreciated	\$ 6,724,786	\$ 1,108,524	\$ 1,112,061	\$ 6,721,249
Other capital assets				
Buildings	\$ 16,261,994	\$ 17,514	\$ -	\$ 16,279,508
Improvements other than buildings	2,596,873	22,367	-	2,619,240
Machinery and equipment	6,867,437	1,431,157	342,686	7,955,908
Infrastructure	12,349,772	1,449,532	-	13,799,304
Total other capital assets	\$ 38,076,076	\$ 2,920,570	\$ 342,686	\$ 40,653,960
Less-accumulated depreciation				
Buildings	\$ (2,722,689)	\$ (365,013)	\$ -	\$ (3,087,702)
Improvements other than buildings	(978,515)	(126,144)	-	(1,104,659)
Machinery and equipment	(4,198,389)	(700,391)	284,186	(4,614,594)
Infrastructure	(8,422,809)	(514,672)	-	(8,937,481)
Total accumulated depreciation	\$ (16,322,402)	\$ (1,706,220)	\$ 284,186	\$ (17,744,436)
Other capital assets - net	\$ 21,753,674	\$ 1,214,350	\$ 58,500	\$ 22,909,524
Subtotal capital assets, net	\$ 28,478,460	\$ 2,322,874	\$ 1,170,561	\$ 29,630,773
Allocation of School Board				
Buildings	\$ 4,888,086	\$ -	\$ -	\$ 4,888,086
Less-accumulated depreciation				
Buildings	(1,979,362)	(97,762)	-	(2,077,124)
Total allocated to City	\$ 2,908,724	\$ (97,762)	\$ -	\$ 2,810,962
Total capital assets, governmental activities, net	\$ 31,387,184	\$ 2,225,112	\$ 1,170,561	\$ 32,441,735

1) Legislation enacted during the year ended June 30, 2002, Section 15.2-1800.1 of the Code of Virginia 1950, as amended, has changed the reporting of local capital assets and related debt for financial statement purposes. Historically, debt incurred by local governments "on-behalf" of school boards was reported in the school board's discrete column along with the related capital assets. Under the law local governments have a "tenancy in common" with the school board whenever the locality incurs any financial obligation for any school property which is payable over more than one year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt. The effect on the City of Franklin, Virginia for the year ended June 30, 2008, is that school financed assets in the amount of \$2,810,962 net are reported in the Primary Government for financial reporting purposes.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 7-CAPITAL ASSETS: (CONTINUED)

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

General Governmental Administration	\$ 331,500
Public Safety	544,738
Public Works	633,347
Health and Welfare	66,996
Parks, Recreation, and Cultural	129,639
Education	97,762
Total	<u>\$ 1,803,982</u>

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

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Capital assets not being depreciated				
Construction in progress	\$ 134,714	\$ 1,707	\$ 136,421	\$ -
Total capital assets not being depreciated	<u>\$ 134,714</u>	<u>\$ 1,707</u>	<u>\$ 136,421</u>	<u>\$ -</u>
Other capital assets				
Buildings	\$ 1,460,364	\$ 136,420	\$ 156,242	\$ 1,440,542
Infrastructure	28,930,411	1,225,182	436,129	29,719,464
Machinery and equipment	2,978,229	100,105	78,953	2,999,381
Total other capital assets	<u>\$ 33,369,004</u>	<u>\$ 1,461,707</u>	<u>\$ 671,324</u>	<u>\$ 34,159,387</u>
Less - accumulated depreciation				
Buildings	\$ (776,501)	\$ (116,447)	\$ 156,242	\$ (736,706)
Infrastructure	(16,792,371)	(1,522,460)	436,129	(17,878,702)
Machinery and equipment	(2,189,040)	(215,935)	78,953	(2,326,022)
Total accumulated depreciation	<u>\$ (19,757,912)</u>	<u>\$ (1,854,842)</u>	<u>\$ 671,324</u>	<u>\$ (20,941,430)</u>
Subtotal capital assets, net	<u>\$ 13,611,092</u>	<u>\$ (393,135)</u>	<u>\$ -</u>	<u>\$ 13,217,957</u>
Total capital assets, business-type activities, net	<u>\$ 13,745,806</u>	<u>\$ (391,428)</u>	<u>\$ 136,421</u>	<u>\$ 13,217,957</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 7-CAPITAL ASSETS: (CONTINUED)

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

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
Other capital assets				
Land improvement	\$ 121,341	\$ 23,570	\$ -	\$ 144,911
Buildings	12,629,640	38,500	-	12,668,140
Infrastructure	4,272,104	20,851	-	4,292,955
Machinery and equipment	3,125,765	211,284	371,005	2,966,044
Total other capital assets	<u>\$ 20,148,850</u>	<u>\$ 294,205</u>	<u>\$ 371,005</u>	<u>\$ 20,072,050</u>
Less - accumulated depreciation				
Land improvements	\$ (68,173)	\$ (3,790)	\$ -	\$ (71,963)
Buildings	(4,587,411)	(250,215)	-	(4,837,626)
Infrastructure	(157,747)	(65,568)	-	(223,315)
Machinery and equipment	(1,827,065)	(239,083)	362,405	(1,703,743)
Total accumulated depreciation	<u>\$ (6,640,396)</u>	<u>\$ (558,656)</u>	<u>\$ 362,405</u>	<u>\$ (6,836,647)</u>
Other capital assets - net	<u>\$ 13,508,454</u>	<u>\$ (264,451)</u>	<u>\$ 8,600</u>	<u>\$ 13,235,403</u>
Allocation to City				
Buildings	\$ (4,888,086)	\$ -	\$ -	\$ (4,888,086)
Less - accumulated depreciation				
Buildings	<u>1,979,362</u>	<u>97,762</u>	<u>-</u>	<u>2,077,124</u>
Total allocated to City	<u>\$ (2,908,724)</u>	<u>\$ 97,762</u>	<u>\$ -</u>	<u>\$ (2,810,962)</u>
Total capital assets, net	<u><u>\$ 10,599,730</u></u>	<u><u>\$ (166,689)</u></u>	<u><u>\$ 8,600</u></u>	<u><u>\$ 10,424,441</u></u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS:

Following is a summary of the changes in long-term liabilities for governmental activities of the primary government and its Component Unit-School Board, respectively, for the year ended June 30, 2008.

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due within</u> <u>one year</u>
Governmental Obligations:					
Primary Government:					
General obligation debt	\$ 15,112,072	\$ 400,000	\$ 797,488	\$ 14,714,584	\$ 815,097
Literary loans payable	400,000	-	100,000	300,000	100,000
Notes payable	520,000	-	120,000	400,000	120,000
Capital lease obligations	125,608	745,578	160,878	710,308	122,325
Landfill postclosure/ corrective action	885,324	21,248	-	906,572	-
Compensated absences	656,529	498,844	465,838	689,535	689,535
Total - Primary Government	<u>\$ 17,699,533</u>	<u>\$ 1,665,670</u>	<u>\$ 1,644,204</u>	<u>\$ 17,720,999</u>	<u>\$ 1,846,957</u>
Component Unit-School Board:					
Compensated absences	<u>\$ 298,035</u>	<u>\$ 22,676</u>	<u>\$ -</u>	<u>\$ 320,711</u>	<u>\$ 320,711</u>
Total School Board	<u>\$ 298,035</u>	<u>\$ 22,676</u>	<u>\$ -</u>	<u>\$ 320,711</u>	<u>\$ 320,711</u>
Total Governmental Obligations	<u><u>\$ 17,997,568</u></u>	<u><u>\$ 1,688,346</u></u>	<u><u>\$ 1,644,204</u></u>	<u><u>\$ 18,041,710</u></u>	<u><u>\$ 2,167,668</u></u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

General obligation debt of the governmental activities at June 30, 2008, is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2008
General obligation bonds -					
Public Improvement and Refunding Series 1998A	03/05/98	01/15/12	3.60-4.60 \$	1,679,916 \$	845,760
Public Improvement Series 2001B	10/01/01	01/15/24	3.00-5.00	3,105,000	2,615,000
Public Improvement Series 2001C	10/01/01	01/15/22	6.00	685,000	565,000
Public Improvement Series 2002	10/02/02	09/01/42	4.625	2,500,000	2,382,657
Public Improvement Series 1999A	05/28/99	07/15/19	3.970	2,041,330	1,021,264
Public Improvement Series 2003B	12/04/03	01/15/24	3.640	1,223,240	1,056,583
Public Improvement Series 2003C	12/04/03	01/15/27	5.550	565,000	534,178
Public Improvement Series 2004	12/01/04	12/01/14	3.640	310,000	227,689
Public Improvement Series 2006	01/13/06	01/15/26	3.820	1,541,000	1,436,200
Public Improvement Series 2008	02/15/08	01/15/18	3.56	400,000	400,000
Virginia General Obligation Qualified Zone Academy Bond, Series 2005	12/29/05	12/20/20	-	2,214,429	2,214,429
City of Franklin, Virginia School Bond Series 1992	11/01/92	07/15/12	4.90-6.35	285,325	89,403
Virginia Public School Authority Series 1995A	12/21/95	01/15/16	5.10-6.10	567,942	264,201
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	62,220
Total bonds payable					\$ 14,714,584
Loans payable:					
Literary Fund loan-Middle School	03/15/91	03/15/11	2.000	2,000,000	300,000
Total loans payable					\$ 300,000
Total general obligation debt					\$ 15,014,584

*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.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Note Payable

During 2006 the City purchased land and issued a note payable for \$640,000, payable in annual installments of \$120,000, with a balloon payment of \$160,000 in 2011. Principal payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>
2009	\$ 120,000
2010	120,000
2011	160,000
	<u>\$ 400,000</u>

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 815,097	\$ 532,214
2010	849,350	497,022
2011	872,597	460,206
2012	916,130	421,523
2013	720,762	380,301
2014-2018	2,849,189	1,452,466
2019-2023	5,397,621	811,937
2024-2028	846,383	412,467
2029-2033	402,696	290,304
2034-2038	507,242	185,758
2039-2043	537,517	55,617
	<u>\$ 14,714,584</u>	<u>\$ 5,499,815</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Debt service on the preceding literary loans payable for future fiscal years is as follows:

Fiscal Year Ending June 30,	Principal	Interest
2009	\$ 100,000	\$ 6,000
2010	100,000	4,000
2011	100,000	2,000
Total	\$ 300,000	\$ 12,000

Following is a schedule of capital lease obligations:

	Issue Date	Final Maturity	Interest Rate %	Authorized and Issued	Outstanding June 30, 2008
Copiers	02/27/04	02/27/09	8.90	\$ 19,602	\$ 3,508
Garbage Trucks	04/12/05	04/12/10	3.77	139,779	54,332
Voice over IP	12/20/06	12/20/11	4.82	315,624	228,772
Garbage Truck	10/05/07	09/30/12	4.15	187,524	153,009
E-911 Equipment	04/14/08	06/30/13	3.71	270,687	270,687
					\$ 710,308

Future minimum lease payments under capital leases with the present value (outstanding principal) of the net minimum lease payments as of June 30, 2008, are as follows:

Fiscal Year Ending June 30,	
2009	\$ 139,903
2010	191,022
2011	165,422
2012	129,841
2013	94,259
2014	59,744
Total minimum lease payments	780,191
Less-amount representing interest	(69,883)
Present value of net minimum lease payments	\$ 710,308

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

General Obligation Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property as the amount of general obligation borrowing which may be issued by the City. As of June 30, 2008, the City's aggregate general obligation indebtedness is approximately \$36.4 million less than the Commonwealth's limit as summarized in the following table:

Total assessed value of taxed assessed value			
Assessed value of real estate			\$ <u>574,091,697</u>
Debt limit - 10% of total assessed value			\$ 57,409,170
Amount of debt applicable to debt limit			
General obligation debt:			
Primary government	\$	14,652,364	
Business-type		4,122,300	
Capital leases		751,881	
Virginia Resources Authority revolving loan		665,832	
State Literary Fund loans - Component Unit - School Board		300,000	
Debt assumed - Southampton County - Primary government		62,220	
Note payable		400,000	<u>20,954,597</u>
Legal debt margin			\$ <u>36,454,573</u>

Note: The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2008.

Long-Term Liabilities - Business-Type Activities

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

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Due within one year</u>
Bonds payable	\$ 4,603,341	\$ -	\$ 481,041	\$ 4,122,300	\$ 432,436
Capital lease obligation	63,069	-	21,496	41,573	22,321
Revolving loan	716,235	-	50,403	665,832	51,926
Total bonds and loans	\$ 5,382,645	\$ -	\$ 552,940	\$ 4,829,705	\$ 506,683
Compensated absences	131,853	116,544	121,227	127,170	127,170
Total long-term liabilities	<u>\$ 5,514,498</u>	<u>\$ 116,544</u>	<u>\$ 674,167</u>	<u>\$ 4,956,875</u>	<u>\$ 633,853</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Long-term obligations, other than the capital lease, of the business-type activities at June 30, 2008, are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2007
General Obligation Bonds -					
Public Improvement and Refunding					
Series 1998A	03/05/98	01/15/12	3.60-4.60 %	2,265,084	\$ 974,236
Public Improvement Series 1998B	03/05/98	01/15/08	3.60-4.87	2,876,618	1,420,000
Public Improvement Series 2001B	10/01/01	01/15/22	3.00-5.00	1,540,000	1,200,000
Public Improvement Series 2003B	12/03/03	01/15/24	3.64	616,760	528,064
Total bonds payable					\$ 4,122,300
Virginia Resources Authority -					
revolving loan	04/30/99	07/01/19	3.00	1,050,000	665,832
Total bonds payable and line of credit					\$ 4,788,132

Debt service on the business-type funds' bonds payable and line of credit are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2009	\$ 484,362	\$ 205,071
2010	501,876	185,461
2011	526,772	164,702
2012	543,718	142,461
2013	297,225	119,032
2014-2018	1,700,206	391,096
2019-2023	691,399	85,732
2024	42,574	1,550
	\$ 4,788,132	\$ 1,295,105

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

In April 2005, the City of Franklin, Virginia entered into a capital lease to purchase a truck, as follows:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate %</u>	<u>Authorized and issued</u>	<u>Outstanding June 30, 2008</u>
Electric Truck	04/12/05	04/12/10	9.00 %	\$ 106,958	\$ 41,573
<u>Fiscal Year Ending June 30,</u>					
				2009	\$ 23,505
				2010	19,586
				<hr/>	
Total minimum lease payments				43,091	
Less - amount representing interest				(1,518)	
Present value of net minimum lease payments				<hr/> <hr/>	
				\$	41,573

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 maturing 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.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 9—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 \$597,087 and \$117,627, respectively, as of June 30, 2008.

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, 2008, accumulated unpaid sick leave for the governmental and business-type activities amounted to \$92,448 and \$9,543, respectively.

Twelve-month employees of the City of Franklin Public Schools 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 a total of 24 months 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.

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 10-DEFINED PENSION BENEFIT OBLIGATION:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five 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 if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service (1.85% to sheriffs and if the employer elects, to other employees in hazardous duty positions receiving enhanced benefits). 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. AFC is defined as the highest consecutive 36 months of reported compensation. 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 system 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 downloaded from their website at <http://www.varetire.org/Pdf/publications/2007AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government

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 VRS. The employer may assume this 5% member contribution. In addition, the City is 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 contribution rate for the fiscal year ended June 30, 2008 was 9.69% of annual covered payroll.

Discretely Presented Component Unit - School Board (Non-professional)

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 VRS. The employer may assume this 5% member contribution. In addition, the School Board is 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 School Board's contribution rate for the fiscal year ended June 30, 2008 was 7.70% of annual covered payroll.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 10-DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

C. Annual Pension Cost

Primary Government

For fiscal year 2008, City's annual pension cost of \$655,648 (does not include employee share of \$338,312 which was assumed by the City) was equal to the City's required and actual contributions.

Three-Year Trend Information - Primary Government

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)¹</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/06	\$ 614,199	100%	\$ -
6/30/07	641,217	100%	-
6/30/08	655,648	100%	-

¹Employer portion only

The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years.

Discretely Presented Component Unit - School Board (Non-professional)

For fiscal year 2008, School Board's annual pension cost of \$38,673 (does not include employee share of \$25,113 which was assumed by the School Board) was equal to the School Board's required and actual contributions.

Three-Year Trend Information for School Board - Component Unit

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)¹</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/06	\$ 27,576	100%	\$ -
6/30/07	31,118	100%	-
6/30/08	38,673	100%	-

¹Employer portion only

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 10-DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

C. Annual Pension Cost: (Continued)

The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years.

D. Funded Status and Funding Progress

Primary Government

As of June 30, 2007, the most recent actuarial valuation date, the plan was 88.05% funded. The actuarial accrued liability for benefits was \$24,292,968, and the actuarial value of assets was \$21,391,050, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,901,918. The covered payroll (annual payroll of active employees covered by the plan) was \$6,661,177, and ratio of the UAAL to the covered payroll was 43.56%.

Discretely Presented Component Unit - School Board (Non-professional)

As of June 30, 2007, the most recent actuarial valuation date, the plan was 85.59% funded. The actuarial accrued liability for benefits was \$1,368,622, and the actuarial value of assets was \$1,171,409, resulting in an unfunded actuarial accrued liability (UAAL) of \$197,213. The covered payroll (annual payroll of active employees covered by the plan) was \$474,001, and ratio of the UAAL to the covered payroll was 41.61%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Professional Employees - Discretely Presented Component Unit School Board:

A. Plan Description

The Franklin City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. That report may be obtained by writing to the System at P.O. Box 2500, Richmond, Virginia 23218-2500 or a copy may be downloaded from the VRS website at <http://www.varetire.org/PDF/2007/AnnuRept.pdf>.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 10-DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

Professional Employees - Discretely Presented Component Unit School Board: (Continued)

B. Funding Policy

Plan members are required to contribute 5.0% of their annual covered salary and Franklin City School Board is required to contribute at an actuarially determined rate. The current rate is 10.30% of annual covered payroll. The contribution requirements of plan members and Franklin City School Board are established and may be amended by the VRS Board of Trustees. The School Board's contributions to VRS for the years ending June 30, 2008, 2007, and 2006 were \$1,178,240, \$1,135,597, and \$920,743 respectively, and equal to the required contributions for each year.

NOTE 11-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.

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 Services Board.

NOTE 12-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.

CITY OF FRANKLIN, VIRGINIA

**NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)**

NOTE 12—CONTINGENT LIABILITIES: (CONTINUED)

General obligation bonds of \$4,122,300 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.

NOTE 13—POST EMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 10, 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 Note 10. Currently, 29 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.

During fiscal year 2003, retirees' health insurance was provided through a combination of a 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 elected. 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 by the surviving spouses for themselves. Expenditures for post employment health care are recognized as claims when premiums are paid. During the fiscal year ended June 30, 2008, the cost for health care benefits for retirees, dependents, and surviving spouses was \$66,994.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 14—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 the thirty-year postclosure period would begin in 1995 and the landfill closure had been completed in accordance with 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 of all equipment, facilities, and services required to monitor and maintain the landfill's postclosure care. However, the actual cost of postclosure care is higher due to inflation, changes in technology, and changes in applicable laws and regulations. The total reported as landfill postclosure care/corrective action cost liability in the amount of \$906,572 represents \$677,464 of postclosure care liability and \$229,108 of corrective action monitoring costs. The postclosure care costs and corrective action activities will continue through June 30, 2025 and June 30, 2014, respectively.

The City has demonstrated financial assurance requirements for postclosure care and corrective action costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VAC20-70 of the Virginia Administrative Code. The City intends to fund these costs from accumulated funds held in the general fund.

NOTE 15—SURETY BONDS:

Surety bonds of the City of Franklin are as follows:

Brenda B. Rickman	Commonwealth of Virginia Faithful		
Commissioner of Revenue	Performance of Duty Bond Plan	\$	3,000

NOTE 16—ANNEXATIONS:

Southampton County

The City entered into an annexation agreement with Southampton County (County) that provided for annexation in two phases. Annexation of the Phase I area, 3.93 square miles with 3.1% of the County's population per the 1980 census, was effective December 31, 1985. Annexation of the Phase II area, 0.73 square miles with 1.96% of the County's 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 compensated the County for estimated loss of tax revenue through fiscal year 2007. 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.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008 (CONTINUED)

NOTE 16-ANNEXATIONS: (CONTINUED)

Southampton County: (Continued)

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 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, 2008, the City received \$66,949 in tax revenue from the County under this agreement.

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:

Fiscal Year Ending	Percentage
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, 2008, the City received \$1,212,507 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2007. The City will receive approximately \$1,200,000 related to County of Isle of Wight tax revenues for the year ended June 30, 2008, which is included in intergovernmental receivables.

NOTE 17-DEFICIT FUND BALANCE:

The following funds had a deficit fund balance at June 30, 2008:

Fund	Amount
Cobbtown Grant fund	\$ (8,704)

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 6,736,971	\$ 6,736,971	\$ 6,583,034	\$ (153,937)
Other local taxes	5,616,046	5,616,046	5,612,005	(4,041)
Permits, privilege fees, and regulatory licenses	129,240	129,240	85,785	(43,455)
Fines and forfeitures	63,900	63,900	51,650	(12,250)
Revenue from the use of money and property	270,108	270,108	276,600	6,492
Charges for services	2,187,275	2,258,054	2,053,757	(204,297)
Miscellaneous	1,318,942	1,322,192	1,509,618	187,426
Recovered costs	30,000	54,462	82,857	28,395
Intergovernmental revenues:				
Commonwealth	3,091,395	3,147,609	3,242,818	95,209
Federal	133,007	250,277	148,947	(101,330)
Total revenues	\$ 19,576,884	\$ 19,848,859	\$ 19,647,071	\$ (201,788)
EXPENDITURES				
Current:				
General government administration	\$ 2,453,660	\$ 2,454,660	\$ 2,323,858	\$ 130,802
Judicial administration	276,046	276,046	260,681	15,365
Public safety	4,872,814	5,165,251	5,027,853	137,398
Public works	4,633,374	4,808,243	4,122,450	685,793
Health and welfare	281,309	281,309	230,513	50,796
Education	4,651,368	4,651,368	4,651,368	-
Parks, recreation, and cultural	957,339	1,364,504	1,060,488	304,016
Community development	799,235	838,489	791,727	46,762
Nondepartmental	118,017	118,017	774,422	(656,405)
Total expenditures	\$ 19,043,162	\$ 19,957,887	\$ 19,243,360	\$ 714,527
Excess (deficiency) of revenues over (under) expenditures	\$ 533,722	\$ (109,028)	\$ 403,711	\$ 512,739
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,859,891	\$ 1,859,891	\$ 1,859,891	\$ -
Transfers out	(2,493,613)	(2,493,613)	(2,504,983)	(11,370)
Issuance of general obligation bonds	-	400,000	400,000	-
Issuance of capital leases	-	-	745,578	745,578
Total other financing sources and uses	\$ (633,722)	\$ (233,722)	\$ 500,486	\$ 734,208
Net change in fund balances	\$ (100,000)	\$ (342,750)	\$ 904,197	\$ 1,246,947
Fund balances - beginning	100,000	342,750	3,094,618	2,751,868
Fund balances - ending	\$ -	\$ -	\$ 3,998,815	\$ 3,998,815

Virginia Public Assistance Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues:				
Commonwealth	\$ 495,766	\$ 495,766	\$ 460,400	\$ (35,366)
Federal	1,078,919	1,078,919	1,001,953	(76,966)
Total revenues	<u>\$ 1,574,685</u>	<u>\$ 1,574,685</u>	<u>\$ 1,462,353</u>	<u>\$ (112,332)</u>
EXPENDITURES				
Current:				
Health and welfare	\$ 2,099,903	\$ 2,099,903	\$ 1,779,348	\$ 320,555
Total expenditures	<u>\$ 2,099,903</u>	<u>\$ 2,099,903</u>	<u>\$ 1,779,348</u>	<u>\$ 320,555</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (525,218)</u>	<u>\$ (525,218)</u>	<u>\$ (316,995)</u>	<u>\$ 208,223</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 525,218	\$ 525,218	\$ 412,384	\$ (112,834)
Total other financing sources and uses	<u>\$ 525,218</u>	<u>\$ 525,218</u>	<u>\$ 412,384</u>	<u>\$ (112,834)</u>
Net change in fund balances	\$ -	\$ -	\$ 95,389	\$ 95,389
Fund balances - beginning	-	-	514,875	514,875
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 610,264</u>	<u>\$ 610,264</u>

Required Supplementary Information
 Schedule of Pension Funding Progress for the Virginia Retirement System
 Last Three Fiscal Years

City:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded)	Funded Ratio (d) (a) / (b)	Annual Annual Covered Payroll (e)	UAAL as % of Payroll
			Actuarial Accrued (UAAL) (c)			(b) - (a)
6/30/2007	\$ 21,391,050	\$ 24,292,968	\$ 2,901,918	88.05%	\$ 6,661,177	43.56%
6/30/2006	18,714,758	21,253,617	2,538,859	88.05%	6,430,170	39.48%
6/30/2005	17,477,295	21,585,589	4,108,294	80.97%	6,084,135	67.52%

School Board Non-Professionals:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded)	Funded Ratio (d) (a) / (b)	Annual Annual Covered Payroll (e)	UAAL as % of Payroll
			Actuarial Accrued (UAAL) (c)			(b) - (a)
6/30/2007	\$ 1,171,409	\$ 1,368,622	\$ 197,213	85.59%	\$ 474,001	41.61%
6/30/2006	1,035,295	1,189,386	154,091	87.04%	431,788	35.69%
6/30/2005	975,761	1,258,032	282,271	77.56%	591,124	47.75%

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REQUIRED SUPPLEMENTARY INFORMATION

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

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OTHER SUPPLEMENTARY INFORMATION

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Combining and Individual Fund Statements and Schedules

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Primary Government

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2008

	Special Revenue Funds	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 798,807	\$ 125,939	\$ 924,746
Receivables (net of allowance for uncollectibles):			
Accounts receivable	139,209	91	139,300
Due from other governmental units	137,403	-	137,403
Total assets	<u>\$ 1,075,419</u>	<u>\$ 126,030</u>	<u>\$ 1,201,449</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Reconciled overdraft	\$ 130,902	\$ -	\$ 130,902
Accounts payable	73,981	-	73,981
Deposits held in escrow	20,240	-	20,240
Total liabilities	<u>\$ 225,123</u>	<u>\$ -</u>	<u>\$ 225,123</u>
Fund balances:			
Unreserved:			
Designated for subsequent expenditure	\$ -	\$ 126,030	\$ 126,030
Undesignated	850,296	-	850,296
Total fund balances	<u>\$ 850,296</u>	<u>\$ 126,030</u>	<u>\$ 976,326</u>
Total liabilities and fund balances	<u>\$ 1,075,419</u>	<u>\$ 126,030</u>	<u>\$ 1,201,449</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2008

	Special Revenue Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES			
Revenue from the use of money and property	\$ 90,864	\$ 1,193	\$ 92,057
Miscellaneous	781,013	-	781,013
Recovered costs	-	-	-
Intergovernmental revenues:			
Commonwealth	477,951	-	477,951
Total revenues	<u>\$ 1,349,828</u>	<u>\$ 1,193</u>	<u>\$ 1,351,021</u>
EXPENDITURES			
Current:			
General government administration	\$ 18,913	\$ -	\$ 18,913
Public safety	104,235	-	104,235
Public works	156,688	-	156,688
Health and welfare	408,282	-	408,282
Parks, recreation, and cultural	82,383	-	82,383
Community development	761,450	-	761,450
Nondepartmental	-	8,231	8,231
Total expenditures	<u>\$ 1,531,951</u>	<u>\$ 8,231</u>	<u>\$ 1,540,182</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (182,123)</u>	<u>\$ (7,038)</u>	<u>\$ (189,161)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 368,247	\$ -	\$ 368,247
Total other financing sources and uses	<u>\$ 368,247</u>	<u>\$ -</u>	<u>\$ 368,247</u>
Net change in fund balances	\$ 186,124	\$ (7,038)	\$ 179,086
Fund balances - beginning	664,172	133,068	797,240
Fund balances - ending	<u>\$ 850,296</u>	<u>\$ 126,030</u>	<u>\$ 976,326</u>

CITY OF FRANKLIN, VIRGINIA

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2008

	Disaster Recovery Fund	Comprehensive Services Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Community Development Block Grant Fund	Community Development Downtown Grant Fund
ASSETS						
Cash and cash equivalents	\$ 41,605	\$ -	\$ 3,930	\$ 243,352	\$ 135,721	\$ -
Receivables (net of allowance for uncollectibles):						
Accounts receivable	-	-	-	-	-	139,209
Due from other governmental units	27,914	109,489	-	-	-	-
Total assets	<u>\$ 69,519</u>	<u>\$ 109,489</u>	<u>\$ 3,930</u>	<u>\$ 243,352</u>	<u>\$ 135,721</u>	<u>\$ 139,209</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Reconciled overdraft	\$ -	\$ 52,887	\$ -	\$ -	\$ -	\$ 69,311
Accounts payable	-	53,168	-	16,964	-	-
Deposits held in escrow	-	-	-	-	-	20,240
Total liabilities	<u>\$ -</u>	<u>\$ 106,055</u>	<u>\$ -</u>	<u>\$ 16,964</u>	<u>\$ -</u>	<u>\$ 89,551</u>
Fund balances:						
Unreserved:						
Undesignated	69,519	3,434	3,930	226,388	135,721	49,658
Total fund balances	<u>\$ 69,519</u>	<u>\$ 3,434</u>	<u>\$ 3,930</u>	<u>\$ 226,388</u>	<u>\$ 135,721</u>	<u>\$ 49,658</u>
Total liabilities and fund balances	<u>\$ 69,519</u>	<u>\$ 109,489</u>	<u>\$ 3,930</u>	<u>\$ 243,352</u>	<u>\$ 135,721</u>	<u>\$ 139,209</u>

Western Tidewater Home Consortium Fund	Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Total
\$ 20,249	\$ -	\$ 5,024	\$ 10,641	\$ 1,477	\$ 159,439	\$ 121,359	\$ 50,679	\$ 5,331	\$ 798,807
-	-	-	-	-	-	-	-	-	139,209
-	-	-	-	-	-	-	-	-	137,403
<u>\$ 20,249</u>	<u>\$ -</u>	<u>\$ 5,024</u>	<u>\$ 10,641</u>	<u>\$ 1,477</u>	<u>\$ 159,439</u>	<u>\$ 121,359</u>	<u>\$ 50,679</u>	<u>\$ 5,331</u>	<u>\$ 1,075,419</u>
\$ -	\$ 8,704	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 130,902
-	-	-	-	-	-	3,849	-	-	73,981
-	-	-	-	-	-	-	-	-	20,240
<u>\$ -</u>	<u>\$ 8,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,849</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 225,123</u>
20,249	(8,704)	5,024	10,641	1,477	159,439	117,510	50,679	5,331	850,296
<u>\$ 20,249</u>	<u>\$ (8,704)</u>	<u>\$ 5,024</u>	<u>\$ 10,641</u>	<u>\$ 1,477</u>	<u>\$ 159,439</u>	<u>\$ 117,510</u>	<u>\$ 50,679</u>	<u>\$ 5,331</u>	<u>\$ 850,296</u>
<u>\$ 20,249</u>	<u>\$ -</u>	<u>\$ 5,024</u>	<u>\$ 10,641</u>	<u>\$ 1,477</u>	<u>\$ 159,439</u>	<u>\$ 121,359</u>	<u>\$ 50,679</u>	<u>\$ 5,331</u>	<u>\$ 1,075,419</u>

CITY OF FRANKLIN, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 For the Year Ended June 30, 2008

	Disaster Recovery Fund	Comprehensive Services Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Community Development Block Grant Fund	Community Development Downtown Grant Fund	Western Tidewater Home Consortium Fund
REVENUES							
Revenue from the use of money and property	\$ -	\$ -	\$ 168	\$ 7,433	\$ 3,178	\$ -	\$ -
Miscellaneous	-	-	-	714,270	-	8,218	22,756
Intergovernmental revenues:							
Commonwealth	226,207	251,744	-	-	-	-	-
Total revenues	\$ 226,207	\$ 251,744	\$ 168	\$ 721,703	\$ 3,178	\$ 8,218	\$ 22,756
EXPENDITURES							
Current:							
General government administration	\$ -	\$ -	\$ -	\$ 18,913	\$ -	\$ -	\$ -
Public safety	-	-	1,995	74,458	-	-	-
Public works	156,688	-	-	-	-	-	-
Health and welfare	-	408,282	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	77,491	-	-	-
Community development	-	-	-	483,775	-	-	7,309
Total expenditures	\$ 156,688	\$ 408,282	\$ 1,995	\$ 654,637	\$ -	\$ -	\$ 7,309
Excess (deficiency) of revenues over (under) expenditures	\$ 69,519	\$ (156,538)	\$ (1,827)	\$ 67,066	\$ 3,178	\$ 8,218	\$ 15,447
OTHER FINANCING SOURCES (USES)							
Transfers in	\$ -	\$ 164,774	\$ -	\$ -	\$ -	\$ -	\$ -
Total other financing sources and uses	\$ -	\$ 164,774	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ 69,519	\$ 8,236	\$ (1,827)	\$ 67,066	\$ 3,178	\$ 8,218	\$ 15,447
Fund balances - beginning	-	(4,802)	5,757	159,322	132,543	41,440	4,802
Fund balances - ending	\$ 69,519	\$ 3,434	\$ 3,930	\$ 226,388	\$ 135,721	\$ 49,658	\$ 20,249

Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Total
\$ -	\$ 3	\$ 3	\$ -	\$ 6,714	\$ 72,125	\$ 1,237	\$ 3	\$ 90,864
16,974	-	11,408	-	-	-	-	7,387	781,013
-	-	-	-	-	-	-	-	477,951
<u>\$ 16,974</u>	<u>\$ 3</u>	<u>\$ 11,411</u>	<u>\$ -</u>	<u>\$ 6,714</u>	<u>\$ 72,125</u>	<u>\$ 1,237</u>	<u>\$ 7,390</u>	<u>\$ 1,349,828</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,913
-	12,079	5,932	-	-	-	-	9,771	104,235
-	-	-	-	-	-	-	-	156,688
-	-	-	-	-	-	-	-	408,282
-	-	-	-	2,832	-	2,060	-	82,383
264	-	-	-	-	270,102	-	-	761,450
<u>\$ 264</u>	<u>\$ 12,079</u>	<u>\$ 5,932</u>	<u>\$ -</u>	<u>\$ 2,832</u>	<u>\$ 270,102</u>	<u>\$ 2,060</u>	<u>\$ 9,771</u>	<u>\$ 1,531,951</u>
<u>\$ 16,710</u>	<u>\$ (12,076)</u>	<u>\$ 5,479</u>	<u>\$ -</u>	<u>\$ 3,882</u>	<u>\$ (197,977)</u>	<u>\$ (823)</u>	<u>\$ (2,381)</u>	<u>\$ (182,123)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 203,473	\$ -	\$ -	\$ 368,247
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 368,247</u>
\$ 16,710	\$ (12,076)	\$ 5,479	\$ -	\$ 3,882	\$ 5,496	\$ (823)	\$ (2,381)	\$ 186,124
(25,414)	17,100	5,162	1,477	155,557	112,014	51,502	7,712	664,172
<u>\$ (8,704)</u>	<u>\$ 5,024</u>	<u>\$ 10,641</u>	<u>\$ 1,477</u>	<u>\$ 159,439</u>	<u>\$ 117,510</u>	<u>\$ 50,679</u>	<u>\$ 5,331</u>	<u>\$ 850,296</u>

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Combining Balance Sheet
 Nonmajor Permanent Funds
 June 30, 2008

	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
ASSETS					
Cash and cash equivalents	\$ 3,856	\$ 7,509	\$ 102,587	\$ 11,987	\$ 125,939
Receivables (net of allowance for uncollectibles):					
Accounts receivable	-	91	-	-	91
Total assets	<u>\$ 3,856</u>	<u>\$ 7,600</u>	<u>\$ 102,587</u>	<u>\$ 11,987</u>	<u>\$ 126,030</u>
FUND BALANCES					
Fund balances:					
Unreserved:					
Designated for subsequent expenditure	\$ 3,856	\$ 7,600	\$ 102,587	\$ 11,987	\$ 126,030
Total fund balances	<u>\$ 3,856</u>	<u>\$ 7,600</u>	<u>\$ 102,587</u>	<u>\$ 11,987</u>	<u>\$ 126,030</u>
Total liabilities and fund balances	<u>\$ 3,856</u>	<u>\$ 7,600</u>	<u>\$ 102,587</u>	<u>\$ 11,987</u>	<u>\$ 126,030</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Permanent Funds
 For the Year Ended June 30, 2008

	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
REVENUES					
Revenue from the use of money and property	\$ -	\$ 278	\$ 496	\$ 419	\$ 1,193
Total revenues	<u>\$ -</u>	<u>\$ 278</u>	<u>\$ 496</u>	<u>\$ 419</u>	<u>\$ 1,193</u>
EXPENDITURES					
Current:					
Nondepartmental	\$ 59	\$ 6,972	\$ -	\$ 1,200	\$ 8,231
Total expenditures	<u>\$ 59</u>	<u>\$ 6,972</u>	<u>\$ -</u>	<u>\$ 1,200</u>	<u>\$ 8,231</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (59)</u>	<u>\$ (6,694)</u>	<u>\$ 496</u>	<u>\$ (781)</u>	<u>\$ (7,038)</u>
Net change in fund balances	\$ (59)	\$ (6,694)	\$ 496	\$ (781)	\$ (7,038)
Fund balances - beginning	3,915	14,294	102,091	12,768	133,068
Fund balances - ending	<u>\$ 3,856</u>	<u>\$ 7,600</u>	<u>\$ 102,587</u>	<u>\$ 11,987</u>	<u>\$ 126,030</u>

Combining Statement of Fiduciary Net Assets
 Agency Funds
 June 30, 2008

	Agency Funds				Total
	Special Welfare Fund	Special Welfare - SSI Fund	Flexible Spending Fund	Early Childhood Comission Fund	
ASSETS					
Cash and cash equivalents	\$ 8,329	\$ 39,580	\$ 5,500	\$ 126,829	\$ 180,238
Total assets	<u>\$ 8,329</u>	<u>\$ 39,580</u>	<u>\$ 5,500</u>	<u>\$ 126,829</u>	<u>\$ 180,238</u>
LIABILITIES					
Amounts held for others	\$ 8,329	\$ 39,580	\$ 5,500	\$ 126,829	\$ 180,238
Total liabilities	<u>\$ 8,329</u>	<u>\$ 39,580</u>	<u>\$ 5,500</u>	<u>\$ 126,829</u>	<u>\$ 180,238</u>

Combining Statement of Changes in Assets and Liabilities
 Agency Funds
 For the Year Ended June 30, 2008

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Special Welfare Fund:				
ASSETS				
Cash and cash equivalents	\$ 8,062	\$ 7,495	\$ 7,228	\$ 8,329
Total assets	<u>\$ 8,062</u>	<u>\$ 7,495</u>	<u>\$ 7,228</u>	<u>\$ 8,329</u>
LIABILITIES				
Amounts held for others	\$ 8,062	\$ 7,495	\$ 7,228	\$ 8,329
Total liabilities	<u>\$ 8,062</u>	<u>\$ 7,495</u>	<u>\$ 7,228</u>	<u>\$ 8,329</u>
Special Welfare - SSI Fund:				
ASSETS				
Cash and cash equivalents	\$ 22,425	\$ 17,766	\$ 611	\$ 39,580
Total assets	<u>\$ 22,425</u>	<u>\$ 17,766</u>	<u>\$ 611</u>	<u>\$ 39,580</u>
LIABILITIES				
Amounts held for others	\$ 22,425	\$ 17,766	\$ 611	\$ 39,580
Total liabilities	<u>\$ 22,425</u>	<u>\$ 17,766</u>	<u>\$ 611</u>	<u>\$ 39,580</u>
Flexible Spending Fund:				
ASSETS				
Cash and cash equivalents	\$ 7,738	\$ 10,213	\$ 12,451	\$ 5,500
Total assets	<u>\$ 7,738</u>	<u>\$ 10,213</u>	<u>\$ 12,451</u>	<u>\$ 5,500</u>
LIABILITIES				
Amounts held for others	\$ 7,738	\$ 10,213	\$ 12,451	\$ 5,500
Total liabilities	<u>\$ 7,738</u>	<u>\$ 10,213</u>	<u>\$ 12,451</u>	<u>\$ 5,500</u>
Franklin - Southampton Economic Development Fund:				
ASSETS				
Cash and cash equivalents	\$ 126,944	\$ 4,044	\$ 130,988	\$ -
Total assets	<u>\$ 126,944</u>	<u>\$ 4,044</u>	<u>\$ 130,988</u>	<u>\$ -</u>
LIABILITIES				
Amounts held for others	\$ 126,944	\$ 4,044	\$ 130,988	\$ -
Total liabilities	<u>\$ 126,944</u>	<u>\$ 4,044</u>	<u>\$ 130,988</u>	<u>\$ -</u>
Early Childhood Commission Fund:				
ASSETS				
Cash and cash equivalents	\$ 32,684	\$ 139,157	\$ 45,012	\$ 126,829
Total assets	<u>\$ 32,684</u>	<u>\$ 139,157</u>	<u>\$ 45,012</u>	<u>\$ 126,829</u>
LIABILITIES				
Amounts held for others	\$ 32,684	\$ 139,157	\$ 45,012	\$ 126,829
Total liabilities	<u>\$ 32,684</u>	<u>\$ 139,157</u>	<u>\$ 45,012</u>	<u>\$ 126,829</u>
Totals - All Agency Funds:				
ASSETS				
Cash and cash equivalents	\$ 197,853	\$ 178,675	\$ 196,290	\$ 180,238
Total assets	<u>\$ 197,853</u>	<u>\$ 178,675</u>	<u>\$ 196,290</u>	<u>\$ 180,238</u>
LIABILITIES				
Amounts held for others	\$ 197,853	\$ 178,675	\$ 196,290	\$ 180,238
Total liabilities	<u>\$ 197,853</u>	<u>\$ 178,675</u>	<u>\$ 196,290</u>	<u>\$ 180,238</u>

Discretely Presented Component Unit

- School Board -

Combining Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2008

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 209,280	\$ 15,359	\$ 236,551	\$ 461,190
Due from primary government	337,604	-	-	337,604
Due from other governmental units	453,331	18,608	-	471,939
Inventories	-	8,402	-	8,402
Prepaid items	264,418	-	-	264,418
Total assets	<u>\$ 1,264,633</u>	<u>\$ 42,369</u>	<u>\$ 236,551</u>	<u>\$ 1,543,553</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 63,495	\$ 4,381	\$ -	\$ 67,876
Accrued liabilities	1,207,323	41,226	-	1,248,549
Total liabilities	<u>\$ 1,270,818</u>	<u>\$ 45,607</u>	<u>\$ -</u>	<u>\$ 1,316,425</u>
Fund balances:				
Unreserved:				
Designated for subsequent expenditure	\$ (6,185)	\$ (3,238)	\$ 236,551	\$ 227,128
Total fund balances	<u>(6,185)</u>	<u>(3,238)</u>	<u>236,551</u>	<u>227,128</u>
Total liabilities and fund balances	<u>\$ 1,264,633</u>	<u>\$ 42,369</u>	<u>\$ 236,551</u>	<u>\$ 1,543,553</u>

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:

Total fund balances per above \$ 227,128

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets	\$ 15,183,964	
Less: accumulated depreciation	<u>(4,759,523)</u>	10,424,441

Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences	<u>(320,711)</u>
Net assets of governmental activities	<u>\$ 10,330,858</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2008

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
REVENUES				
Revenue from the use of money and property	\$ 720	\$ 17	\$ 95	\$ 832
Charges for services	14,375	137,664	-	152,039
Miscellaneous	244,325	22,314	-	266,639
Recovered costs	124,393	-	1,589	125,982
Intergovernmental revenues:				
Local government	4,651,368	-	-	4,651,368
Commonwealth	9,074,211	7,685	-	9,081,896
Federal	1,282,416	446,356	-	1,728,772
Total revenues	<u>\$ 15,391,808</u>	<u>\$ 614,036</u>	<u>\$ 1,684</u>	<u>\$ 16,007,528</u>
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 11,607,970	\$ -	\$ 64,095	11,672,065
Administration, attendance and health	997,304	-	-	997,304
Transportation	669,011	-	-	669,011
Operations and maintenance	1,466,801	-	-	1,466,801
Technology	817,551	-	-	817,551
Food services	-	637,346	-	637,346
Total expenditures	<u>\$ 15,558,637</u>	<u>\$ 637,346</u>	<u>\$ 64,095</u>	<u>\$ 16,260,078</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (166,829)</u>	<u>\$ (23,310)</u>	<u>\$ (62,411)</u>	<u>\$ (252,550)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 41,000	\$ 171,073	\$ 212,073
Transfers out	(212,073)	-	-	(212,073)
Total other financing sources and uses	<u>\$ (212,073)</u>	<u>\$ 41,000</u>	<u>\$ 171,073</u>	<u>\$ -</u>
Net change in fund balances	\$ (378,902)	\$ 17,690	\$ 108,662	\$ (252,550)
Fund balances - beginning	372,717	(20,928)	127,889	479,678
Fund balances - ending	<u>\$ (6,185)</u>	<u>\$ (3,238)</u>	<u>\$ 236,551</u>	<u>\$ 227,128</u>

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds - per above \$ (252,550)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is a computation of these differences.

Capital asset additions	294,205	
Depreciation expense	(460,894)	(166,689)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. (8,600)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. (22,676)

Change in net assets of governmental activities \$ (450,515)

CITY OF FRANKLIN, VIRGINIA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2008

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 2,200	\$ 720	\$ 720	\$ -
Charges for services	14,000	14,375	14,375	-
Miscellaneous	64,400	228,452	244,325	15,873
Recovered costs	75,000	124,393	124,393	-
Intergovernmental revenues:				
Local government	4,651,368	4,651,368	4,651,368	-
Commonwealth	9,240,916	9,057,334	9,074,211	16,877
Federal	5,000	1,211,746	1,282,416	70,670
Total revenues	<u>\$ 14,052,884</u>	<u>\$ 15,288,388</u>	<u>\$ 15,391,808</u>	<u>\$ 103,420</u>
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 10,331,953	\$ 11,775,492	\$ 11,607,970	\$ 167,522
Administration, attendance and health	1,081,878	997,304	997,304	-
Transportation	548,187	669,011	669,011	-
Operations and maintenance	1,416,580	1,466,801	1,466,801	-
Technology	768,725	817,551	817,551	-
Food services	-	-	-	-
Total expenditures	<u>\$ 14,147,323</u>	<u>\$ 15,726,159</u>	<u>\$ 15,558,637</u>	<u>\$ 167,522</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (94,439)</u>	<u>\$ (437,771)</u>	<u>\$ (166,829)</u>	<u>\$ 270,942</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	(212,073)	(212,073)
Total other financing sources and uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (212,073)</u>	<u>\$ (212,073)</u>
Net change in fund balances	\$ (94,439)	\$ (437,771)	\$ (378,902)	\$ 58,869
Fund balances - beginning	94,439	437,771	372,717	(65,054)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,185)</u>	<u>\$ (6,185)</u>

Cafeteria Fund				Textbook Fund			
Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
Original	Final			Original	Final		
\$ -	\$ 30	\$ 17	\$ (13)	\$ -	\$ -	\$ 95	\$ 95
-	145,000	137,664	(7,336)	-	-	-	-
-	17,608	22,314	4,706	-	-	-	-
-	-	-	-	-	-	1,589	1,589
-	-	-	-	-	-	-	-
-	7,691	7,685	(6)	-	-	-	-
-	482,099	446,356	(35,743)	-	-	-	-
<u>\$ -</u>	<u>\$ 652,428</u>	<u>\$ 614,036</u>	<u>\$ (38,392)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,684</u>	<u>\$ 1,684</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,095	\$ (64,095)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	652,428	637,346	15,082	-	-	-	-
<u>\$ -</u>	<u>\$ 652,428</u>	<u>\$ 637,346</u>	<u>\$ 15,082</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,095</u>	<u>\$ (64,095)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (23,310)</u>	<u>\$ (23,310)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (62,411)</u>	<u>\$ (62,411)</u>
\$ -	\$ -	\$ 41,000	\$ 41,000	\$ -	\$ -	\$ 171,073	\$ 171,073
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,000</u>	<u>\$ 41,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,073</u>	<u>\$ 171,073</u>
\$ -	\$ -	\$ 17,690	\$ 17,690	\$ -	\$ -	\$ 108,662	\$ 108,662
-	-	(20,928)	(20,928)	-	-	127,889	127,889
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,238)</u>	<u>\$ (3,238)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 236,551</u>	<u>\$ 236,551</u>

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Discretely Presented Component Unit
- Industrial Development Authority -

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Statement of Net Assets
 Discretely Presented Component Unit - Industrial Development Authority
 June 30, 2008

	<u>Industrial Development Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>13,072</u>
Total assets	\$ <u>13,072</u>
LIABILITIES	
Current liabilities:	
Due to primary government	\$ <u>339,486</u>
Total liabilities	\$ <u>339,486</u>
NET ASSETS	
Unrestricted	\$ <u>(326,414)</u>
Total net assets	\$ <u><u>(326,414)</u></u>

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets
 Discretely Presented Component Unit - Industrial Development Authority
 For the Year Ended June 30, 2008

	Industrial Development Authority
NONOPERATING REVENUES (EXPENSES)	
Interest income	\$ 44
Total nonoperating revenues (expenses)	\$ 44
Income before contributions and transfers	\$ 44
Change in net assets	\$ 44
Total net assets - beginning	(326,458)
Total net assets - ending	\$ (326,414)

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
Discretely Presented Component Unit - Industrial Development Authority
For the Year Ended June 30, 2008

	Industrial Development Authority
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	\$ 44
Net cash provided (used) by investing activities	<u>\$ 44</u>
Net increase (decrease) in cash and cash equivalents	\$ 44
Cash and cash equivalents - beginning	<u>13,028</u>
Cash and cash equivalents - ending	<u><u>\$ 13,072</u></u>

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Supporting Schedules

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Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 5,144,843	\$ 5,144,843	\$ 5,116,185	\$ (28,658)
Real and personal public service corporation taxes	61,000	61,000	67,123	6,123
Personal property taxes	1,405,128	1,405,128	1,275,546	(129,582)
Machinery and tools taxes	16,000	16,000	11,475	(4,525)
Penalties and interest	110,000	110,000	112,705	2,705
Total general property taxes	<u>\$ 6,736,971</u>	<u>\$ 6,736,971</u>	<u>\$ 6,583,034</u>	<u>\$ (153,937)</u>
Other local taxes:				
Local sales and use taxes	\$ 1,590,486	\$ 1,590,486	\$ 1,615,626	\$ 25,140
Consumers' utility taxes	671,560	671,560	543,113	(128,447)
Right-of-way use fee	34,000	34,000	31,288	(2,712)
Electric consumption taxes	35,000	35,000	36,815	1,815
Communication taxes	601,000	601,000	637,440	36,440
Business license taxes	815,000	815,000	950,528	135,528
Motor vehicle license taxes	154,000	154,000	147,732	(6,268)
Bank stock taxes	70,000	70,000	38,441	(31,559)
Taxes on recordation and wills	72,000	72,000	77,531	5,531
Cigarette taxes	263,000	263,000	252,010	(10,990)
Lodging taxes	210,000	210,000	191,575	(18,425)
Restaurant food taxes	1,100,000	1,100,000	1,089,906	(10,094)
Total other local taxes	<u>\$ 5,616,046</u>	<u>\$ 5,616,046</u>	<u>\$ 5,612,005</u>	<u>\$ (4,041)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 2,500	\$ 2,500	\$ 2,315	\$ (185)
Building and related permits	91,000	91,000	51,467	(39,533)
Zoning, subdivision fees and rezoning permits	12,900	12,900	12,795	(105)
Transfer fees	20,000	20,000	14,371	(5,629)
Permits and other licenses	2,840	2,840	4,837	1,997
Total permits, privilege fees, and regulatory licenses	<u>\$ 129,240</u>	<u>\$ 129,240</u>	<u>\$ 85,785</u>	<u>\$ (43,455)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 63,900	\$ 63,900	\$ 51,650	\$ (12,250)
Total fines and forfeitures	<u>\$ 63,900</u>	<u>\$ 63,900</u>	<u>\$ 51,650</u>	<u>\$ (12,250)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 20,000	\$ 20,000	\$ 35,606	\$ 15,606
Revenue from use of property	250,108	250,108	240,994	(9,114)
Total revenue from use of money and property	<u>\$ 270,108</u>	<u>\$ 270,108</u>	<u>\$ 276,600</u>	<u>\$ 6,492</u>
Charges for services:				
Law library fees	\$ 4,200	\$ 4,200	\$ 5,551	\$ 1,351
Other court fees	4,050	4,050	4,050	-
Police services	-	1,614	1,614	-

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Charges for services: (Continued)				
Fire and emergency services	393,268	455,268	277,747	(177,521)
Animal boarding and adoption fees	350	350	-	(350)
Janitorial services	17,010	17,010	16,693	(317)
Armory operations and maintenance	14,851	14,851	17,292	2,441
Waste collection and disposal	1,109,164	1,109,164	1,101,456	(7,708)
Demolition and debris removal	1,000	1,000	29	(971)
Administration - water and sewer	321,048	321,048	308,700	(12,348)
Administration - airport	2,020	2,020	2,020	-
Administration - electric	296,314	296,314	296,314	-
Recreation fees and admissions	24,000	31,165	22,216	(8,949)
Other charges for services	-	-	75	75
Total charges for services	<u>\$ 2,187,275</u>	<u>\$ 2,258,054</u>	<u>\$ 2,053,757</u>	<u>\$ (204,297)</u>
Miscellaneous revenue:				
Annexation payments - County of Isle of Wight	\$ 1,110,000	\$ 1,110,000	\$ 1,212,507	\$ 102,507
Revenue sharing - Southampton County	78,000	78,000	66,949	(11,051)
Payment in lieu of taxes - from enterprise activities	96,742	96,742	93,001	(3,741)
Sale of supplies and publications	-	-	1,247	1,247
Sale of surplus	5,000	5,000	224	(4,776)
Sale of real estate	-	-	12,025	12,025
Sale of cemetery lots	25,000	25,000	14,645	(10,355)
Sale of equipment	-	-	26,000	26,000
Auction proceeds	1,200	1,200	10,674	9,474
Donations	-	1,337	1,337	-
Miscellaneous other	3,000	4,913	71,009	66,096
Total miscellaneous revenue	<u>\$ 1,318,942</u>	<u>\$ 1,322,192</u>	<u>\$ 1,509,618</u>	<u>\$ 187,426</u>
Recovered costs:				
Insurance recovery - workers' compensation	\$ 10,000	\$ 10,000	\$ -	\$ (10,000)
Insurance recovery - liability	10,000	34,462	24,462	(10,000)
Personal property seizure	-	-	45,062	45,062
Other recovered costs	10,000	10,000	13,333	3,333
Total recovered costs	<u>\$ 30,000</u>	<u>\$ 54,462</u>	<u>\$ 82,857</u>	<u>\$ 28,395</u>
Total revenue from local sources	<u>\$ 16,352,482</u>	<u>\$ 16,450,973</u>	<u>\$ 16,255,306</u>	<u>\$ (195,667)</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 4,893	\$ 4,893	\$ 4,893	\$ -
Wine taxes	5,129	5,129	5,129	-
Railroad rolling stock tax	6,000	6,000	5,579	(421)
Motor vehicle rental tax	35,000	35,000	47,286	12,286
State recordation tax	18,974	18,974	29,572	10,598
Personal property tax relief funds	1,010,424	1,010,424	1,010,424	-
Total noncategorical aid	<u>\$ 1,080,420</u>	<u>\$ 1,080,420</u>	<u>\$ 1,102,883</u>	<u>\$ 22,463</u>

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 71,610	\$ 71,610	\$ 89,712	\$ 18,102
Treasurer	65,159	65,159	71,103	5,944
Registrar/electoral board	44,000	44,000	45,094	1,094
Total shared expenses	<u>\$ 180,769</u>	<u>\$ 180,769</u>	<u>\$ 205,909</u>	<u>\$ 25,140</u>
Other categorical aid:				
HB 599 Law enforcement grant	\$ 506,416	\$ 506,416	\$ 480,945	\$ (25,471)
Fire and rescue grant	-	54,413	87,626	33,213
Street and highway maintenance funds	1,270,868	1,270,868	1,309,624	38,756
Litter control grant	5,307	6,508	6,508	-
Wireless 911 grant	35,615	35,615	48,723	13,108
Fire programs funds	12,000	12,600	600	(12,000)
Total other categorical aid	<u>\$ 1,830,206</u>	<u>\$ 1,886,420</u>	<u>\$ 1,934,026</u>	<u>\$ 47,606</u>
Total categorical aid	<u>\$ 2,010,975</u>	<u>\$ 2,067,189</u>	<u>\$ 2,139,935</u>	<u>\$ 72,746</u>
Total revenue from the Commonwealth	<u>\$ 3,091,395</u>	<u>\$ 3,147,609</u>	<u>\$ 3,242,818</u>	<u>\$ 95,209</u>
Revenue from the federal government:				
Categorical aid:				
Homeland Security - State domestic preparedness support grant	\$ 111,007	\$ 111,007	\$ 85,018	\$ (25,989)
Homeland Security - Emergency management performance grant	17,000	17,000	16,595	(405)
Local law enforcement block grant	-	7,334	7,334	-
Promotion of the arts partnership grant	5,000	5,000	5,000	-
Public safety partnership and community policing grants	-	79,536	35,000	(44,536)
Other federal categorical aid	-	30,400	-	(30,400)
Total categorical aid	<u>\$ 133,007</u>	<u>\$ 250,277</u>	<u>\$ 148,947</u>	<u>\$ (101,330)</u>
Total revenue from the federal government	<u>\$ 133,007</u>	<u>\$ 250,277</u>	<u>\$ 148,947</u>	<u>\$ (101,330)</u>
Other financing sources:				
Transfer from electric fund	\$ 1,859,891	\$ 1,859,891	\$ 1,859,891	\$ -
Prior year budget and surplus carryover	100,000	342,750	-	(342,750)
Issuance of general obligation bonds	-	400,000	400,000	-
Issuance of capital leases	-	-	745,578	745,578
Total other financing sources	<u>\$ 1,959,891</u>	<u>\$ 2,602,641</u>	<u>\$ 3,005,469</u>	<u>\$ 402,828</u>
Total General Fund	<u>\$ 21,536,775</u>	<u>\$ 22,451,500</u>	<u>\$ 22,652,540</u>	<u>\$ 201,040</u>

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Special Revenue Fund:				
Virginia Public Assistance Fund:				
Revenue from the Commonwealth:				
Categorical aid:				
Welfare administration and public assistance	\$ 495,766	\$ 495,766	\$ 460,400	\$ (35,366)
Total categorical aid	<u>\$ 495,766</u>	<u>\$ 495,766</u>	<u>\$ 460,400</u>	<u>\$ (35,366)</u>
Total revenue from the Commonwealth	<u>\$ 495,766</u>	<u>\$ 495,766</u>	<u>\$ 460,400</u>	<u>\$ (35,366)</u>
Revenue from the federal government:				
Categorical aid:				
Welfare administration and public assistance	\$ 1,078,919	\$ 1,078,919	\$ 1,001,953	\$ (76,966)
Total categorical aid	<u>\$ 1,078,919</u>	<u>\$ 1,078,919</u>	<u>\$ 1,001,953</u>	<u>\$ (76,966)</u>
Total revenue from the federal government	<u>\$ 1,078,919</u>	<u>\$ 1,078,919</u>	<u>\$ 1,001,953</u>	<u>\$ (76,966)</u>
Other financing sources:				
Transfer from general fund	\$ 525,218	\$ 525,218	\$ 412,384	\$ (112,834)
Total other financing sources	<u>\$ 525,218</u>	<u>\$ 525,218</u>	<u>\$ 412,384</u>	<u>\$ (112,834)</u>
Total Virginia Public Assistance Fund	<u>\$ 2,099,903</u>	<u>\$ 2,099,903</u>	<u>\$ 1,874,737</u>	<u>\$ (225,166)</u>

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2008

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
City council	\$ 313,196	\$ 314,196	\$ 296,717	\$ 17,479
General and financial administration:				
City manager	\$ 243,213	\$ 243,213	\$ 232,102	\$ 11,111
City attorney	133,232	133,232	110,466	22,766
Management services and human resources	191,683	191,683	181,821	9,862
Commissioner of revenue	251,450	251,450	235,001	16,449
Reassessment	96,461	96,461	101,079	(4,618)
Treasurer	74,567	74,567	76,546	(1,979)
Accounting	272,177	272,177	253,125	19,052
Collections	209,575	209,575	197,968	11,607
Purchasing	74,247	74,247	69,428	4,819
Utility billings and collections	226,495	226,495	220,348	6,147
Insurance	90,000	90,000	101,917	(11,917)
Information technology	155,901	155,901	128,136	27,765
Total general and financial administration	\$ 2,019,001	\$ 2,019,001	\$ 1,907,937	\$ 111,064
Board of elections:				
Electoral board and officials	\$ 121,463	\$ 121,463	\$ 119,204	\$ 2,259
Total board of elections	\$ 121,463	\$ 121,463	\$ 119,204	\$ 2,259
Total general government administration	\$ 2,453,660	\$ 2,454,660	\$ 2,323,858	\$ 130,802
Judicial administration:				
Courts:				
Circuit court - joint operations	\$ 9,508	\$ 9,508	\$ 9,508	\$ -
General district court	21,600	21,600	22,487	(887)
Special magistrates	150	150	-	150
Clerk of the circuit court	34,165	34,165	34,165	-
Juvenile and domestic relations court	92,522	92,522	76,420	16,102
Sheriff - courts	69,891	69,891	69,891	-
Total courts	\$ 227,836	\$ 227,836	\$ 212,471	\$ 15,365
Commonwealth's attorney:				
Commonwealth's attorney	\$ 48,210	\$ 48,210	\$ 48,210	\$ -
Total commonwealth's attorney	\$ 48,210	\$ 48,210	\$ 48,210	\$ -
Total judicial administration	\$ 276,046	\$ 276,046	\$ 260,681	\$ 15,365
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,480,139	\$ 2,589,186	\$ 2,481,549	\$ 107,637
Police mini station	300	300	280	20
Total law enforcement and traffic control	\$ 2,480,439	\$ 2,589,486	\$ 2,481,829	\$ 107,657

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2008

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Public safety: (Continued)				
Emergency services:				
E-911 operations	\$ 536,165	\$ 536,165	\$ 575,655	\$ (39,490)
Emergency management services	1,205,761	1,363,557	1,369,867	(6,310)
Total fire and rescue services	<u>\$ 1,741,926</u>	<u>\$ 1,899,722</u>	<u>\$ 1,945,522</u>	<u>\$ (45,800)</u>
Correction and detention:				
Detention - Western Tidewater Regional Jail	\$ 100,000	\$ 100,000	\$ 31,000	\$ 69,000
Total correction and detention	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 31,000</u>	<u>\$ 69,000</u>
Inspections:				
Building	\$ 405,327	\$ 426,584	\$ 406,436	\$ 20,148
Total inspections	<u>\$ 405,327</u>	<u>\$ 426,584</u>	<u>\$ 406,436</u>	<u>\$ 20,148</u>
Other protection:				
Animal control	\$ 76,636	\$ 80,973	\$ 98,437	\$ (17,464)
Civil defense	64,986	64,986	63,462	1,524
Safety and health	3,500	3,500	1,167	2,333
Total other protection	<u>\$ 145,122</u>	<u>\$ 149,459</u>	<u>\$ 163,066</u>	<u>\$ (13,607)</u>
Total public safety	<u>\$ 4,872,814</u>	<u>\$ 5,165,251</u>	<u>\$ 5,027,853</u>	<u>\$ 137,398</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Streets and highways	\$ 2,196,342	\$ 2,366,211	\$ 1,653,806	\$ 712,405
Snow removal	23,000	23,000	947	22,053
Garage	249,458	249,458	203,636	45,822
Total maintenance of highways, streets, bridges & sidewalks	<u>\$ 2,468,800</u>	<u>\$ 2,638,669</u>	<u>\$ 1,858,389</u>	<u>\$ 780,280</u>
Sanitation and waste removal:				
Refuse collection	\$ 1,193,610	\$ 1,198,610	\$ 1,198,530	\$ 80
Total sanitation and waste removal	<u>\$ 1,193,610</u>	<u>\$ 1,198,610</u>	<u>\$ 1,198,530</u>	<u>\$ 80</u>
Maintenance of general buildings and grounds:				
Maintenance of general buildings and grounds	\$ 647,246	\$ 647,246	\$ 740,610	\$ (93,364)
Maintenance of armory	59,405	59,405	65,834	(6,429)
Maintenance of city hall	168,103	168,103	163,413	4,690
Maintenance of social services	70,200	70,200	65,987	4,213
Maintenance of health department	26,010	26,010	29,687	(3,677)
Total maintenance of general buildings and grounds	<u>\$ 970,964</u>	<u>\$ 970,964</u>	<u>\$ 1,065,531</u>	<u>\$ (94,567)</u>
Total public works	<u>\$ 4,633,374</u>	<u>\$ 4,808,243</u>	<u>\$ 4,122,450</u>	<u>\$ 685,793</u>
Health and welfare:				
Health:				
Local health department	\$ 153,759	\$ 153,759	\$ 153,597	\$ 162
Mosquito control	60,000	60,000	9,366	50,634
Mental health	67,550	67,550	67,550	-
Total health	<u>\$ 281,309</u>	<u>\$ 281,309</u>	<u>\$ 230,513</u>	<u>\$ 50,796</u>
Total health and welfare	<u>\$ 281,309</u>	<u>\$ 281,309</u>	<u>\$ 230,513</u>	<u>\$ 50,796</u>

Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Education:				
Contribution to local school board	\$ 4,651,368	\$ 4,651,368	\$ 4,651,368	\$ -
Total education	<u>\$ 4,651,368</u>	<u>\$ 4,651,368</u>	<u>\$ 4,651,368</u>	<u>\$ -</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Programs and operations	\$ 461,584	\$ 468,749	\$ 453,652	\$ 15,097
Senior citizen programs	129,496	129,496	95,650	33,846
Tax relief for the elderly	13,000	13,000	-	13,000
Cemeteries	60,500	460,500	217,940	242,560
Total parks and recreation	<u>\$ 664,580</u>	<u>\$ 1,071,745</u>	<u>\$ 767,242</u>	<u>\$ 304,503</u>
Library:				
Library administration	\$ 292,759	\$ 292,759	\$ 293,246	\$ (487)
Total library	<u>\$ 292,759</u>	<u>\$ 292,759</u>	<u>\$ 293,246</u>	<u>\$ (487)</u>
Total parks, recreation, and cultural	<u>\$ 957,339</u>	<u>\$ 1,364,504</u>	<u>\$ 1,060,488</u>	<u>\$ 304,016</u>
Community development:				
Planning and community development:				
Planning	\$ 99,795	\$ 99,795	\$ 78,737	\$ 21,058
Beautification commission	7,357	46,611	17,059	29,552
Downtown development	97,083	97,083	102,911	(5,828)
Payments to Southampton County	595,000	595,000	593,020	1,980
Total planning and community development	<u>\$ 799,235</u>	<u>\$ 838,489</u>	<u>\$ 791,727</u>	<u>\$ 46,762</u>
Total community development	<u>\$ 799,235</u>	<u>\$ 838,489</u>	<u>\$ 791,727</u>	<u>\$ 46,762</u>
Nondepartmental:				
Bank service charges	\$ 10,000	\$ 10,000	\$ 28,844	\$ (18,844)
Capital lease purchases	-	-	745,578	(745,578)
Other nondepartmental	108,017	108,017	-	108,017
Total nondepartmental	<u>\$ 118,017</u>	<u>\$ 118,017</u>	<u>\$ 774,422</u>	<u>\$ (656,405)</u>

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2008

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Other financing uses:				
Transfers:				
Transfer to social services fund	\$ 525,218	\$ 525,218	\$ 412,384	\$ 112,834
Transfer to comprehensive services act fund	51,940	51,940	164,774	(112,834)
Transfer to school capital fund	50,000	50,000	50,000	-
Transfer to school debt fund	677,640	677,640	690,608	(12,968)
Transfer to airport fund	93,684	93,684	93,684	-
Transfer to economic development fund	203,473	203,473	203,473	-
Transfer to debt service fund	891,658	891,658	890,060	1,598
Total other financing uses	<u>\$ 2,493,613</u>	<u>\$ 2,493,613</u>	<u>\$ 2,504,983</u>	<u>\$ (11,370)</u>
 Total General Fund	 <u>\$ 21,536,775</u>	 <u>\$ 22,451,500</u>	 <u>\$ 21,748,343</u>	 <u>\$ 703,157</u>
Special Revenue Funds:				
Virginia Public Assistance Fund:				
Health and welfare:				
Welfare and social services:				
Welfare administration	\$ 1,532,929	\$ 1,532,929	\$ 1,295,618	\$ 237,311
Public assistance	566,974	566,974	483,730	83,244
Total welfare and social services	<u>\$ 2,099,903</u>	<u>\$ 2,099,903</u>	<u>\$ 1,779,348</u>	<u>\$ 320,555</u>
 Total health and welfare	 <u>\$ 2,099,903</u>	 <u>\$ 2,099,903</u>	 <u>\$ 1,779,348</u>	 <u>\$ 320,555</u>
 Total Virginia Public Assistance Fund	 <u>\$ 2,099,903</u>	 <u>\$ 2,099,903</u>	 <u>\$ 1,779,348</u>	 <u>\$ 320,555</u>

Statistical Tables

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City of Franklin, Virginia

Table 1

Government-Wide Revenues
Year Ended June 30,

Fiscal Year	Program Revenues				General Revenues					Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Revenue Sharing from Counties	Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous		
2008	\$ 18,313,540	\$ 2,520,711	\$ 2,537,650	\$ 11,988,424	\$ 1,279,456	\$ 1,323,968	\$ 474,392	\$ 1,015,319	\$ 39,453,460	
2007	17,601,728	4,096,205	1,607,455	11,735,772	1,175,879	1,132,497	132,207	1,556,708	39,038,451	
2006	18,767,600	3,698,397	93,952	10,627,041	1,136,199	1,132,497	38,191	1,431,952	36,925,829	
2005	16,228,102	3,645,508	2,168,480	10,982,904	1,103,685	-	9,025	374,154	34,511,858	
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	

* PPTRA amounts in Grants and Contributions not restricted appeared in Taxes column before 2006

City of Franklin, Virginia

Government-Wide Expenses by Function

Year Ended June 30,

Fiscal Year	General Government	Judicial	Public Safety	Public Works	Health and Welfare	Parks, Recreation and Cultural		Community Development	Non-Departmental	Interest on Long-term Debt	Water and Sewer	Electric	Airport	Total Expenditures
						Education	Cultural							
2008	\$ 2,648,658	\$ 254,382	\$ 5,244,287	\$ 4,360,802	\$ 2,479,570	\$ 5,005,226	\$ 1,030,677	\$ 1,551,031	\$ -	\$ 594,528	\$ 3,028,136	\$ 11,084,995	\$ 637,885	\$ 37,920,177
2007	2,418,619	276,708	5,199,732	4,049,898	2,328,871	5,877,702	1,035,540	1,658,873	-	879,419	2,931,072	10,833,758	628,378	38,118,570
2006	3,579,360	220,786	4,581,392	3,273,363	2,476,948	4,358,068	908,320	1,154,255	580,617	717,482	2,895,536	10,704,954	571,601	36,022,682
2005	2,154,840	227,962	4,385,901	4,452,836	2,138,779	4,155,196	993,109	213,146	577,465	734,457	2,794,462	8,887,833	614,946	32,330,932
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

**General Governmental Revenues by Source
Year Ended June 30,**

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General property taxes	\$ 6,583,034	5,996,085	6,359,770	5,782,264	5,523,583	5,509,757	5,306,578	5,191,290	4,865,250	4,928,999
Other local taxes	5,612,005	5,598,044	5,245,322	5,037,186	4,801,060	4,366,505	4,250,437	3,804,429	3,775,567	3,846,160
Permits, fees and licenses	85,785	84,958	111,310	69,920	72,184	43,889	39,303	50,365	53,836	98,658
Fines and forfeitures	51,650	67,106	42,865	51,248	62,331	49,407	57,330	79,354	59,381	75,383
Use of money and property	380,946	463,110	612,208	456,174	385,383	249,722	376,718	362,681	199,522	137,237
Charges for services	2,205,796	2,109,470	1,688,388	1,773,283	1,572,875	1,469,736	1,393,338	1,205,154	1,098,471	1,154,149
Miscellaneous and donations	2,561,414	2,375,228	1,856,200	1,481,570	1,368,093	1,582,999	1,981,749	1,725,897	1,761,408	2,078,866
Recovered costs	208,839	832,764	162,534	130,621	154,223	92,106	156,802	174,407	579,373	133,123
Intergovernmental	17,187,544	17,823,513	18,955,586	20,107,570	21,443,712	19,708,670	13,732,213	16,474,100	13,850,616	10,638,182
Total	\$ 34,877,013	35,350,278	35,034,183	34,889,836	35,383,444	33,072,791	27,294,468	29,067,677	26,243,424	23,090,757

NOTE: Includes General, Special Revenue, Debt Service, Permanent, Capital Project, School Operating, Textbook and School Cafeteria Funds. 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.

**General Governmental Expenditures by Function
Last Ten Fiscal Years Ended June 30,**

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General government administration	\$ 2,342,771	2,170,465	2,033,571	1,916,668	1,898,128	1,921,302	1,859,894	1,905,069	1,871,245	\$ 1,626,325
Judicial administration	260,681	277,318	220,786	227,962	166,707	267,988	132,119	125,702	65,900	-
Public safety	5,132,088	5,179,909	4,352,306	4,363,831	3,986,257	4,242,378	3,454,288	3,364,673	3,374,754	3,081,393
Public works	4,279,138	4,729,833	4,131,807	4,031,172	4,048,957	4,159,512	4,060,813	3,404,675	3,340,481	3,869,386
Health and welfare	2,418,143	2,395,651	2,411,904	2,068,157	2,097,930	1,794,405	1,815,008	1,543,135	1,542,786	1,500,570
Education	16,260,078	15,648,683	14,264,376	15,767,293	12,777,477	13,906,854	13,067,817	12,322,151	14,287,541	11,756,385
Parks, recreation and cultural	1,142,871	978,109	989,414	910,516	839,088	831,648	724,478	766,057	803,071	669,776
Community development	1,553,177	1,668,299	866,223	953,592	4,464,002	2,272,636	1,613,500	2,626,464	6,695,831	886,427
Nondepartmental	782,653	20,869	718,739	578,963	551,561	535,925	522,669	531,476	451,868	637,915
Capital Projects	1,231,340	2,413,468	1,332,763	1,569,281	1,453,738	4,055,653	5,265,185	786,255	88,018	78,021
Debt service:										
Principal retirement	1,041,923	2,557,013	2,575,710	1,008,779	715,570	3,446,839	739,387	721,464	633,245	286,921
Interest and fiscal charges	589,825	679,916	761,876	737,999	715,178	613,353	374,388	320,867	328,114	158,689
Totals	\$ 37,034,688	38,719,533	\$ 34,659,475	\$ 34,134,213	\$ 33,714,593	\$ 38,048,493	\$ 33,629,546	\$ 28,417,988	\$ 33,482,854	\$ 24,627,789

NOTE: Includes General, Special Revenue, Debt Service, Permanent, Capital Project, School Operating, Textbook and School Cafeteria Funds. 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

Table 5

Property Tax Levies and Collections
Last Ten Fiscal Years Ended June 30,

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	Percent of Delinquent Taxes to Tax Levy
2008	\$ 7,510,356	\$ 7,240,857	96.41%	\$ 232,401	\$ 7,473,258	99.51%	\$ 756,356	10.07%
2007	7,023,237	6,827,150	97.21%	179,681	7,006,831	99.77%	649,891	9.25%
2006	6,229,526	5,913,050	94.92%	279,881	6,192,931	99.41%	619,208	9.94%
2005	5,640,259	5,323,582	94.39%	290,026	5,613,608	99.53%	485,700	8.61%
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	5,002,971	4,625,962	92.46%	184,033	4,809,995	96.14%	586,112	11.72%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

City of Franklin, Virginia

Table 6

Assessed Value of Taxable Property
Last Ten Fiscal Years Ended June 30,

Year	Public Service Corporations				Machinery and Tools	Mobile Homes	Personal Property	Public Service Corporations		Total
	Real Estate	Personal Property	Real Estate	Personal Property						
2008	\$ 561,634,400	\$ 57,716,863	\$ -	\$ 573,729	\$ 8,480,797	\$ 39,340	\$ 628,445,129			
2007	567,081,965	62,652,410	-	703,167	6,596,676	21,591	637,055,809			
2006	418,087,841	59,659,923	-	738,901	8,611,442	39,123	487,137,230			
2005	413,484,184	55,210,009	-	757,167	8,617,223	39,123	478,107,706			
2004	371,050,871	52,890,760	-	1,134,874	9,097,960	57,587	434,232,052			
2003	365,657,221	55,879,359	166,080	971,160	8,969,861	38,567	431,682,248			
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	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			

**Property Tax Rates - Last Ten Fiscal Years
Tax Rates Per Hundred Dollars of Assessed Value
Last Ten Fiscal Years Ended June 30,**

Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Service Corporation	
					Real Estate (1)	Personal Property
2008	\$ 0.90 / \$ 1.14 (4)	\$ 4.50	\$ 0.85	\$ 2.00	\$ 0.90	\$ 4.50
2007	\$ 0.85 / \$ 1.09 (2)	4.50	0.85	2.00	0.85	4.50
2006	\$ 0.95 / \$ 1.19 (5)	4.50	0.95	2.00	0.95	4.50
2005	\$ 0.90 / \$ 1.14 (4)	4.50	0.90	2.00	0.90	4.50
2004	\$ 0.90 / \$ 1.14 (4)	4.50	0.90	2.00	0.90	4.50
2003	\$ 0.90 / \$ 1.14 (4)	4.50	0.90	2.00	0.90	4.50
2002	\$ 0.90 / \$ 1.14 (4)	4.50	0.90	2.00	0.90	4.50
2001	\$ 0.90 / \$ 1.14 (3)	4.50	0.90	2.00	0.90	4.50
2000	\$ 0.90 / \$ 1.14 (3)	4.50	-	2.00	0.90	4.50
1999	\$ 0.90 / \$ 1.14 (4)	4.50	-	2.00	0.90	4.50

- (1) Public Service Corporation property was taxed at basic real estate rates regardless of location.
- (2) Downtown district real estate tax rate was \$1.09 and remaining areas were taxed at \$0.85 for real estate.
- (3) Downtown district real estate tax rate was \$0.95 and remaining areas were taxed at \$ 0.90 for real estate. No Additional Downtown Tax
- (4) Downtown district real estate tax rate was \$1.14 and remaining areas were taxed at \$ 0.90 for real estate.
- (5) Downtown district real estate tax rate was \$1.19 and remaining areas were taxed at \$ 0.95 for real estate.

**Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt
Last Ten Fiscal Years Ended June 30,**

Year	Assessed Value (in Thousands)	Gross Bonded Debt (1)	Less:		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value
			Debt Service Monies	Debt Payable from Enterprise Revenues (2)		
2008	\$ 561,634	\$ 19,802,716	\$ 460,698	\$ 4,788,132	\$ 15,014,584	2.67%
2007	567,082	20,831,648	279,236	5,319,576	15,512,072	2.74%
2006	487,137	24,706,652	-	6,005,357	18,701,295	3.84%
2005	478,108	23,479,028	-	6,597,451	16,881,577	3.53%
2004	434,232	24,583,588	-	7,099,588	17,484,000	4.03%
2003	431,682	22,871,597	-	9,111,219	13,760,378	3.19%
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%

Note: (1) Includes all long-term general obligation debt (excludes loss on net tax revenue obligation).
(2) Enterprise Debt includes Proprietary Fund Types and Component Unit - IDA.

Ratio of Annual Debt Service Expenditures to Total General Governmental Expenditures Last Ten Fiscal Years

Fiscal Year	Expenditures - All Governmental Fund Types	Total Debt Service (1)	Percentage of Debt Service to Expenditures
2008	\$ 37,034,688	\$ 1,631,748	4.41%
2007	38,802,517	3,236,929	8.34%
2006	34,659,475	3,337,586	9.63%
2005	34,134,213	1,746,778	5.12%
2004	33,714,593	1,430,748	4.24%
2003	38,048,493	4,060,192	10.67%
2002	33,629,546	1,113,775	3.31%
2001	28,417,988	1,042,331	3.67%
2000	33,482,854	961,359	2.87%
1999	24,627,789	445,610	1.81%

(1) Includes debt service for all governmental fund types.

City of Franklin, Virginia

Table 10

Principal Taxpayers - Real Estate
June 30, 2008

Taxpayer	Type of Business	2007 Assessed Valuation	Percent of Total Assessed Valuation of Real Estate
Community Health Systems Inc.	Hospital	\$ 26,644,800	4.74%
James L. Rifkin Estate	Shopping Center	11,899,100	2.12%
The Village at Woods Edge	Retirement Home	9,941,500	1.77%
Southampton Shopping Center L. P.	Shopping Center	8,079,500	1.44%
Meadowridge Associates L.P.	Shopping Center	4,984,000	0.89%
F.P. Associates	Apartments	4,226,100	0.75%
Dorchester Associates	Apartments	4,068,000	0.72%
FPA LLC	Apartments	3,866,100	0.69%
Adjacent Properties	Apartments	3,663,400	0.65%
Nirvi Corporation	Hotel	3,581,800	0.64%
		<u>\$ 80,954,300</u>	<u>14.41%</u>

City of Franklin, Virginia

Table 11

Principal Taxpayers - Personal Property
June 30, 2008

Taxpayer	Type of Business	2007 Assessed Valuation	Percent of Total Assessed Personal Property
Franklin Hospital Corporation	Hospital	\$ 1,758,106	2.98%
Wal-Mart Stores Inc.	Retail - Variety	832,612	1.41%
Butler Paper Recycling, Inc.	Service	381,834	0.65%
Albert G Dail Inc	Retail - Hardware	246,958	0.42%
General Electric Credit	Lease Furniture & Fixtures	241,493	0.41%
Food Lion, Inc. LLC	Retail - Grocery	221,729	0.38%
The Village at Woods Edge	Retirement Home	181,910	0.31%
Franklin Turfgrass, Inc.	Service/Retail - Nursery	177,043	0.30%
S W Rawls, Inc.	Retail - Variety	169,128	0.29%
Belk Stores of Virginia	Retail - Clothing	154,551	0.26%
		<u>\$ 4,365,364</u>	<u>7.41%</u>

City of Franklin, Virginia

Table 12

*Demographic Statistics
Last Ten Fiscal Years*

Fiscal Year	Population	Per Capita Income (3)	School Enrollment (4)	Unemployment Rate (5)
2008	8,906 (1)	Not Available		4.7%
2007	8,800 (1)	Not Available	1,287	4.0%
2006	8,594 (1)	Not Available	1,307	5.2%
2005	8,594 (1)	\$25,750	1,360	5.2%
2004	8,450 (1)	\$25,024	1,384	5.0%
2003	8,324 (1)	\$24,478	1,434	4.9%
2002	8,181 (1)	\$23,767	1,404	4.9%
2001	8,263 (1)	\$23,046	1,423	4.4%
2000	8,346 (2)	\$22,111	1,484	3.2%
1999	8,139 (1)	\$21,857	1,649	4.3%

(1) Source: United States Census Estimates

(2) Source: 2000 United States Census

(3) Source: Weldon Cooper Center for Public Service combined amount for City of Franklin & Southampton County (US Commerce BEA)

(4) Source: Franklin School

(5) Source: Virginia Employment Commission

City of Franklin, Virginia

Table 13

Net Assets by Component
June 30,

	2008	2007	2006	2005
Governmental activities				
Invested in capital assets - net of related debt	\$ 16,777,541	\$ 15,949,140	\$ 13,717,240	\$ 14,767,515
Restricted	-	-	1,870,206	371,875
Unrestricted	4,188,340	3,188,314	3,226,660	2,907,806
Total governmental activities	\$ 20,965,881	\$ 19,137,454	\$ 18,814,106	\$ 18,047,196
Business-type activities				
Invested in capital assets - net of related debt	\$ 8,388,252	\$ 8,363,160	\$ 8,276,928	\$ 7,139,689
Unrestricted	2,191,355	2,511,591	2,855,121	3,386,128
Total business-type activities	\$ 10,579,607	\$ 10,874,751	\$ 11,132,049	\$ 10,525,817
Primary government				
Invested in capital assets - net of related debt	\$ 25,165,793	\$ 24,312,300	\$ 21,994,168	\$ 21,907,204
Restricted	-	-	1,870,206	371,875
Unrestricted	6,379,695	5,699,905	6,081,781	6,293,934
Total primary government	\$ 31,545,488	\$ 30,012,205	\$ 29,946,155	\$ 28,573,013

Change in Net Assets
June 30,

	2008	2007	2006	2005
Expenses				
Governmental activities:				
General government	\$ 2,648,658	\$ 2,418,619	\$ 3,579,360	\$ 2,154,840
Judicial	254,382	276,708	220,786	227,962
Public safety	5,244,287	5,199,732	4,581,392	4,385,901
Public works	4,360,802	4,049,898	3,273,363	4,452,836
Health and welfare	2,479,570	2,328,871	2,476,948	2,138,779
Education	5,005,226	5,877,702	4,358,068	4,155,196
Parks, recreation, and cultural	1,030,677	1,035,540	908,320	993,109
Community development	1,551,031	1,658,873	1,154,255	213,146
Interest on long-term debt	594,528	879,419	761,876	738,001
Nondepartmental	-	-	580,617	577,465
Total governmental activities	\$ 23,169,161	\$ 23,725,362	\$ 21,894,985	\$ 20,037,235
Business-type activities:				
Water and sewer	\$ 3,028,136	\$ 2,931,072	\$ 2,895,536	\$ 2,794,462
Electric	11,084,995	10,833,758	10,704,954	8,887,833
Airport	637,885	628,378	571,601	614,946
Total business-type activities	\$ 14,751,016	\$ 14,393,208	\$ 14,172,091	\$ 12,297,241
Total expenses	\$ 37,920,177	\$ 38,118,570	\$ 36,067,076	\$ 32,334,476
Program revenue				
Governmental activities:				
Charges for services:				
General government	\$ 607,034	\$ 613,334	\$ 754,493	\$ 1,483,726
Judicial	9,601	8,831	51,540	59,776
Public safety	384,793	493,587	244,800	293,261
Public works	1,101,485	877,464	799,434	-
Health and welfare	34,060	-	-	15,525
Parks, recreation, and cultural	22,216	19,185	54,750	53,795
Community development	32,003	-	48,868	-
Operating grants and contributions	2,520,711	4,096,205	3,698,397	3,645,508
Capital grants and contributions	2,532,197	1,207,312	93,952	2,168,480
Total governmental activities	\$ 7,244,100	\$ 7,315,918	\$ 5,746,234	\$ 7,720,071

Change in Net Assets
June 30,

	2008	2007	2006	2005
Program revenue				
Business-type activities:				
Charges for services:				
Water and sewer	\$ 3,396,655	\$ 3,330,432	\$ 3,868,775	\$ 2,979,414
Electric	12,493,995	12,007,869	12,109,011	10,958,120
Airport	231,698	251,026	835,929	384,485
Capital grants and contributions:				
Airport	5,453	400,143	-	-
Total business-type activities	<u>\$ 16,127,801</u>	<u>\$ 15,989,470</u>	<u>\$ 16,813,715</u>	<u>\$ 14,322,019</u>
Total program revenue	<u>\$ 23,371,901</u>	<u>\$ 23,305,388</u>	<u>\$ 22,559,949</u>	<u>\$ 22,042,090</u>
Governmental activities net expense	<u>\$ (15,925,061)</u>	<u>\$ (16,409,444)</u>	<u>\$ (16,148,751)</u>	<u>\$ (12,317,164)</u>
Business-type activities net expense	<u>1,376,785</u>	<u>1,596,262</u>	<u>2,641,624</u>	<u>2,024,778</u>
Total primary government net expense	<u>\$ (14,548,276)</u>	<u>\$ (14,813,182)</u>	<u>\$ (13,507,127)</u>	<u>\$ (10,292,386)</u>
General revenues and other changes in net assets				
Governmental activities:				
Taxes:				
Property taxes	\$ 6,376,419	\$ 6,052,770	\$ 6,344,577	\$ 5,812,087
Other taxes	5,612,005	5,683,002	5,414,961	5,170,817
Revenue sharing from counties	1,279,456	1,175,879	1,136,199	1,103,685
Revenue from use of money and property	380,114	460,631	374,124	9,025
Grants & Gifts non-restricted	1,323,968	1,132,497	482,165	-
Miscellaneous	1,015,319	1,154,938	613,854	374,154
Transfers	1,766,207	1,926,907	2,100,872	2,113,017
Total governmental activities	<u>\$ 17,753,488</u>	<u>\$ 17,586,624</u>	<u>\$ 16,466,752</u>	<u>\$ 14,582,785</u>
Business-type activities:				
Revenue from use of money and property	\$ 94,278	\$ 73,346	\$ 65,481	\$ 2,087
Transfers	(1,766,207)	(1,926,907)	(2,100,872)	(2,113,017)
Total business-type activities	<u>\$ (1,671,929)</u>	<u>\$ (1,853,561)</u>	<u>\$ (2,035,391)</u>	<u>\$ (2,110,930)</u>
Total general revenues and other changes in net assets	<u>\$ 16,081,559</u>	<u>\$ 15,733,063</u>	<u>\$ 14,431,361</u>	<u>\$ 12,471,855</u>
Change in Net Assets				
Governmental activities	\$ 1,828,427	\$ 1,177,180	\$ 318,001	\$ 2,265,621
Business-type activities	(295,144)	(257,299)	606,233	(86,152)
Total primary government	<u>\$ 1,533,283</u>	<u>\$ 919,881</u>	<u>\$ 924,234</u>	<u>\$ 2,179,469</u>

**Taxable Sales by Category
Last Ten Fiscal Years ***

	2008	2007	2006	2004	2003	2002	2001	2000	1999
Merchant Wholesaler, Durable Goods	206,624 \$	370,011 \$	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Motor Vehicle & Parts Dealers	4,485,996	4,740,931	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Furniture & Home Furnishings	3,460,241	3,768,080	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Building materials, Farm & Garden Supplies	-	3,683,597	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Food and Beverage Stores	14,117,933	11,325,087	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Health and Personal Care	914,493	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gasoline Stations	4,347,208	2,841,936	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Clothing & Clothing Accessories Stores	1,954,980	2,057,085	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sporting Goods, Hobby, Book & Music Stores	-	229,560	N/A	N/A	N/A	N/A	N/A	N/A	N/A
General Merchandise Stores	60,217,521	53,083,978	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Miscellaneous Store Retailers	2,469,992	2,912,936	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonstore Retailers	2,895,028	3,550,649	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rental & Lease Services	1,291,440	960,998	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Professional, Scientific and Technical Services	177,766	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Food Services & Drinking Places	13,903,248	12,888,112	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Repair & Maintenance	2,650,097	2,388,335	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Personal & Laundry Services	1,252,258	922,640	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Other Businesses	1,352,993	5,437,841	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Miscellaneous & Unidentifiable	24,690,382	22,719,304	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	140,388,200 \$	133,881,080 \$	- \$	- \$	- \$	- \$	- \$	- \$	-

* Source - Department of Taxation

**Full-time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years**

Function/Program	Full-time Equivalent Employees as of June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
GENERAL FUND										
General Government	26	26	26	24.5	24.5	26	25.5	25	25	22
Police & Communications	37.5	42	42	42	42	42	42	41.5	40.5	40
Animal Control	1	1	1	1	1	1	1	1	1	1
Fire & Rescue - EMS	15	15	12	12	12	10	10	10	9	8
Community Services	7	6	6	5	5	5	5	4.5	4	4
Public Works-Streets	18	23	23	23	24	25	25	26	26.5	26.5
Garage	4	4	4	4	4	4	4	4	4	4
Refuse collection	7	9	9	9	9	9	9	9	9	9
Public Works-Bldgs & Grounds	11.5	9	9	9	7.5	7	6	6	6	6
Cemetery & Mosquito Control	0	0	0	0	0.5	1	1	1	3	3
Park and Recreation	3.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7	6.5
Senior Program	1.5	2	2	2	2	2	2	2	2	2
Library	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Economic Development	0	0	0	0	1	1	0	0	0	0
Downtown Development	1	1	1	1	1	1	1	2	2	2
Total General Fund	133.5	146	143	140.5	141.5	142	139.5	140	139.5	134.5
SOCIAL SERVICES FUND										
ELECTRIC	18	19	19	19	20	20	20	20	19	19
WATER & SEWER	15	20	20	20	20	20	20	20	20	20
INCUBATOR	15.5	16	16	17	18	18	18	18	17	15
AIRPORT	0.5	1	1	0	0	0	0	0	0	0
EARLY CHILDHOOD	2	2	2	2	2	1.5	1.5	1.5	1.5	1.5
Total	185.5	204	201	198.5	201.5	201.5	199	199.5	197	190

**Operating Indicators by Function/Program
Last Ten Fiscal Years**

Function/Program	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Police										
Physical arrests	721	1,223	955	954	882	695	667	435	736	965
Parking violations	39	45	108	80	110	120	188	411	333	42
Traffic violations	1,172	1,370	1,955	1,069	1,022	1,220	1,001	1,485	1,508	1,358
Fire										
Emergency responses	2,422	2,304	2,170	2,072	1,886	1,827	1,718	-	-	-
Fires extinguished	96	98	108	95	89	89	86	-	-	-
Inspections	1,726	18	11	10	12	10	7	-	-	-
Refuse collection										
Refuse collected (tons per day)	12.65	13.41	13.40	-	-	-	-	-	-	-
Recyclables collected (tons per day)	1.01	1.22	1.31	N/A	N/A	N/A	-	-	-	-
Other public works										
Street resurfacing (tons)	1,503	215	2,750	-	-	-	-	-	-	-
Potholes repaired	234	250	200	-	-	-	-	-	-	-
Park and recreation										
Athletic field permits issued	250.00	56.00	N/A	-	-	-	-	-	-	-
Community center admissions	33,026	25,956	25,956	26,605	N/A	N/A	18,438	19,038	N/A	19,902
Library										
Volumes in collection	53,000	50,000	50,000	N/A	-	-	-	-	-	-
Total volumes borrowed	106,000	97,000	107,672	102,455	-	-	-	-	-	-
Water										
New connections	24	25	40	42	36	11	7	15	13	-
Water mains breaks	75	68	20	-	-	-	-	-	-	-
Average daily consumption (thousands of gallons)	1,100	1,072	1,169	-	-	-	-	-	-	-
Peak daily consumption (thousands of gallons)	1,800	1,610	1,700	-	-	-	-	-	-	-
Wastewater										
Average daily sewage treatment	1,090	903	980	-	-	-	-	-	-	-
Sewer connections - New	21	25	40	42	36	11	7	15	13	-
Transit										
Total route miles	None	None	None	None	None	None	None	None	None	None
Passengers	None	None	None	None	None	None	None	None	None	None

**Capital Asset Statistics by Function/Program
Last Ten Fiscal Years**

Function/Program	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	28	27	27	27	27	27	27	27	26	26
Fire stations	2	2	2	2	2	2	2	2	2	2
Refuse collection										
Collection trucks	5	4	4	3	3	3	3	3	3	3
Other public works										
Street (miles)	35.50	35.50	35.50	-	-	-	-	-	-	-
Highways (miles)	15.09	15.09	15.09	-	-	-	-	-	-	-
Streetlights	945	953	953	-	-	-	-	-	-	-
Traffic signals	14	14	14	13	13	13	12	12	12	11
Park and recreation										
Acresage	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61
Playgrounds	4	4	4	4	4	4	4	4	4	4
Baseball/softball diamonds	6	6	6	6	6	6	6	6	6	6
Soccer/football fields	2	2	2	2	2	2	2	2	2	2
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	66.58	66.28	66.28	-	-	-	-	-	-	-
Fire hydrants	336	333	333	-	-	-	-	-	-	-
Storage capacity (thousands of gallons)	1,300	1,300	1,300	-	-	-	-	-	-	-
Wastewater										
Sanitary sewers (miles)	42.90	42.60	42.60	-	-	-	-	-	-	-
Storm sewers (miles)	210.00	210.00	210.00	-	-	-	-	-	-	-
Treatment capacity (thousands of gallons)	2,000	2,000	2,000	-	-	-	-	-	-	-

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**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***

**To the Honorable Mayor and City Council
City of Franklin
Franklin, Virginia**

We have audited the 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 as of and for the year ended June 30, 2008, which collectively comprise the City of Franklin, Virginia's basic financial statements and have issued our report thereon dated October 3, 2008. We did not audit the financial statements of the School Textbook Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements and this report on internal controls and compliance insofar as they relate to the School Textbook Fund is based solely on the report of the 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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Franklin, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Franklin, Virginia's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Franklin, Virginia'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 management, the City Council, 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.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
October 3, 2008

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

Compliance

We have audited the compliance of the City of Franklin, Virginia 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, 2008. The City of Franklin, Virginia's major federal programs are identified in the summary of auditor's 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 of Franklin, Virginia's management. Our responsibility is to express an opinion on the City of Franklin, Virginia'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 of Franklin, Virginia's compliance with those requirements and performing such other procedures as we considered 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 City of Franklin, Virginia's compliance with those requirements.

In our opinion, the City of Franklin, Virginia 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, 2008.

Internal Control Over Compliance

The management of the City of Franklin, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Franklin, Virginia's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council and 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.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

October 3, 2008

CITY OF FRANKLIN, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
Department of Health and Human Services:		
Pass Through Payments:		
Department of Social Services:		
Promoting safe and stable families	93.556	\$ 29,046
Temporary assistance to needy families (TANF)	93.558	101,578
Refugee and entrant assistance - state administered programs	93.566	796
Low income home energy assistance	93.568	4,049
Child care and development block grant	93.575	64,861
Child care mandatory and matching funds	93.596	51,238
Child welfare services - state grants	93.645	991
Chafee education and training vouchers program	93.599	824
Foster care - Title IV-E	93.658	177,408
Adoption assistance	93.659	3,800
Social services block grant	93.667	187,351
Chafee foster care independence program	93.674	3,143
State children's insurance program	93.767	8,162
Medical assistance program	93.778	159,154
		<hr/>
Total Department of Health and Human Services		\$ 792,401
Department of Agriculture:		
Pass Through Payments:		
Department of Agriculture:		
Food distribution - schools: school lunch program	10.555	\$ 52,492
Department of Education:		
National school breakfast program	10.553	93,624
National school lunch program	10.555	300,240
Department of Social Services:		
State Admin Matching Grants for Food Stamp Program	10.561	209,552
		<hr/>
Total Department of Agriculture		\$ 655,908
Department of Justice:		
Direct payments:		
Public safety partnership and community policing grants	16.710	\$ 35,000
Pass Through Payments:		
Department of Criminal Justice Service:		
Edward Byrne memorial justice assistance grant program	16.738	7,334
		<hr/>
Total Department of Justice		\$ 42,334

CITY OF FRANKLIN, VIRGINIA

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2008

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
Department of Transportation:		
Direct Payments:		
Highway planning and construction	20.205	\$ <u>770,095</u>
National Endowment for the Arts		
Pass Through Payments:		
Promotion of the arts partnership agreement	45.025	\$ <u>5,000</u>
Department of Homeland Security:		
Direct Payments:		
State domestic preparedness equipment support grant	97.004	\$ 85,018
Pass Through Payments:		
Department of Emergency Management:		
Emergency management performance grant	97.042	<u>16,595</u>
Total Department of Homeland Security		\$ <u>101,613</u>
Department of The Interior:		
Direct Payments:		
Sport fish restoration	15.605	\$ <u>53,627</u>
Department of Education:		
Pass Through Payments:		
Department of Education:		
Adult basic education	84.002	\$ 14,244
Title I: Grants to local education agencies	84.010	461,134
Title VI-B: Special education	84.027	349,366
Vocational Education: Basic grants to states	84.048	38,542
Title VI-B: Special education preschool grant	84.173	7,767
Safe and drug free schools and communities state grant	84.186	6,714
Rural education	84.358	40,027
Reading first state grants	84.357	167,520
Title II, part D: Education technology state grants	84.318	4,656
Title II, part A: Improving teacher quality	84.367	107,287
Twenty first century community learning center	84.287	81,672
Title VI: State grants for innovative programs	84.298	<u>3,487</u>
Total Department of Education		\$ <u>1,282,416</u>
Total Federal Assistance		\$ <u><u>3,703,394</u></u>

CITY OF FRANKLIN, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federally assisted programs of the City of Franklin, Virginia. The City's reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

Note 3 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General fund	\$ 148,947
Special revenue funds:	
Virginia public assistance fund	1,001,953
Capital projects funds:	
City capital projects fund	<u>823,722</u>
Total primary government	\$ <u>1,974,622</u>

Component unit - City of Franklin Public Schools

School operating fund	\$ 1,282,416
School cafeteria fund	<u>446,356</u>
Total component unit public schools	\$ <u>1,728,772</u>

Total federal expenditures per basic financial statements \$ 3,703,394

Total federal expenditures per the Schedule of Expenditures of Federal Awards \$ 3,703,394

CITY OF FRANKLIN, VIRGINIA

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway planning and construction
84.010	Title I: Grants to local education agencies
93.778	Medical assistance program
	School Nutrition Cluster:
10.553	National school breakfast program
10.555	National school lunch program
10.555	Food distribution - schools: school lunch program

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Prior Year Findings

None