

Comprehensive Annual Financial Report

Fiscal Year Ended

June 30, 2006



Prepared By:

*Finance Department
City of Franklin, Virginia*



Certified Public Accountants
Financial Planning
Specialized Services

City of Franklin, Virginia

Official Directory

June 30, 2006

Mayor

James P. Councill, III

Vice Mayor

E. Kent Pope

Council Members

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

Raystine D. Johnson
Charles A. Wrenn

Constitutional Officer

Brenda B. Rickman

Commissioner of Revenue

Franklin City Public Schools

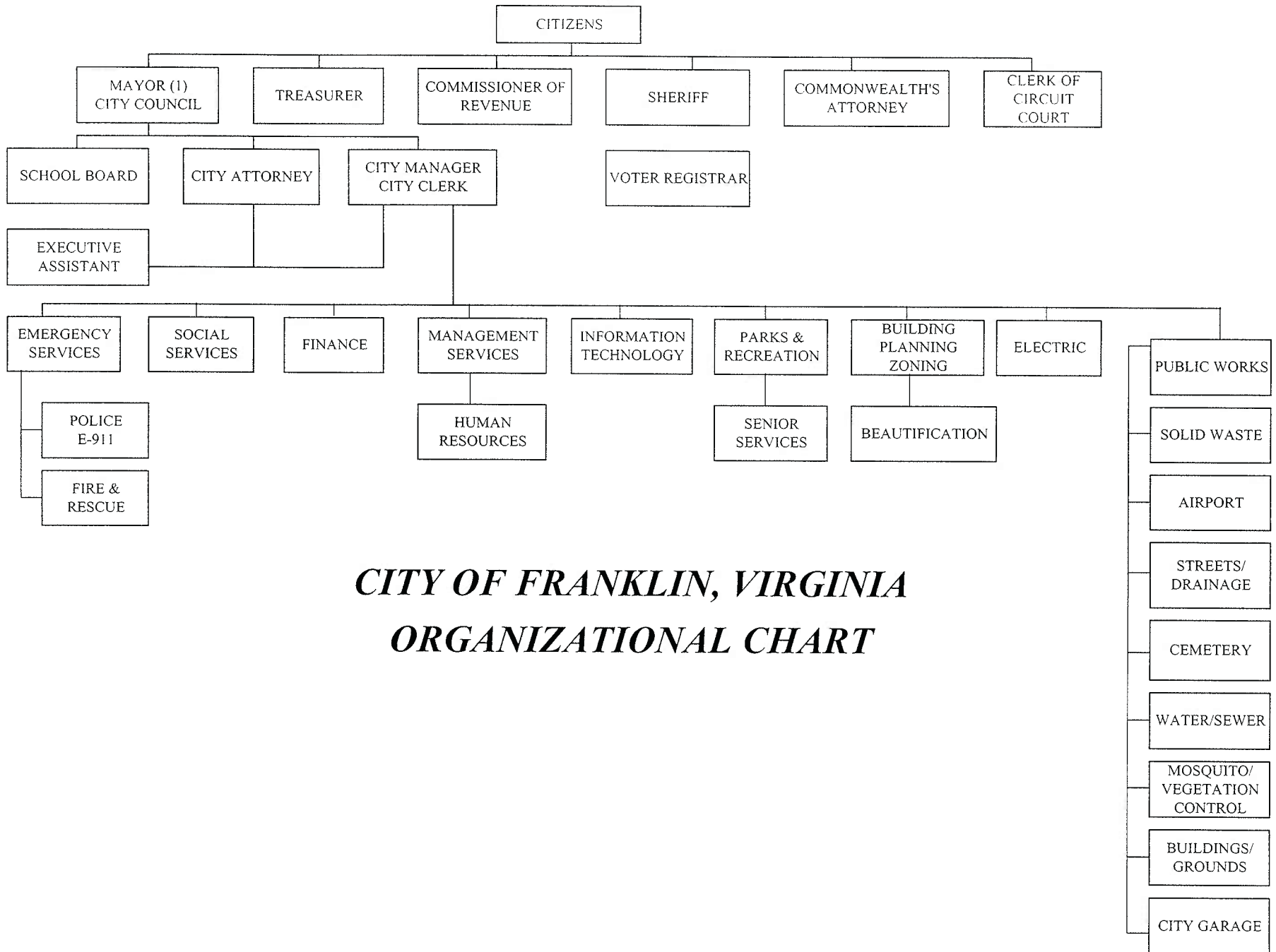
John Loving, Jr.
Alline B. Farmer, Ed. D.
Eileen T. Ritter

Chairman of School Board
Division Superintendent
Director of Finance

City Administration

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

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



***CITY OF FRANKLIN, VIRGINIA
ORGANIZATIONAL CHART***

City of Franklin, Virginia
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

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City of Franklin, Virginia

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December 20, 2006

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 (City) for the fiscal year ended June 30, 2006. The report is required in accordance with Section 3.08 (c) of the Franklin City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia.

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

The City of Franklin's financial statements have been audited by Goodman & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Franklin for the fiscal year ended June 30, 2006, 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, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented on pages 1 and 2 of this report.

The independent audit of the financial statements of the City of Franklin was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies and a state compliance audit. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Commonwealth of Virginia also has audit requirements on compliance with specific Commonwealth of Virginia laws, regulations, contracts, and grants. The compliance section of the report starts on page 90.

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 22, 1961. Subsequent annexations in 1986 & 1996 increased the population and land area of the City. The population today is approximately 8,500 and the land area is 8.75 square miles.

The City is located in the southeastern part of the Commonwealth of Virginia in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the United States.

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

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

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

The City of Franklin provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City owns and operates 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 Exhibits I and J.

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 52 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. The City's tax rate of \$0.95 per \$100 of assessed value was increased by \$0.05 for the fiscal year starting July 1, 2005, but the City has had increases in real estate tax revenue primarily due to increased assessments, growth of new buildings in the City and change in the hospital status from non-profit exempt to private.

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.

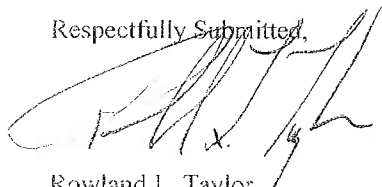
Cash Management Policies and Practices. The City uses a pooled cash concept to allow greater investment flexibility and, consequently, a better investment return. Cash from all funds, except that restricted for specific purposes or managed by fiscal agents, is pooled for investment purposes. All of the 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 \$12,883 compared to \$55 for the previous year. Recent declining interest rates and decreased cash and cash on hand have limited general fund investment. The City also has restricted cash and investments that are monitored by the Finance Department and used for the payment of bond projects. At June 30, 2006, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$3,354,702 for the Governmental Activities and \$2,967,096 for Business-type Activities, and \$13,830 for the Industrial Development Authority.

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

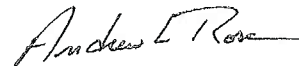
Acknowledgements

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, the Treasurer's Office, the Commissioner of the Revenue's Office and our Certified Public Accountants, Goodman & Company, LLP. Due credit should also be given to City Council for their interest and support in planning and conducting the operations of the City of Franklin in a responsible and progressive manner.

Respectfully Submitted,



Rowland L. Taylor
City Manager



Andrew L. Rose
Director of Finance



Report of Independent Auditors

Certified Public Accountants
Specialized Services
Business Solutions

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Franklin, Virginia* as of and for the year ended June 30, 2006, which collectively comprise the *City of Franklin, Virginia'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 Cafeteria, School Textbook and School Agency Funds, which represent 2.20% and 7.61%, respectively, of the assets and revenues of the Component Unit - School Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the School Cafeteria, School Textbook Funds and School Agency is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006, 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 should be read in conjunction with this report in assessing the results of our audit.

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

Management's Discussion and Analysis on pages 3 through 12 and the other required supplementary information included at pages 52 through 58 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 information listed as other supplementary information and compliance section in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Goodman & Company, L.L.P.

Newport News, Virginia
December 20, 2006

Management's Discussion and Analysis ***Fiscal Year July 1, 2005 – June 30, 2006***

The management of the *City of Franklin, Virginia* (City) provides this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. 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, Virginia* exceeded its liabilities at the close of fiscal year 2006 by \$29,946,156 (net assets). Of this amount, \$6,081,782 represents unrestricted net assets which may be used to meet the City's ongoing obligations and \$1,870,206 limited to future capital project activity.
- The City's total net assets increased by \$924,234 from the prior year. This is a 3.1% increase from the previous fiscal year. A significant portion of this increase is attributable to current capital outlays exceeding depreciation with \$221,141 representing revenues exceeding expenditures.
- 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 \$221,141 primarily due to unspent funds.
- The City's total outstanding general obligation debt at June 30, 2006, was \$23,746,486. This includes \$5,921,586 in business-activity debt, \$7,867,142 school related debt and \$9,957,758 of general government debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) *government-wide financial statements*, (2) *fund financial statements*, and (3) *notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

Government-wide financial statements are designed to provide the readers with a broad overview of the City's finances in a manner similar to a private-sector business.

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.

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 I and J 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 C and D 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 K 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 E, F and G of this report.

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 H of this report.

Notes to the Basic 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 on pages 24 - 51 of 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 Component Unit - School Board. Supplementary information can be found on pages 52-71 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 \$ 29,946,155.

Statement of Net Assets June 30, 2006

	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Current and other assets	\$ 7,405,211	\$ 7,465,173	\$ 4,646,772	\$ 5,083,954	\$12,051,983	\$12,549,127
Capital assets	32,327,245	31,543,012	14,282,285	13,694,030	46,609,530	45,237,042
Total assets	\$39,732,456	\$39,008,185	\$18,929,057	\$18,777,984	\$58,661,513	\$57,786,169
Current and other liabilities	\$ 2,982,641	\$ 6,263,182	\$ 2,287,121	\$ 2,116,187	\$ 5,269,762	\$ 8,379,369
Long- term liabilities	17,935,709	14,697,807	5,509,886	6,135,980	23,445,595	20,833,787
Total liabilities	\$20,918,350	\$20,960,989	\$ 7,797,007	\$ 8,252,167	\$28,715,357	\$29,213,156
Net assets:						
Invested in capital assets - net of related debt	\$13,717,240	\$14,767,515	\$ 8,276,928	\$ 7,139,689	\$21,994,168	\$21,907,204
Restricted net assets	1,870,206	371,875	-	-	1,870,206	371,875
Unrestricted net assets	3,226,660	2,907,806	2,855,122	3,386,128	6,081,782	6,293,934
Total net assets	\$18,814,106	\$18,047,196	\$11,132,050	\$10,525,817	\$29,946,156	\$28,573,013

The largest portion of the City's net assets (\$21,994,168) represents its investment in capital assets (e.g. land, buildings and improvements, machinery and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net assets (\$1,870,206) represents resources that are subject to external restrictions on how they may be used. The remaining net assets (\$6,081,782) represent unrestricted net assets, which may be used to meet the City's ongoing obligations.

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, 2006**

	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Revenues						
Program Revenues:						
Charges for services	\$1,953,885	\$1,906,083	\$16,813,715	\$14,322,019	\$18,767,600	\$16,228,102
Operating grants and contributions	3,698,397	3,645,508	-	-	3,698,397	3,645,508
Capital grants and contributions	93,952	2,168,480	-	-	93,952	2,168,480
General Revenues:						
Real estate and property taxes	6,344,577	5,812,087	-	-	6,344,577	5,812,087
Other taxes	5,414,961	5,170,817	-	-	5,414,961	5,170,817
Revenue sharing from Counties	1,136,199	1,103,685	-	-	1,136,199	1,103,685
Unrestricted investment earnings	11,394	9,025	65,481	2,087	76,875	11,112
Donations	482,165	-	-	-	482,165	-
Miscellaneous	976,584	374,154	-	-	976,584	374,154
Total revenues	20,112,114	20,189,839	16,879,196	14,324,106	36,991,310	34,513,945
Expenses:						
General government	3,579,360	2,154,840	-	-	3,579,360	2,154,840
Judicial	220,786	227,962	-	-	220,786	227,962
Public safety	4,581,392	4,385,901	-	-	4,581,392	4,385,901
Public works	3,273,363	4,452,836	-	-	3,273,363	4,452,836
Health and welfare	2,476,948	2,138,779	-	-	2,476,948	2,138,779
Education	4,358,068	4,155,196	-	-	4,358,068	4,155,196
Parks, recreation, cultural	908,320	993,109	-	-	908,320	993,109
Community development	1,154,255	213,146	-	-	1,154,255	213,146
Interest on long-term debt	717,482	734,457	-	-	717,482	734,457
Bond costs	44,394	3,544	-	-	44,394	3,544
Nondepartmental	580,617	577,465	-	-	580,617	577,465
Water and Sewer	-	-	2,895,536	2,794,462	2,895,536	2,794,462
Electric	-	-	10,704,954	8,887,833	10,704,954	8,887,833
Airport	-	-	571,601	614,946	571,601	614,946
Total expenses	21,894,985	20,037,235	14,172,091	12,297,241	36,067,076	32,334,476
Excess of revenues over expenses	(1,782,871)	152,604	2,707,105	2,026,865	924,234	2,179,469
Transfers	2,100,872	2,113,017	(2,100,872)	(2,113,017)	-	-
Increase in net assets	318,001	2,265,621	606,233	(86,152)	924,234	2,179,469
Net assets - beginning of year	18,496,105	13,918,917	10,525,817	10,577,843	29,021,922	24,496,760
Prior period adjustment	-	1,862,658	-	34,126	-	1,896,784
Net assets - ending of year	\$18,814,106	\$18,047,196	\$11,132,050	\$10,525,817	\$29,946,156	\$28,573,013

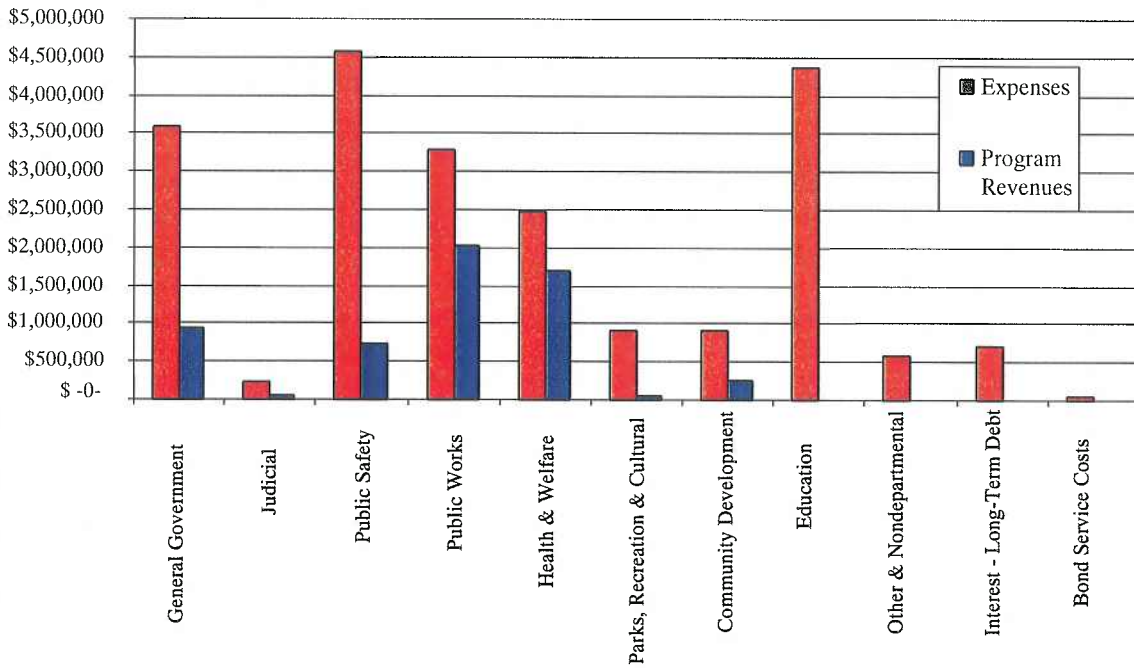
Government Activities

Real estate taxes, the City's largest revenue source, and personal property tax revenue, was \$6,344,577, up \$532,490 from the previous year. Of this 9.1% increase, approximately half is due to real estate taxes and half to personal property taxes. The City's real estate tax rate increased from \$0.90 per hundred to \$0.95. Personal property was taxed \$4.50 per \$100 of assessed value.

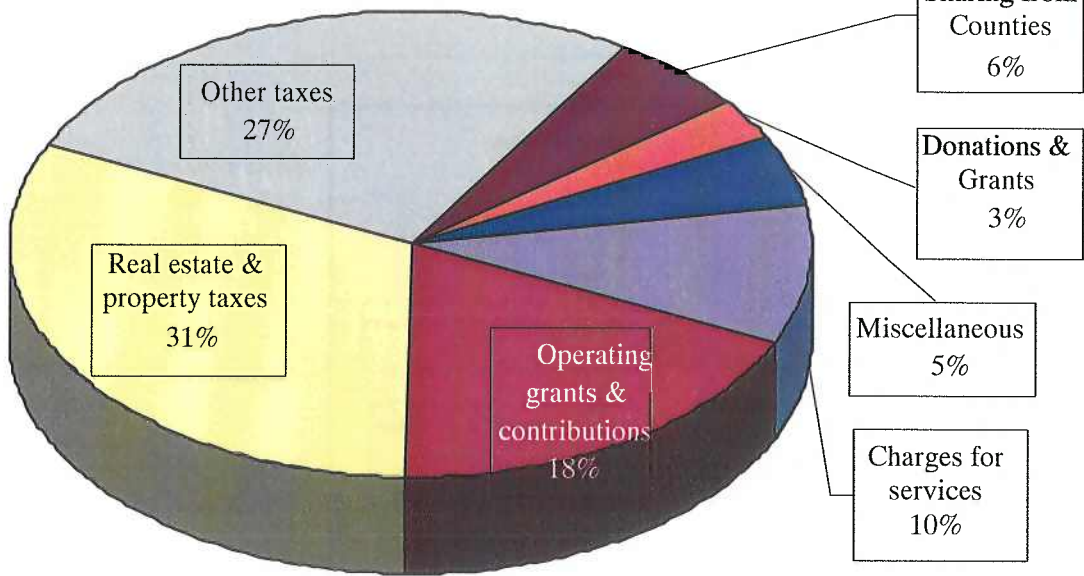
The other local tax revenues totaling \$5,414,961 consisted of the 1% local sales tax, consumer utility taxes, franchise license tax, motor vehicle licenses, meals tax, and other local taxes.

Revenues from other Counties of \$1,136,199 represent revenue sharing payments received from Isle of Wight and Southampton Counties as part of annexation and service providing agreements.

Expenses and Program Revenues - Governmental Activities



Revenue by Sources - Governmental Activities



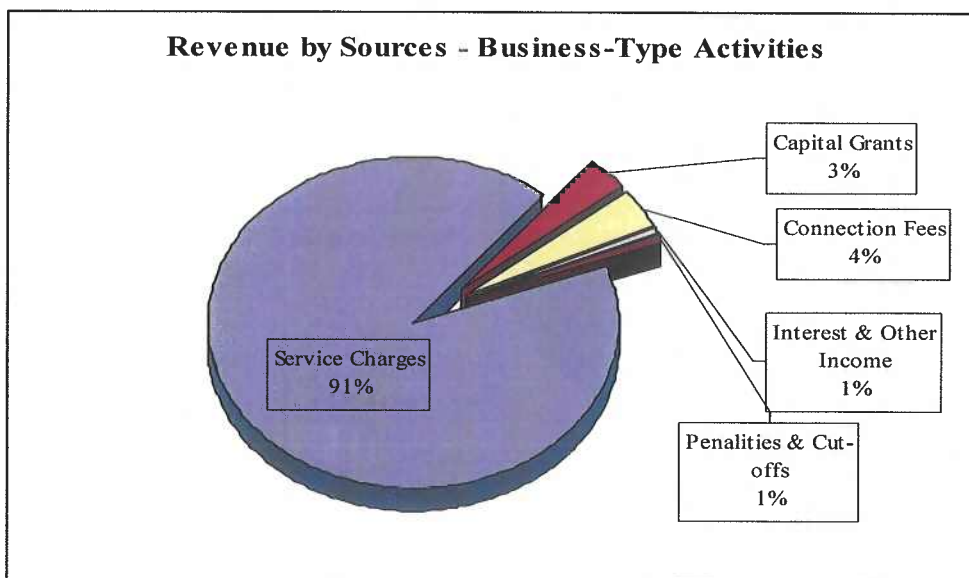
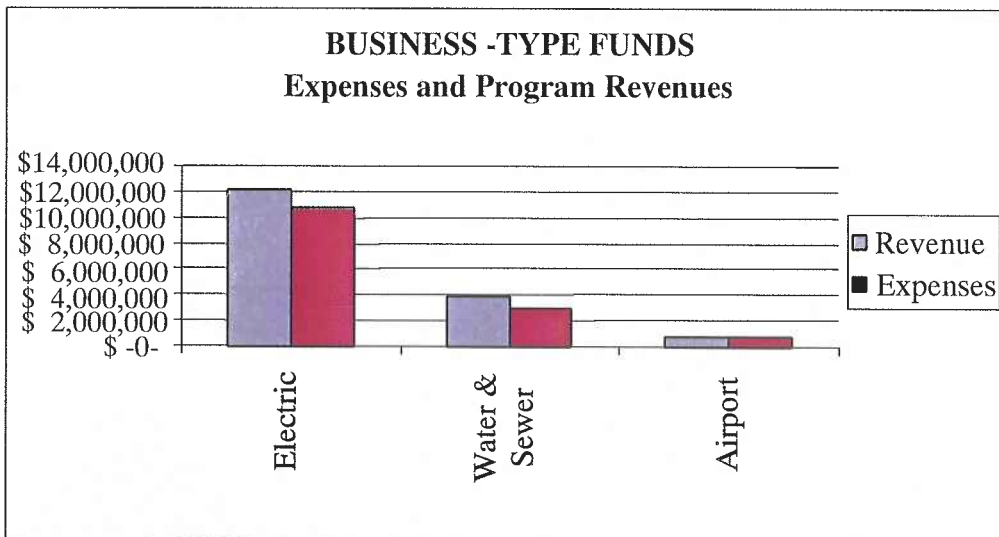
Business- Type Activities

Business-type activities increased the City’s net assets before transfer by \$2,707,105 and after transfers by \$606,233. Key elements of the each fund were:

The Water and Sewer Fund had a net increase in assets of \$984,159 with revenue increases of \$531,526 in services due to rate increases in water and sewer charges and \$356,596 increase in connection fees. Consideration for future capital needs and retaining adequate cash balances was achieved with operating net income less interest expense totaling \$392,319 for the year.

The Electric Fund net revenue before transfers was \$1,458,618 down \$611,669 from the previous year. The primary reason for this decrease was a \$1,713,334 increase in purchase of electricity for resale (sales of electric services less costs of wholesale electricity decreased \$583,607).

The Airport Fund increase of \$264,328 in assets before transfers was due to capital grants received for runway projects.



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's 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 \$5,551,659.

General fund. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance was \$2,635,891, all of which represents undesignated fund balance of the general fund. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Capital projects fund. The capital projects fund accounts for all construction projects of general public improvements, excluding capital projects related to business-type activities, which are accounted for elsewhere. At the end of the current fiscal year, the fund balance was \$1,870,206 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 handle current debt payment needs of the City.

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 \$11,132,050.

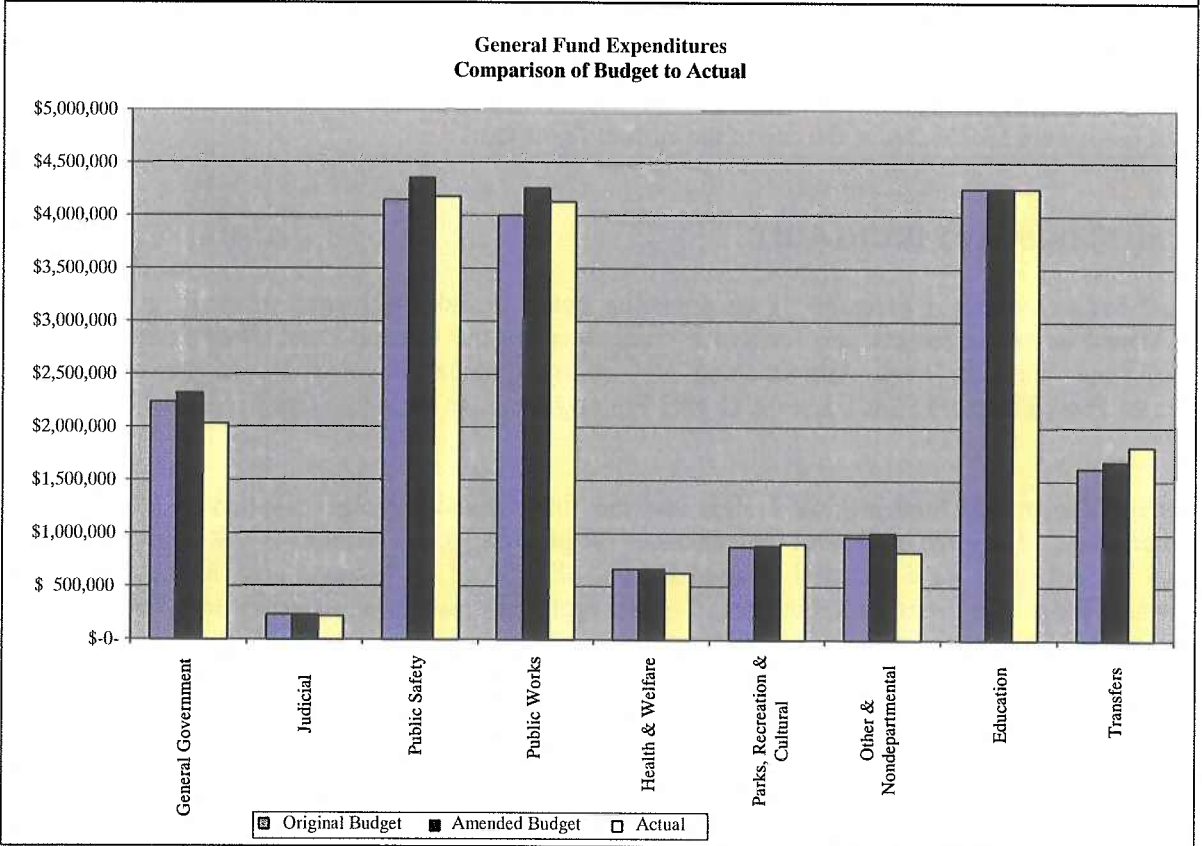
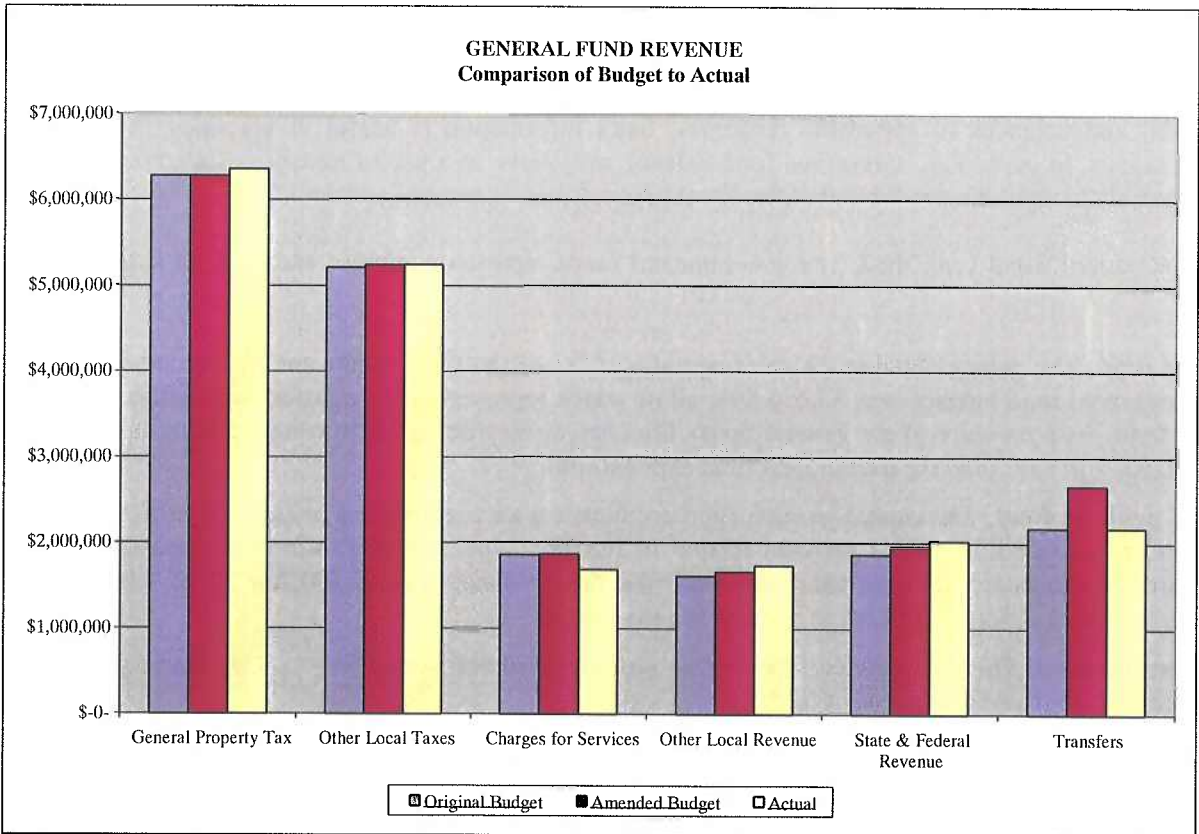
Enterprise funds. The City's enterprise funds account for its water and sewer operations, municipal electric operations as well as the City's airport operations. Unrestricted net assets of the major enterprise funds, the electric municipal fund, were \$3,258,202 at the end of the current fiscal year.

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 \$659,980 increase in appropriations. \$493,026 of general fund balances for projects, grants or reserves that were approved in previous years but not spent were included in amendments. \$87,253 of the increase was due to State and Federal grants awards added into departmental budgets. \$47,905 represents insurance recoveries and other general fund amendments totaled \$31,796 for numerous small items.

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, 2006, amounted to \$46,609,530, 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 3.0% increase due primarily to the purchase of property for possible future school construction and other enterprise additions.

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

- Land acquisition on Fairview and Crescent Drives
- Visitor's Center - TEA 21 - planning stages
- Boat Landing - planning stages
- Langston Street Reconstruction CDBG Project nearing completion

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Land	\$ 5,060,480	\$ 4,082,909	\$ -	\$ -	\$ 5,060,480	\$ 4,082,909
Construction in progress	459,215	994,784	1,712	91,260	460,927	1,086,044
Buildings	15,429,833	13,885,173	708,773	771,951	16,138,606	14,657,124
Improvements other than buildings	1,743,384	1,777,957	12,667,888	11,795,604	14,411,272	13,573,561
Machinery and equipment	2,711,217	2,925,518	903,914	1,035,215	3,615,131	3,960,733
Infrastructure	3,916,630	2,962,382	-	-	3,916,630	2,962,382
Allocations of component units	3,006,486	4,914,289	-	-	3,006,486	4,914,289
Total	\$32,327,245	\$31,543,012	\$14,282,287	\$13,694,030	\$46,609,532	\$45,237,042

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

Debt Administration. The City's total outstanding general obligation debt at June 30, 2006, was \$23,746,486. This includes \$7,867,142 School related debt and \$9,957,758 of general government debt. Of this total \$17,824,900 is considered to be net direct tax supported debt. \$5,921,586 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 statues limit the amount of general obligation debt a government may issue to 10% of its total assessed valuation of real property, including public service corporations.

Summary of Debt	FY 2006	FY 2005
General government activities:		
Bonds payable - general	\$ 9,957,758	\$ 10,794,380
School related bonds and notes	7,867,142	6,087,197
Total tax supported debt	17,824,900	16,881,577
Business-type activities	5,921,586	6,597,451
Total long-term debt	\$ 23,746,486	\$ 23,479,028
Per capita tax supported	\$ 2,136	\$ 1,994
Total debt per capita	\$ 2,845	\$ 2,795

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

Issued \$2,214,429 QZAB Loan for School Repair
Refinanced middle school gymnasium \$1,541,000 G.O. Bond Public Improvement.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The June 30, 2006 unemployment rate for the City of Franklin was 5.2%, compared to the state's unemployment rate of 3.3% and the average national rate of 4.8%.

Real estate tax rates increased to \$0.95 per hundred with the year starting July 1, 2005. The additional \$0.05 increase is earmarked for school capital projects.

REQUEST FOR INFORMATION

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

Basic Financial Statements

City of Franklin, Virginia

Statement of Net Assets

June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 1,203,509	\$ 2,967,096	\$ 4,170,605	\$ 51,030
Restricted assets - cash and investments	2,151,193	-	2,151,193	-
Property taxes receivable-net	618,921	-	618,921	-
Receivables - net	816,625	1,603,550	2,420,175	-
Due from primary government	-	-	-	337,604
Due from component units	340,347	-	340,347	-
Due from other governments	1,296,287	-	1,296,287	441,977
Due from proprietary funds	969,874	-	969,874	-
Inventories	-	33,016	33,016	14,723
Prepaid items	8,455	-	8,455	277,380
Deposits	-	12,633	12,633	-
Deferred charges	-	30,477	30,477	-
Capital assets not depreciated	5,519,695	-	5,519,695	-
Other capital assets - net	26,807,550	14,282,285	41,089,835	9,708,807
Total assets	\$ 39,732,456	\$ 18,929,057	\$ 58,661,513	\$ 10,831,521
Liabilities				
Accounts payable and accrued liabilities	\$ 1,057,634	\$ 19,851	\$ 1,077,485	\$ 142,463
Accrued payroll	-	299,437	299,437	1,022,993
Deferred revenue	44,450	-	44,450	26,179
Due to primary government	-	969,874	969,874	340,347
Due to component units	337,604	-	337,604	-
Deposits	133,390	376,673	510,063	-
Noncurrent liabilities:				
Due within one year	1,409,563	621,286	2,030,849	-
Due in more than one year	17,935,709	5,509,886	23,445,595	279,141
Total liabilities	20,918,350	7,797,007	28,715,357	1,811,123
Net Assets				
Invested in capital assets - net of related debt	13,717,240	8,276,928	21,994,168	9,708,807
Restricted:				
Capital projects and inventories	1,870,206	-	1,870,206	10,462
Unrestricted	3,226,660	2,855,122	6,081,782	(698,871)
Total net assets	18,814,106	11,132,050	29,946,156	9,020,398
Total liabilities and net assets	\$ 39,732,456	\$ 18,929,057	\$ 58,661,513	\$ 10,831,521

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

Statement of Activities

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	Component Units
Primary Government								
Government activities:								
General government	\$ 3,579,360	\$ 754,493	\$ 175,119	\$ -	\$ (2,649,748)	\$ -	\$ (2,649,748)	\$ -
Judicial	220,786	51,540	-	-	(169,246)	-	(169,246)	-
Public safety	4,581,392	244,800	495,564	-	(3,841,028)	-	(3,841,028)	-
Public works	3,273,363	799,434	1,227,456	-	(1,246,473)	-	(1,246,473)	-
Health and welfare	2,476,948	-	1,694,076	-	(782,872)	-	(782,872)	-
Education	4,358,068	-	-	-	(4,358,068)	-	(4,358,068)	-
Parks, recreation, cultural	908,320	54,750	5,000	-	(848,570)	-	(848,570)	-
Community development	1,154,255	48,868	101,182	93,952	(910,253)	-	(910,253)	-
Interest and fees on long-term debt	717,482	-	-	-	(717,482)	-	(717,482)	-
Bond service costs	44,394	-	-	-	(44,394)	-	(44,394)	-
Nondepartmental	580,617	-	-	-	(580,617)	-	(580,617)	-
Total governmental activities	21,894,985	1,953,885	3,698,397	93,952	(16,148,751)	-	(16,148,751)	-
Business-type activities:								
Water and sewer	2,895,536	3,868,775	-	-	-	973,239	973,239	-
Electric	10,704,954	12,109,011	-	-	-	1,404,057	1,404,057	-
Airport	571,601	835,929	-	-	-	264,328	264,328	-
Total business-type activities	14,172,091	16,813,715	-	-	-	2,641,624	2,641,624	-
Total primary government	36,067,076	18,767,600	3,698,397	93,952	(16,148,751)	2,641,624	(13,507,127)	-
Component Units								
Franklin Public Schools	14,264,376	170,168	-	-	-	-	-	(14,094,208)
Industrial Development Authority	910	-	-	-	-	-	-	(910)
Total component units	\$ 14,265,286	\$ 170,168	\$ -	\$ -	-	-	-	(14,095,118)
General Revenues								
Real estate and personal property taxes					6,344,577	-	6,344,577	-
Other local taxes					5,414,961	-	5,414,961	-
Payments from City of Franklin					-	-	-	4,260,306
Commonwealth of Virginia					-	-	-	7,867,507
Shared intergovernmental revenues					-	-	-	2,606,308
Revenue sharing from counties					1,136,199	-	1,136,199	-
Revenues from use of money and property					374,124	65,481	439,605	126
Recovery of costs					86,545	-	86,545	75,989
Universal services					-	-	-	54,707
Donations					482,165	-	482,165	-
Miscellaneous					527,309	-	527,309	41,983
Transfers					2,100,872	(2,100,872)	-	-
Total general revenues, transfers and miscellaneous					16,466,752	(2,035,391)	13,949,196	14,906,926
Change in net assets					318,001	606,233	924,234	811,808
Net assets - beginning of year					18,496,105	10,525,817	29,021,922	8,208,590
Net assets - end of year					\$ 18,814,106	\$ 11,132,050	\$ 29,946,156	\$ 9,020,398

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

City of Franklin, Virginia

Balance Sheet - Governmental Funds

June 30, 2006

Assets	General	Capital Projects	Debt Service	Social Services	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments:						
Unrestricted	\$ 428,813	\$ -	\$ -	\$ -	\$ 774,696	\$ 1,203,509
Restricted	-	2,151,193	-	-	-	2,151,193
Property taxes receivable-net	618,921	-	-	-	-	618,921
Other receivables	138,264	535,603	-	-	142,758	816,625
Prepaid expenses	8,455	-	-	-	-	8,455
Due from other funds	1,524,941	-	-	239,253	-	1,764,194
Due from component units	340,347	-	-	-	-	340,347
Due from other governments	1,079,238	-	-	108,705	108,344	1,296,287
Total assets	\$ 4,138,979	\$ 2,686,796	\$ -	\$ 347,958	\$ 1,025,798	\$ 8,199,531
Liabilities						
Vouchers and accounts payable	\$ 488,157	\$ 520,368	\$ -	\$ 8,168	\$ 40,941	\$ 1,057,634
Deposits	133,390	-	-	-	-	133,390
Tenant escrow accounts	-	-	-	-	20,240	20,240
Due to component units	337,604	-	-	-	-	337,604
Due to other funds	239,253	296,222	-	-	258,845	794,320
Deferred revenue	304,684	-	-	-	-	304,684
Total liabilities	1,503,088	816,590	-	8,168	320,026	2,647,872
Fund Balances						
Reserved:						
Capital projects	-	1,870,206	-	-	-	1,870,206
Unreserved:						
Specific programs	-	-	-	-	133,046	133,046
Unreserved and undesignated	2,635,891	-	-	339,790	572,726	3,548,407
Total fund balances	2,635,891	1,870,206	-	339,790	705,772	5,551,659
Total liabilities and fund balances	\$ 4,138,979	\$ 2,686,796	\$ -	\$ 347,958	\$ 1,025,798	\$ 8,199,531

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

Total fund balances - governmental funds	\$ 5,551,659
Amount reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	32,327,245
Other long-term assets not available to pay for current period expenditures and therefore are deferred in the funds.	280,474
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	(19,345,272)
Total net assets - governmental activities	\$ 18,814,106

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

City of Franklin, Virginia

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

Year Ended June 30, 2006

	General	Capital Projects	Debt Service Fund	Social Services	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Real estate and personal property taxes	\$ 6,359,770	\$ -	\$ -	\$ -	\$ -	\$ 6,359,770
Other local taxes	5,245,322	-	-	-	-	5,245,322
Permits, fees and licenses	111,310	-	-	-	-	111,310
Fines and forfeitures	42,865	-	-	-	-	42,865
Revenue from use of money and property	250,890	17,201	-	-	344,040	612,131
Intergovernmental	2,025,884	159,994	229,449	1,543,440	262,698	4,221,465
Charges for services	1,688,388	-	-	-	-	1,688,388
Recovered costs	86,545	-	-	-	-	86,545
Revenue sharing from counties	1,136,199	-	-	-	-	1,136,199
Donations and gifts	471	-	-	-	482,165	482,636
Miscellaneous	107,425	-	-	-	33,250	140,675
Total revenues	17,055,069	177,195	229,449	1,543,440	1,122,153	20,127,306
Expenditures						
Current:						
General government	2,033,571	-	-	-	-	2,033,571
Judicial	220,786	-	-	-	-	220,786
Public safety	4,180,993	-	-	-	171,313	4,352,306
Public works	4,131,807	-	-	-	-	4,131,807
Health and welfare	217,660	-	-	1,924,599	269,645	2,411,904
Parks, recreation, and cultural	906,052	-	-	-	83,362	989,414
Community development	122,446	-	-	-	743,777	866,223
Education	4,260,306	-	-	-	-	4,260,306
Nondepartmental	704,617	-	-	-	14,122	718,739
Debt service:						
Principal retirement	-	-	2,575,710	-	-	2,575,710
Interest and fiscal charges	-	-	717,482	-	-	717,482
Bond issuance costs	-	-	44,394	-	-	44,394
Capital outlays	-	1,332,763	-	-	-	1,332,763
Total expenditures	16,778,238	1,332,763	3,337,586	1,924,599	1,282,219	24,655,405
Excess (deficiency) of revenues over expenditures	276,831	(1,155,568)	(3,108,137)	(381,159)	(160,066)	(4,528,099)
Other financing sources (uses)						
Proceeds from bonds issued	-	2,214,429	1,541,000	-	-	3,755,429
Transfers in	2,177,389	50,000	1,567,137	408,177	131,248	4,333,951
Transfers out	(2,233,079)	-	-	-	-	(2,233,079)
Total other financing sources (uses)	(55,690)	2,264,429	3,108,137	408,177	131,248	5,856,301
Net change in fund balances	221,141	1,108,861	-	27,018	(28,818)	1,328,202
Fund balances - beginning of year	2,414,750	761,345	-	312,772	734,590	4,223,457
Fund balances - end of year	\$ 2,635,891	\$ 1,870,206	\$ -	\$ 339,790	\$ 705,772	\$ 5,551,659

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

City of Franklin, Virginia

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

Year Ended June 30, 2006

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

Net change in fund balances - total governmental funds	\$ 1,328,202
Amount reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.	
Capital outlays	1,745,214
Depreciation expense	(1,550,410)
Proceeds from bond issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.	
Bond issuance	(3,755,429)
Repayment of capital lease principal	124,468
Repayment of bond principal	2,451,242
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	15,192
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(40,478)</u>
Change in net assets of governmental activities	<u>\$ 318,001</u>

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

City of Franklin, Virginia

Statement of Net Assets - Proprietary Funds

June 30, 2006

Assets	Proprietary Fund			Totals
	Water and Sewer Fund	Electric Fund	Airport Fund	
Current assets				
Cash and investments	\$ 314,333	\$ 2,652,563	\$ 200	\$ 2,967,096
Receivables - net	439,481	1,159,534	4,535	1,603,550
Inventory	-	-	33,016	33,016
Deferred charges-bond issue costs - current portion	-	1,945	817	2,762
Total current assets	753,814	3,814,042	38,568	4,606,424
Noncurrent assets				
Deposits	-	-	12,633	12,633
Deferred charges-bond issue costs - less current portion	-	27,715	-	27,715
Capital assets:				
Buildings	-	34,966	1,651,837	1,686,803
Infrastructure	13,194,635	11,566,402	2,889,908	27,650,945
Equipment	864,432	1,771,728	251,013	2,887,173
Less - accumulated depreciation	(8,411,080)	(7,371,003)	(2,160,553)	(17,942,636)
Total noncurrent assets	5,647,987	6,029,808	2,644,838	14,322,633
Total assets	\$ 6,401,801	\$ 9,843,850	\$ 2,683,406	\$ 18,929,057
	Liabilities			
Current liabilities				
Vouchers and accounts payable	\$ 8,631	\$ 9,282	\$ 1,938	\$ 19,851
Accrued payroll	183,018	114,814	1,605	299,437
Current portion of long-term liabilities	426,784	168,114	26,388	621,286
Total current liabilities	618,433	292,210	29,931	940,574
Noncurrent liabilities				
Deposits	-	376,673	-	376,673
Accrued compensated absences	37,236	82,786	5,793	125,815
Due to other funds	-	-	969,874	969,874
Long-term liabilities - less current portion	4,033,148	1,323,069	27,854	5,384,071
Total noncurrent liabilities	4,070,384	1,782,528	1,003,521	6,856,433
Total liabilities	4,688,817	2,074,738	1,033,452	7,797,007
	Net Assets			
Invested in capital assets - net of related debt	1,188,055	4,510,910	2,577,963	8,276,928
Unrestricted	524,929	3,258,202	(928,009)	2,855,122
Total net assets	1,712,984	7,769,112	1,649,954	11,132,050
Total liabilities and net assets	\$ 6,401,801	\$ 9,843,850	\$ 2,683,406	\$ 18,929,057

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

City of Franklin, Virginia

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

Year Ended June 30, 2006	Proprietary Fund			Totals
	Water and Sewer Fund	Electric Fund	Airport Fund	
Operating revenues				
Charges for services	\$ 3,285,883	\$ 11,896,536	\$ 253,063	\$ 15,435,482
Reimbursement from other agencies	-	-	573,140	573,140
Miscellaneous	1,972	18,132	9,726	29,830
Total operating revenues	3,287,855	11,914,668	835,929	16,038,452
Operating expenses				
Personnel	664,975	1,086,943	98,757	1,850,675
Purchased services-for resale	-	8,244,508	148,746	8,393,254
Contractual services	251,055	169,954	15,322	436,331
Supplies	60,032	85,926	2,590	148,548
Utilities	175,523	24,862	12,842	213,227
Insurance and bonds	41,077	25,193	18,207	84,477
Repairs and maintenance	234,634	7,407	-	242,041
Taxes	10,890	1,242	-	12,132
Travel and training	7,402	20,526	-	27,928
Depreciation and amortization	901,667	628,526	256,891	1,787,084
Payment to general fund for services and taxes	319,200	319,502	1,850	640,552
Other charges	28,060	21,718	13,000	62,778
Total operating expenses	2,694,515	10,636,307	568,205	13,899,027
Operating income	593,340	1,278,361	267,724	2,139,425
Nonoperating revenues (expenses)				
Connection fees	580,920	47,427	-	628,347
Interest income	10,920	54,561	-	65,481
Cut-off fees and penalties	-	146,916	-	146,916
Interest expense	(201,021)	(68,647)	(3,396)	(273,064)
Total nonoperating revenues (expenses)	390,819	180,257	(3,396)	567,680
Income before transfers	984,159	1,458,618	264,328	2,707,105
Transfers				
Transfers in	-	-	76,517	76,517
Transfers out	-	(2,177,389)	-	(2,177,389)
Net transfers	-	(2,177,389)	76,517	(2,100,872)
Change in net assets	984,159	(718,771)	340,845	606,233
Net assets - beginning of year	728,825	8,487,883	1,309,109	10,525,817
Net assets - end of year	\$ 1,712,984	\$ 7,769,112	\$ 1,649,954	\$ 11,132,050

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

City of Franklin, Virginia

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2006

	Proprietary Fund				Component Unit
	Water and Sewer Fund	Electric Fund	Airport Fund	Totals	Industrial Development Authority
Cash flows from operating activities					
Received from customers and users	\$ 3,144,914	\$ 14,682,300	\$ 847,073	\$ 18,674,287	\$ -
Payments to suppliers for goods and services	(1,130,209)	(8,882,822)	(214,641)	(10,227,672)	(910)
Payments to employees	(552,455)	(1,106,657)	(98,065)	(1,757,177)	-
Net cash from operating activities	1,462,250	4,692,821	534,367	6,689,438	(910)
Cash flows from noncapital financing activities					
Transfers from other funds	-	-	76,517	76,517	-
Transfers to other funds	-	(2,177,389)	-	(2,177,389)	-
Net cash from noncapital financing activities	-	(2,177,389)	76,517	(2,100,872)	-
Cash flows from capital and related financing activities					
Principal paid on capital debt	(408,919)	(158,255)	(24,922)	(592,096)	-
Interest paid on capital debt	(201,021)	(68,647)	(3,396)	(273,064)	-
Acquisition and construction of capital assets	(1,163,430)	(626,908)	(582,566)	(2,372,904)	-
Connection and cutoff fees	580,920	194,343	-	775,263	-
Net cash from capital and related financing activities	(1,192,450)	(659,467)	(610,884)	(2,462,801)	-
Cash flows from investing activities					
Interest received	10,920	54,561	-	65,481	49
Net increase (decrease) in cash and investments	280,720	1,910,526	-	2,191,246	(861)
Cash and investments - beginning of year	33,613	742,037	200	775,850	13,840
Cash and investments - end of year	\$ 314,333	\$ 2,652,563	\$ 200	\$ 2,967,096	\$ 12,979
Reconciliation of operating income (loss) to net cash from operating activities					
Operating income (loss)	\$ 593,340	\$ 1,278,361	\$ 267,724	\$ 2,139,425	\$ (910)
Adjustments:					
Depreciation and amortization	901,667	628,526	256,891	1,787,084	-
Changes in assets and liabilities:					
Receivables - net	(142,941)	(19,012)	11,144	(150,809)	-
Inventory	-	-	(9,841)	(9,841)	-
Vouchers and accounts payable	6,886	38,016	(608)	44,294	-
Accrued payroll	118,822	(20,762)	951	99,011	-
Accrued compensated absences	(6,302)	1,048	(259)	(5,513)	-
Due to other governments	(9,222)	2,786,644	8,365	2,785,787	-
Net cash provided by (used in) operating activities	\$ 1,462,250	\$ 4,692,821	\$ 534,367	\$ 6,689,438	\$ (910)

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

City of Franklin, Virginia

Statement of Fiduciary Net Assets

June 30, 2006

Assets	Agency Funds				
	Early Childhood Commission	Special Welfare	Special Welfare - SSI	Franklin- Southampton Economic Development Commission	Flexible Benefits
Cash and investments	\$ -	\$ -	\$ -	\$ 122,507	\$ 4,662
Restricted cash	5,000	15,426	26,333	-	-
Total assets	\$ 5,000	\$ 15,426	\$ 26,333	\$ 122,507	\$ 4,662
Liabilities and Fund Balances					
Liabilities					
Amounts held for others	\$ 5,000	\$ 15,426	\$ 26,333	\$ 122,507	\$ 4,662
Total liabilities	5,000	15,426	26,333	122,507	4,662
Total liabilities and fund balances	\$ 5,000	\$ 15,426	\$ 26,333	\$ 122,507	\$ 4,662

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

City of Franklin, Virginia

Statement of Net Assets - Component Units

June 30, 2006

	Franklin Public Schools	Industrial Development Authority	Total
Assets			
Cash and investments	\$ 38,051	\$ 12,979	\$ 51,030
Receivables	441,977	-	441,977
Due from primary government	337,604	-	337,604
Inventories	14,723	-	14,723
Prepaid items	277,380	-	277,380
Capital assets - net	9,708,807	-	9,708,807
Total assets	\$ 10,818,542	\$ 12,979	\$ 10,831,521
Liabilities			
Vouchers and accounts payable	\$ 142,463	\$ -	\$ 142,463
Accrued payroll	1,022,993	-	1,022,993
Deferred revenue	26,179	-	26,179
Accrued compensated absences	279,141	-	279,141
Due to primary government	-	340,347	340,347
Total liabilities	1,470,776	340,347	1,811,123
Net Assets			
Invested in capital assets	9,708,807	-	9,708,807
Restricted for inventories	10,462	-	10,462
Unrestricted	(371,503)	(327,368)	(698,871)
Total net assets	9,347,766	(327,368)	9,020,398
Total liabilities and net assets	\$ 10,818,542	\$ 12,979	\$ 10,831,521

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

City of Franklin, Virginia

Statement of Activities - Component Units

Year Ended June 30, 2006

	Expense	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Franklin Public Schools	Industrial Development Authority	
Franklin Public Schools							
Education	\$ 14,264,376	\$ 170,168	\$ -	\$ -	\$ (14,094,208)	\$ -	\$ (14,094,208)
Industrial Development Authority							
Economic Development	910	-	-	-	-	(910)	(910)
Total component units	\$ 14,265,286	\$ 170,168	\$ -	\$ -	(14,094,208)	(910)	(14,095,118)

General revenues

Payments from the City of Franklin	4,260,306	-	4,260,306
Commonwealth of Virginia	7,867,507	-	7,867,507
Shared intergovernmental revenues	2,606,308	-	2,606,308
Revenues from use of property and money	77	49	126
Recovery of costs	75,989	-	75,989
Universal services	54,707	-	54,707
Miscellaneous	41,983	-	41,983
Total general revenues	14,906,877	49	14,906,926
Change in net assets	812,669	(861)	811,808
Net assets - beginning of year	8,535,097	(326,507)	8,208,590
Net assets - end of year	\$ 9,347,766	\$ (327,368)	\$ 9,020,398

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

Notes to Basic Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies

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

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

Financial Reporting Model

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

Management's Discussion and Analysis

GASB Statement No. 34 and GASB Statement No. 37 require 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).

Budgetary Comparison Schedules

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

Government-Wide and Fund Accounting Financial Statements

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

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

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

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

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

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

Fund Classification

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

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

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

Governmental Funds

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

■ **General Fund**

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

■ **Special Revenue Fund**

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

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

- ***Cobbtown Grant Fund*** - accounts for revenues and expenditures related to development and rehabilitation of the Cobbtown area of the City. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.
- ***Emergency Disaster Fund*** - accounts for revenues and expenditures related to the reconstruction of the City area caused by the devastation of Hurricane Isabel. Revenues are derived from aid received from the Commonwealth of Virginia and the federal government.
- ***Fire and Rescue Volunteers*** – accounts for revenues and expenditures related to the activities of the fire and rescue volunteers.
- ***Economic Development Fund*** - The 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*** - The 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.

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

Fiduciary Funds

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

▪ Trust and Agency Funds

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

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

- **Agency Funds**
 - ***Special Welfare Fund*** - accounts for receipt of welfare checks and foster children support checks from the state government and payments made on behalf of individuals.
 - ***Franklin-Southampton Economic Development Commission*** - accounts for monies received from the City and Southampton County to promote business development.
 - ***Flexible Benefits*** - accounts for monies received from employees to pay for medical claims.
 - ***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 (Schools) is responsible for elementary and secondary education within the City. The Schools are fiscally dependent upon the City because the City Council approves the annual budget of the Schools, levies the necessary taxes to finance the Schools' operations and approves the borrowing of money.

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

▪ 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.

Basis of Presentation

The government-wide Statement of Net Assets and Statement of Activities and all proprietary funds and trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

Allowance for Uncollectible Accounts

The City calculates its allowances for uncollectible property and other taxes and utility service charges using historical collection data. At June 30, 2006, the allowance was \$1,002,214 for the governmental funds and \$599,334 for the enterprise funds.

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.

Inventories

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

Capital Assets

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

Capital outlays of the proprietary funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the fund’s basis and the government-wide basis. Interest expense is capitalized on proprietary fund type assets constructed 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 recorded at their estimated fair market value on the date donated. Assets acquired under capital leases are capitalized at the net present value of all lease payments.

The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Buildings	40 - 50
Improvements other than buildings	10 - 30
Infrastructure	10 - 30
Machinery and equipment	3 - 20

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 machinery and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Restricted Cash and Investments

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

Compensated Absences

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

Deferred Revenue

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

Statement of Cash Flows

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

Estimates

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

Credit Risk

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 13.83% and 6.55% of the City's real estate and personal property tax base, respectively. Concentration of credit risk with respect to receivables is limited due to the large number of citizens comprising the City's taxpayer base.

2. Deposits and Investments

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

Deposits

- **Primary Government**

At June 30, 2006, the carrying value of the City's deposits with banks and savings and loan institutions was \$6,321,798 and the bank balance was \$6,609,346.

- **Component Units**

At June 30, 2006, the carrying value of deposits for the Franklin Public Schools, a discretely presented component unit, was \$38,051 and the bank balance was also \$38,051.

The carrying value and bank balances of the IDA, a discretely presented component unit, were \$12,979 and \$14,113, respectively, at June 30, 2006.

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

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

However, all qualified banks' public deposits are considered 100% "insured" (per GASB 3, paragraph 11) because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2006, no balances of the primary government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

Investments

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, mutual fund shares of the Virginia State Non-Arbitrage Program (SNAP), "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The LGIP is managed in accordance with the "2a-7 like pool" risk limiting requirements of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with portfolio securities valued by the amortized cost method. The fair value of the LGIP is the same as the value of the pool shares. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value.

Investment Policy

In accordance with the *Code of Virginia* and other applicable laws and regulations, the City's investment policy (Policy) permits investments in U.S. Government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, and the State Treasurer's Local Government Investment Pool (Virginia LGIP, a 2a-7 like pool).

Credit Risk

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 Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

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.

Custodial Risk

For an investment, custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the City or held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2006, with the exception of the Virginia LGIP, all of the City's investments are held in a bank's trust department in the City's name.

As of June 30, 2006, the carrying values of the City's investments, all of which are considered cash and cash equivalents, were as follows:

<u>Investment Type</u>	
State Non-Arbitrage Program	\$ 2,151,193
Reconciliation to total cash and investments	
Add:	
Cash on hand and in banks	<u>4,170,605</u>
	<u>\$ 6,321,798</u>

3. Receivables

Receivables in the fund statements at June 30, 2006, are as follows:

Primary Government

	General	Capital Projects	Nonmajor Governmental Funds	Business- type Activities	Total
Real estate taxes	\$ 280,575	\$ -	\$ -	\$ -	\$ 280,575
Personal property taxes	338,633	-	-	-	338,633
Other taxes	841,445	-	-	-	841,445
Accounts receivable	298,746	535,603	142,758	2,202,883	3,179,990
	<u>1,759,399</u>	<u>535,603</u>	<u>142,758</u>	<u>2,202,883</u>	<u>4,640,643</u>
Less - allowance for uncollectible accounts	(1,002,214)	-	-	(599,333)	(1,601,547)
Receivables - net	<u>\$ 757,185</u>	<u>\$ 535,603</u>	<u>\$ 142,758</u>	<u>\$ 1,603,550</u>	<u>\$ 3,039,096</u>

4. Due From Other Governments

Due from other governments consists of the following at June 30, 2006:

Primary Government

	General	Emergency Disaster Fund	Nonmajor Governmental Funds	Total
Commonwealth of Virginia				
Sales tax	\$ 118,550	\$ -	\$ -	\$ 118,550
Rolling stock tax	4,758	-	-	4,758
Recordation tax	6,246	-	-	6,246
Compensation Board	14,906	-	-	14,906
Comprehensive Services Act	-	-	43,310	43,310
Department of Social Services	-	108,705	-	108,705
Economic Development and Housing	-	-	65,034	65,034
EMS Grant	8,298	-	-	8,298
Total due from the Commonwealth of Virginia	<u>152,758</u>	<u>108,705</u>	<u>108,344</u>	<u>369,807</u>

Local Governments

Isle of Wight County - revenue sharing	900,000	-	-	900,000
Southampton County - various taxes	26,480	-	-	26,480
Total due from local governments	<u>926,480</u>	<u>-</u>	<u>-</u>	<u>926,480</u>
Total due from other governments	<u>\$ 1,079,238</u>	<u>\$ 108,705</u>	<u>\$ 108,344</u>	<u>\$ 1,296,287</u>

Component Units

Commonwealth of Virginia

State sales taxes

Various grants

Total due from other governments

Franklin
Public
Schools

\$ 96,828

345,149

\$ 441,977

Details of the receivables and payables between the primary government and component units at June 30, 2006, 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>\$ 340,347</u>

5. Capital Assets

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

<u>Governmental activities</u>	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets not being depreciated				
Land	\$ 4,130,579	\$ 929,901	\$ -	\$ 5,060,480
Construction in progress	994,783	407,176	942,744	459,215
Total capital assets not being depreciated	5,125,362	1,337,077	942,744	5,519,695
Other capital assets				
Buildings	18,008,113	181,250	-	18,189,363
Improvements other than buildings	2,510,727	86,146	-	2,596,873
Machinery and equipment	6,183,452	351,018	175,776	6,358,694
Infrastructure	10,566,450	1,321,896	-	11,888,346
Total other capital assets	37,268,742	1,940,310	175,776	39,033,276
Less - accumulated depreciation				
Buildings	(2,360,558)	(398,972)	-	(2,759,530)
Improvements other than buildings	(732,771)	(120,718)	-	(853,489)
Machinery and equipment	(3,257,943)	(565,310)	175,776	(3,647,477)
Infrastructure	(7,604,068)	(367,648)	-	(7,971,716)
Total accumulated depreciation	(13,955,340)	(1,452,648)	175,776	(15,232,212)
Other capital assets - net	23,313,402	487,662	-	23,801,064
	24,854,586	1,824,739	942,744	29,320,759
Allocation of School Board				
Buildings	4,888,086	-	-	4,888,086
Less - accumulated depreciation				
Buildings	(1,783,838)	(97,762)	-	(1,881,600)
Total allocated to City	3,104,248	(97,762)	-	3,006,486
Total	\$ 27,958,834	\$ 1,726,977	\$ 942,744	\$ 32,327,245

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

General Governmental Administration	\$ 305,998
Public Safety	431,054
Public Works	497,848
Health and Welfare	72,477
Parks, Recreation, and Cultural	92,665
Community Development	52,607
Education	97,761
	<u>\$ 1,550,410</u>

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

	Balance			Balance
Other capital assets	July 1, 2005	Increases	Decreases	June 30, 2006
Buildings	\$ 1,245,101	\$ 441,702	\$ -	\$ 1,686,803
Other improvements	28,220,772	1,538,223	2,108,050	27,650,945
Machinery and equipment	1,856,032	1,031,141	-	2,887,173
	<u>31,321,905</u>	<u>3,011,066</u>	<u>2,108,050</u>	<u>32,224,921</u>
Less - accumulated depreciation				
Buildings	(474,213)	(63,178)	-	(537,391)
Other improvements	(16,066,964)	(1,504,345)	1,469,887	(16,101,422)
Machinery and equipment	(1,086,698)	(217,125)	-	(1,303,823)
	<u>(17,627,875)</u>	<u>(1,784,648)</u>	<u>1,469,887</u>	<u>(17,942,636)</u>
Total	<u>\$ 13,694,030</u>	<u>\$ 1,226,418</u>	<u>\$ 638,163</u>	<u>\$ 14,282,285</u>

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

	Balance			Balance
Other capital assets	July 1, 2005	Increases	Decreases	June 30, 2006
Land improvements	\$ 80,041	\$ 4,365	\$ -	\$ 84,406
Buildings	12,390,105	229,685	-	12,619,790
Infrastructure	2,352,368	889,659	-	3,242,027
Machinery and equipment	3,130,988	268,490	505,925	2,893,553
	<u>17,953,502</u>	<u>1,392,199</u>	<u>505,925</u>	<u>18,839,776</u>
Less - accumulated depreciation				
Land improvements	(64,647)	(948)	-	(65,595)
Buildings	(4,085,997)	(250,246)	-	(4,336,243)
Infrastructure	(58,718)	(38,175)	-	(96,893)
Machinery and equipment	(1,812,379)	(240,968)	427,595	(1,625,752)
	<u>(6,021,741)</u>	<u>(530,337)</u>	<u>427,595</u>	<u>(6,124,483)</u>
Other capital assets - net	<u>11,931,761</u>	<u>861,862</u>	<u>78,330</u>	<u>12,715,293</u>
Allocation to City				
Buildings	(4,888,086)	-	-	(4,888,086)
Less - accumulated depreciation				
Buildings	1,783,838	97,762	-	1,881,600
	<u>(3,104,248)</u>	<u>97,762</u>	<u>-</u>	<u>(3,006,486)</u>
Total	<u>\$ 8,827,513</u>	<u>\$ 959,624</u>	<u>\$ 78,330</u>	<u>\$ 9,708,807</u>

6. **Noncurrent Liabilities**

Following is a summary of the changes in long-term liabilities for governmental activities and its Component Unit-School Board, respectively, for the year ended June 30, 2006:

	Balance			Balance	Due within
	July 1, 2005	Additions	Reductions	June 30, 2006	one year
General obligation debt	\$ 15,630,714	\$ 3,755,429	\$ 2,206,243	\$ 17,179,900	\$ 924,357
Loans payable	890,000	-	245,000	645,000	245,000
Note payable	-	640,000	-	640,000	120,000
Capital lease obligations	360,863	-	124,468	236,395	120,206
Compensated absences	684,455	540,933	581,411	643,977	-
	\$ 18,019,394	\$ 4,936,362	\$ 3,157,122	\$ 19,345,272	\$ 1,409,563
Component Unit - School Board					
Accrued compensated absences	\$ 237,562	\$ 41,579	\$ -	\$ 279,141	\$ -

General obligation debt of the governmental activities at June 30, 2006, is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate %	Authorized and Issued	Outstanding June 30, 2006
General obligation bonds -					
Public Improvement and					
Refunding Series 1998A	03/05/98	01/15/12	3.60-4.60	\$ 1,679,916	\$ 1,219,676
Public Improvement Series 1998B	03/05/98	01/15/18	3.60-4.87	\$ 458,382	54,871
Public Improvement Series 2001B	10/01/01	01/15/24	3.00-5.00	\$ 3,105,000	2,850,000
Public Improvement Series 2001C	10/01/01	01/15/22	6.00	\$ 685,000	610,000
Public Improvement Series 2002	10/02/02	09/01/42	4.625	\$ 2,500,000	2,436,995
Public Improvement Series 2003	06/24/03	10/01/08	4.875	\$ 1,880,000	1,590,000
Public Improvement Series 1999A	05/28/99	07/15/19	3.970	\$ 2,041,330	1,158,504
Public Improvement Series 2003B	12/04/03	01/15/24	3.640	\$ 966,258	966,257
Public Improvement Series 2003B	12/04/03	01/15/24	3.640	\$ 256,983	256,983
Public Improvement Series 2003C	12/04/03	01/15/27	5.550	\$ 565,000	565,000
Public Improvement Series 2004	12/01/04	12/01/14	3.640	\$ 310,000	282,943
Public Improvement Series 2006	01/13/06	01/15/26	3.820	\$ 1,541,000	1,541,000
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	120,605
Virginia Public School Authority					
Series 1995A	12/21/95	01/15/16	5.10-6.10	\$ 567,942	321,737
Virginia General Obligation Qualified					
Zone Academy Bond, Series 2003	12/31/03	12/31/17	-	\$ 1,000,000	899,610
Southampton County					
debt assumed *	01/01/96	06/30/14	N/A	N/A	91,290
Total bonds payable					<u>17,179,900</u>
Loans payable:					
Literary Fund loan-Elementary	04/01/87	04/01/07	3.000	\$ 2,000,000	100,000
Literary Fund loan-Middle School	03/15/91	03/15/11	2.000	\$ 2,000,000	500,000
Literary Fund loan-High School	06/01/87	06/01/07	3.000	\$ 879,413	45,000
Total loans payable					<u>645,000</u>
Total general obligation debt					<u>\$ 17,824,900</u>

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

Note Payable

During 2006, the City purchased land and issued a note payable for \$640,000, payable in annual installments of \$120,000, including interest at 5% through 2011, with a balloon payment of \$160,000 in 2011. Principal payments are as follows:

2007	\$	120,000
2008		120,000
2009		120,000
2010		120,000
2011		160,000
	\$	<u>640,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest
2006	\$ 1,169,357	\$ 587,593
2007	2,383,423	625,257
2008	933,972	515,948
2009	951,846	481,866
2010	971,828	447,218
2011-2015	3,990,331	1,859,484
2016-2020	3,406,935	1,096,195
2021-2025	2,416,688	594,039
2026-2030	387,717	349,654
2031-2035	464,292	260,725
2036-2040	584,827	191,975
2041-2045	163,684	58,189
	<u>\$ 17,824,900</u>	<u>\$ 7,068,143</u>

Following is a schedule of capital lease obligations:

	Issue Date	Final Maturity	Interest Rate %	Authorized and Issued	Outstanding June 30, 2006
Street sweeper	02/01/02	02/01/06	4.79	\$ 103,861	\$ -
Police recorder	05/01/03	05/01/07	8.00	\$ 25,578	7,397
Caterpillar tractor	01/06/03	01/06/08	4.50	\$ 81,650	17,033
Caterpillar trailer	01/06/03	01/06/08	4.50	\$ 11,517	2,402
E-911 Equipment	09/05/02	10/05/07	5.90	\$ 92,424	25,765
E-911 Equipment	09/05/02	09/05/07	8.90	\$ 46,336	13,579
Electric Truck	04/12/05	04/12/10	9.00	\$ 139,779	12,512
Modular classrooms	04/01/03	10/01/07	2.81	\$ 117,331	48,230
Garbage truck	04/12/05	04/12/10	3.77	\$ 139,779	109,477
					<u>\$ 236,395</u>

Future minimum lease payments under capital leases with the present value (outstanding principal) of the net minimum lease payments as of June 30, 2006, are as follows:

Fiscal Year Ending June 30,	
2007	\$ 120,206
2008	71,930
2009	34,390
2010	25,599
	<u>252,125</u>
Less-amount representing interest	(15,730)
Present value of net minimum lease payments	<u>\$ 236,395</u>

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, 2006, the City's aggregate general obligation indebtedness is approximately \$17.1 million less than the Commonwealth's limit as summarized in the following table:

Total assessed value of taxed real property		
Assessed value of real estate		<u>\$ 418,087,841</u>
Debt limit - 10% of total assessed value		<u>\$ 41,808,784</u>
Amount of debt applicable to debt limit		
General obligation debt:		
Primary government	\$ 17,088,610	
Business-type	5,156,427	
Capital leases	320,166	
Virginia Resources Authority line of credit	765,159	
State Literary Fund loans - Component Unit - School Board	645,000	
Debt assumed - Southampton County - primary government	91,290	
Note payable	640,000	
		<u>24,706,652</u>
Legal debt margin		<u>\$ 17,102,132</u>

Note: The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2006.

Long-Term Liabilities – Business-Type Activities

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

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
Deposits	\$ 340,993	\$ 147,540	\$ 111,860	\$ 376,673	\$ -
Bonds payable	5,681,097	-	524,670	5,156,427	601,307
Capital lease obligation	103,707	-	19,936	83,771	19,979
Line of credit	812,647	-	47,488	765,159	-
	6,938,444	147,540	703,954	6,382,030	621,286
Compensated absences	131,328	101,215	106,728	125,815	-
	\$ 7,069,772	\$ 248,755	\$ 810,682	\$ 6,507,845	\$ 621,286

Noncurrent liabilities other than the capital lease of the business-type activities at June 30, 2006, are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate %	Authorized and issued	Outstanding June 30, 2006
General Obligation Bonds-					
Public Improvement and Refunding					
Series 1998A	03/05/98	01/15/12	3.60-4.60	\$2,265,084	\$ 1,495,321
Public Improvement Series 1998B	03/05/98	01/15/08	3.60-4.87	\$2,876,618	1,765,129
Public Improvement Series 2001B	10/01/01	01/15/22	3.00-5.00	\$1,540,000	1,320,000
Public Improvement Series 2003B	12/03/03	01/15/24	3.64	\$ 616,760	575,977
Total bonds payable					5,156,427
Virginia Resources Authority -					
line of credit	04/30/99	07/01/19	3.00	\$1,050,000	765,159
Total bonds payable and line of credit					\$ 5,921,586

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

Fiscal Year Ending June 30,	Principal	Interest
2007	\$ 601,307	\$ 239,003
2008	531,444	216,426
2009	484,362	195,301
2010	501,876	175,124
2011-2015	2,000,698	582,439
2016-2020	1,414,666	210,553
2021-2025	387,233	20,712
	\$ 5,921,586	\$ 1,639,558

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

Description	Issue Date	Final Maturity	Interest Rate %	Authorized and issued	Outstanding June 30, 2006
Electric truck	04/12/05	04/12/10	9.00	\$ 106,958	\$ 83,771

Future minimum lease payments under this lease are as follows:

Fiscal year Ending June 30,	
2007	\$ 23,505
2008	23,505
2009	23,505
2010	19,585
	<u>90,100</u>
Less - amount representing interest	<u>(6,329)</u>
	<u>\$ 83,771</u>

Defeased Debt

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

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

7. Compensated Absences

City employees earn annual leave at the rate of 17 to 29 days per year depending on length of service. A maximum of 34 to 58 days of annual leave, depending on length of service, may be carried over to succeeding years and may be paid if not used prior to termination. The governmental and business-type activities have outstanding accrued leave totaling \$530,182 and \$110,493, respectively, as of June 30, 2006.

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, 2006, accumulated unpaid sick leave for the governmental and business-type activities amounted to \$113,795 and \$15,322, 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.

8. Retirement Plan

A. Plan Description

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

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

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

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

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the system. This 5% member contribution has been assumed by the City and School Board. In addition, the City and Schools are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and Schools' contribution rates for fiscal years ended 2006, 2005 and 2004 were 7.70%, 5.00% and 3.00%, respectively, of annual covered payroll. The Schools' required employer contributions to the teacher cost-sharing pool for all professional employees for the fiscal years ended 2006, 2005 and 2004 were \$920,743, \$802,593 and \$597,466, respectively.

C. Annual Pension Cost

For fiscal year 2006, the City's and Schools' annual pension costs of \$957,940, and \$45,483, respectively, were equal to the City's and Schools' required and actual contributions. The required contribution was determined as part of the 2004 experience study using the entry age normal actuarial cost method. The actuarial assumptions included (a) a 7.50% investment rate of return, (b) projected salary increases of 3.50% to 5.73% 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 and Schools' assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and Schools' unfunded actuarial accrued liability is being amortized as a level percentage of payrolls on an open basis over a period of 21 years.

The Schedules of Funding Progress and Employer Contributions are presented as required supplementary information. The information presented in the Schedules of Funding Progress and Employer Contributions was determined as part of the actuarial valuation on June 30, 2005. Actuarial assumptions used include an investment rate of return of 7.50%.

9. Notes to Schedules of Funding Progress and Employer Contributions

The information presented in the schedules of funding progress and employer contributions was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2005
Actuarial cost method	Entry age Normal
Amortization method	Level percent, open
Payroll growth rate	3%
Remaining amortization period	17 years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases*	
1) Non-LEO	3.50% - 5.73%
2) LEO employees	3.50% - 4.71%
Cost-of-living adjustments	2.50%

* Includes inflation at 2.50%

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

Interfund Receivables and Payables

	<u>Due To</u>	<u>Due From</u>
General	\$ 1,524,941	\$ 239,253
Airport	-	969,874
Social Services	239,253	-
Capital Projects	-	296,222
Nonmajor Governmental Funds	-	258,845
	<u>\$ 1,764,194</u>	<u>\$ 1,764,194</u>

Purpose:

Due to General Fund:

\$ 969,874	Airport Fund: Advances for prior year projects.
\$ 296,222	Capital Projects Fund: Advances for capital projects
\$ 258,845	Nonmajor Governmental Funds: Advances for current year operations

Due to Social Services Fund:

\$ 239,253	General Fund: Advances for current year operations
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Receivable and payable balances between the primary government and component units at June 30, 2006, are as follows:

	<u>Due To</u>	<u>Due From</u>
Primary government	\$ 340,347	\$ 337,604
Component units:		
School Board	337,604	-
Industrial Development Authority	-	340,347
	<u>\$ 677,951</u>	<u>\$ 677,951</u>

Interfund Transfers

Transfers to:

General Fund
Virginia Public Assistance
Comprehensive Services
Airport
Debt Service
Capital Projects

Transfers from:

	<u>General</u>	<u>Electric</u>	<u>Total</u>
General Fund	\$ -	\$ 2,177,389	\$ 2,177,389
Virginia Public Assistance	408,177	-	408,177
Comprehensive Services	131,248	-	131,248
Airport	76,517	-	76,517
Debt Service	1,567,137	-	1,567,137
Capital Projects	50,000	-	50,000
	<u>\$ 2,233,079</u>	<u>\$ 2,177,389</u>	<u>\$ 4,410,468</u>

Purpose:

Transfers from General Fund:

\$ 50,000	Capital Projects: Funding to pay for capital projects
\$ 408,177	Virginia Public Assistance Fund: Funding for operational support of existing programs
\$ 131,248	Comprehensive Services Fund: Funding for operational support of existing programs
\$ 76,517	Airport Fund: Funding for operational support of existing programs
\$ 1,567,137	Debt Service Fund: Funding debt service

Transfers from Electric Fund:

\$ 2,177,389	General Fund: Funding for operational support of existing programs
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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 Service Board.

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.

General obligation bonds of \$5,146,427 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.

13. Post Employment Benefits

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

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

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 or premiums are paid. During the fiscal year ended June 30, 2006, the cost for health care benefits for retirees, dependents, and surviving spouses was \$47,697.

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 ten-year postclosure period would begin in 1995 and the landfill closure had been completed in accordance to the Virginia Solid Waste Management Regulations, respectively. The original estimated total cost of the postclosure care of approximately \$132,608 was based on the expected costs for all equipment, facilities, and services required to monitor and maintain the landfill's postclosure care. However, the actual cost of postclosure care is higher due to inflation, changes in technology, and changes in applicable laws and regulations. Through June 30, 2006, the City had expended \$248,851 in postclosure costs.

15. Personal Property Tax Relief Act of 1998

The General Assembly enacted the Personal Property Tax Relief Act in 1998. The effect of the legislation has resulted in a steady decline in personal property tax revenue with a corresponding increase in intergovernmental revenue from the Commonwealth of Virginia. The Commonwealth of Virginia directly reimbursed taxpayers for tangible personal property tax levies paid on qualifying vehicles for calendar year 1998. The Commonwealth has paid to the City a percentage of the reimbursable amount for calendar year 1999 and subsequent years. In fiscal year 2003, the effect of the legislation shifted \$986,950 from general property taxes to state revenue. After a phase-in period from 1999 to 2003, the amount of the payments to the Treasurer are now 100% for qualifying vehicles with a value of \$1,000 or less, and, for each qualifying vehicle with a value of more than \$1,000, on the first \$20,000 the reimbursement is 70%.

16. Surety Bonds

Surety bonds of the City of Franklin are as follows:

Brenda B. Rickman Commissioner of Revenue	Commonwealth of Virginia Faithful Performance of Duty Bond Plan	<u>\$ 3,000</u>
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17. 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 2006. The amount for 2005 was \$525,000, and the amount for 2006 was \$550,000. The City further agreed not to institute, participate in or support, directly or indirectly, any further annexation of Southampton County prior to December 31, 2010.

The 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, 2006, the City received \$77,992 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:

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

The local revenues are payable to the City by the County of Isle of Wight on August 1, following the end of the fiscal year. During the year ended June 30, 2006, the City received \$900,000 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2005. For the year ending June 30, 2006, the City will receive approximately \$1,000,000 related to County of Isle of Wight tax revenues for the year ended June 30, 2006, which is included in intergovernmental receivables.

18. Accounting Changes

The City adopted GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section* during fiscal year ended June 30, 2006. The adoption of this statement changes the disclosures in the statistical section of the City's comprehensive annual financial report, but does not affect the determination of reported revenues or expenditures/expenses.

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Required Supplementary Information

City of Franklin, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues and other financing sources				
Property taxes				
Real estate	\$ 3,917,378	\$ 3,917,378	\$ 3,958,040	\$ 40,662
Personal property	2,145,000	2,145,000	2,187,748	42,748
Machinery and tools	22,300	22,300	14,778	(7,522)
Public service corporations	81,700	81,700	82,712	1,012
Penalties and interest on taxes	110,000	110,000	116,492	6,492
Total property taxes	6,276,378	6,276,378	6,359,770	83,392
Local taxes				
Local sales and use	1,529,313	1,529,313	1,430,593	(98,720)
Consumer's utility	800,000	800,000	743,997	(56,003)
Cellular utility	120,000	120,000	173,026	53,026
Electric consumption	35,000	35,000	33,112	(1,888)
Business licenses	750,000	775,000	806,893	31,893
Franchise licenses	69,500	69,500	71,666	2,166
Motor vehicle licenses	147,000	147,000	154,226	7,226
Bank stock	65,000	65,000	69,302	4,302
Right of way use	34,000	34,000	8,860	(25,140)
Recordation	31,000	31,000	88,733	57,733
Restaurant meals	930,000	930,000	1,042,608	112,608
Lodging	204,000	204,000	202,379	(1,621)
E-911 emergency telephone	168,000	168,000	182,364	14,364
Tobacco tax	330,000	330,000	237,563	(92,437)
Total other local taxes	5,212,813	5,237,813	5,245,322	7,509
Permits, fees and licenses				
Animal licenses	3,500	3,500	2,598	(902)
Permits and other licenses	69,760	69,760	108,712	38,952
Total permits, fees and licenses	73,260	73,260	111,310	38,050
Fines and forfeitures	62,900	62,900	42,865	(20,035)
Use of money and property				
Interest on investments	1,000	1,000	12,883	11,883
General property rental	254,008	254,008	238,007	(16,001)
Total use of money and property	255,008	255,008	250,890	(4,118)
Charges for services				
Armory operation and maintenance	14,200	14,200	15,654	1,454
Law library fees	4,250	4,250	4,625	375
Fire and emergency services - counties	208,268	208,268	41,614	(166,654)
Ambulance and fire services	170,000	170,000	200,445	30,445
Alarm service	5,100	5,100	440	(4,660)
Police services	-	2,191	2,191	-
Administration - water and sewer	294,000	294,000	294,000	-
Administration - electric	268,790	268,790	268,790	-
Administration - airport	1,942	1,942	1,850	(92)
Waste collection and disposal	837,852	837,852	798,826	(39,026)
Recreational fees and admissions	24,000	27,022	21,659	(5,363)
Dog boarding fees	350	350	110	(240)
Weed cutting charges	10,000	10,000	892	(9,108)
Utility tax collection fees	2,000	2,000	2,101	101
Demolition and debris removal	-	-	14,657	14,657
Employee loan	-	-	608	608
Miscellaneous	20,353	20,353	19,926	(427)
Total charges for services	1,861,105	1,866,318	1,688,388	(177,930)

City of Franklin, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Miscellaneous				
Payment in lieu of taxes - from enterprise activities	72,345	72,345	72,345	-
Annexation payments - County of Isle of Wight	1,000,000	1,000,000	1,058,207	58,207
Revenue sharing - Southampton County	90,140	90,140	77,992	(12,148)
Payment in lieu of taxes	18,000	18,000	-	(18,000)
Sale of equipment	-	-	64	64
Sale of supplies and publications	1,200	1,200	2,105	905
Sale of fire and rescue books	-	1,112	1,112	-
Sale of garbage cans	5,000	5,000	264	(4,736)
Other donations	-	471	471	-
Sale of cemetery lots	25,000	25,000	21,640	(3,360)
Miscellaneous other revenue	-	-	9,895	9,895
Total miscellaneous revenue	1,211,685	1,213,268	1,244,095	30,827
Recovered costs				
Insurance recovery - liability	3,000	49,749	49,737	(12)
Insurance recovery - workers' compensation	10,000	11,156	5,336	(5,820)
Personal property seizure	-	-	31,472	31,472
Total recovered costs	13,000	60,905	86,545	25,640
Intergovernmental				
Revenue from the Commonwealth				
Noncategorical aid				
ABC profits	4,893	4,893	4,893	-
Wine tax	5,129	5,129	5,129	-
Railroad rolling stock tax	6,000	6,000	4,758	(1,242)
Auto rental tax	35,000	35,000	25,237	(9,763)
Total noncategorical aid	51,022	51,022	40,017	(11,005)
Categorical aid	1,805,303	1,889,166	1,963,568	74,402
Total revenue from the Commonwealth of Virginia	1,856,325	1,940,188	2,003,585	63,397
Revenue from the federal government				
Police grants	-	3,390	3,390	-
Fire INS	12,000	12,000	18,909	6,909
Total revenue from the federal government	12,000	15,390	22,299	6,909
Other financing sources				
Transfer from Electric Fund	2,177,389	2,177,389	2,177,389	-
Carryover from prior year budget	-	493,026	-	(493,026)
Total other financing sources	2,177,389	2,670,415	2,177,389	(493,026)
Total revenue and other financing sources	\$ 19,011,863	\$ 19,671,843	\$ 19,232,458	\$ (439,385)

City of Franklin, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures and other financing uses				
General government administrative				
Legislative:				
City Council	\$ 260,172	\$ 259,337	\$ 240,620	\$ 18,717
General and financial administration:				
City Manager	219,315	225,150	207,452	17,698
City Attorney	124,750	124,750	103,804	20,946
LAN operations	147,541	205,637	119,807	85,830
Insurance	98,000	98,000	80,094	17,906
Commissioner of the Revenue	226,627	226,627	208,492	18,135
City Assessor	76,623	76,623	70,338	6,285
State Treasurer	77,784	77,784	67,155	10,629
Finance	252,985	252,985	236,739	16,246
Collections	193,002	193,002	174,133	18,869
Utility Collections	202,119	202,119	198,058	4,061
Management Services	182,857	182,857	155,214	27,643
Purchasing	68,720	68,720	63,254	5,466
Board of elections:				
Registrar	105,443	126,143	108,411	17,732
Total general government administration	2,235,938	2,319,734	2,033,571	286,163
Judicial administration				
Courts:				
Clerk of Circuit Court	31,807	31,807	31,807	-
Sheriff - courts	31,613	31,613	31,612	-
Other courts	121,407	121,407	108,315	13,092
Commonwealth's Attorney	49,273	49,273	49,052	221
Total judicial administration	234,100	234,100	220,786	13,313
Public safety				
Police	2,233,588	2,287,610	2,161,769	125,841
Communications	504,743	504,743	473,457	31,286
Fire	939,409	1,025,742	1,017,324	8,418
Bureau of Inspections	315,740	380,786	356,553	24,233
Other protection	156,792	161,642	171,890	(10,248)
Total public safety	4,150,272	4,360,523	4,180,993	179,530
Health and welfare				
Health department	134,502	134,502	134,464	38
Mosquito control	60,000	60,000	23,052	36,948
Mental health and retardation	60,144	60,144	60,144	-
Total health and welfare	254,646	254,646	217,660	36,986
Parks, recreation and cultural				
Parks and recreation	616,745	628,547	639,523	(10,976)
Public libraries	257,716	257,716	266,529	(8,813)
Total parks, recreation and cultural	874,461	886,263	906,052	(19,789)
Community development				
Planning and community development	130,185	167,342	122,446	44,896

City of Franklin, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2006				Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Expenditures and other financing uses (Continued)				
Public works				
Highways, streets, bridges and sidewalks	1,991,483	2,120,983	2,122,627	(1,644)
Snow removal	23,000	23,000	11,393	11,607
Engineering	227,178	227,178	210,579	16,599
Refuse collection	901,864	901,864	828,000	73,864
Maintenance building and grounds	859,720	984,720	959,208	25,512
Total public works	4,003,245	4,257,745	4,131,807	125,938
Nondepartmental				
Industrial corridor revenue sharing	550,000	550,000	550,000	-
Miscellaneous	290,066	290,066	154,617	135,449
Total nondepartmental	840,066	840,066	704,617	135,449
Other financing uses				
Transfer to Virginia Public Assistance Fund	408,177	408,177	408,177	-
Transfer to Comprehensive Services Act Fund	51,940	114,414	131,248	(16,834)
Transfer to Airport Fund	76,517	76,517	76,517	-
Transfer to Debt Service Fund	1,048,374	1,048,374	1,186,800	(138,426)
Transfers to component units	4,703,942	4,703,942	4,690,643	13,299
Total other financing uses	6,288,950	6,351,424	6,493,385	(141,961)
Total expenditures and other financing uses	\$ 19,011,863	\$ 19,671,843	\$ 19,011,317	\$ 660,525

City of Franklin, Virginia

Retirement Plan
Schedules of Funding Progress and Employer Contributions -
Virginia Retirement System

Year Ended June 30, 2006

Schedule of Funding Progress

	Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability	Over (Under) Funded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City Employees	6/30/2005	\$ 17,477,295	\$ 21,585,589	\$ (4,108,294)	80.97%	\$ 6,084,135	(67.52%)
	6/30/2004	\$ 16,892,347	\$ 20,161,444	\$ (3,269,097)	83.79%	\$ 5,937,906	(55.05%)
	6/30/2003	\$ 16,404,003	\$ 18,781,255	\$ (2,377,252)	87.34%	\$ 5,816,390	(40.87%)
	6/30/2002	\$ 16,095,805	\$ 16,969,480	\$ (873,675)	94.85%	\$ 5,420,724	(16.12%)
	6/30/2001	\$ 15,536,727	\$ 15,646,776	\$ (110,049)	99.30%	\$ 5,157,172	(2.13%)
School Board							
Non-professional Employees	6/30/2005	\$ 975,761	\$ 1,258,032	\$ (282,271)	77.56%	\$ 591,124	(47.75%)
	6/30/2004	\$ 935,101	\$ 979,963	\$ (44,862)	95.42%	\$ 384,697	(11.66%)
	6/30/2003	\$ 902,948	\$ 868,889	\$ 34,059	103.92%	\$ 393,700	8.65%
	6/30/2002	\$ 873,948	\$ 798,816	\$ 75,132	109.41%	\$ 362,345	20.73%
	6/30/2001	\$ 850,334	\$ 755,015	\$ 95,319	112.62%	\$ 366,218	26.03%

Schedule of Employer Contributions

	Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
City Employees	6/30/2006	\$ 948,808	100.00%	\$ -
	6/30/2005	\$ 763,157	100.00%	\$ -
	6/30/2004	\$ 736,033	100.00%	\$ -
	6/30/2003	\$ 721,457	100.00%	\$ -
	6/30/2002	\$ 724,607	100.00%	\$ -
School Board				
Non-professional Employees	6/30/2006	\$ 45,483	100.00%	\$ -
	6/30/2005	\$ 42,668	100.00%	\$ -
	6/30/2004	\$ 33,475	100.00%	\$ -
	6/30/2003	\$ 31,641	100.00%	\$ -
	6/30/2002	\$ 24,302	100.00%	\$ -

Notes to Required Supplementary Information

June 30, 2006

1. Budgets and Budgetary Accounting

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

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

Formal budgetary integration is employed as a management control device. Annual operating budgets are adopted by ordinance passed by City Council for the General Fund, several special revenue funds, the Debt Service Fund and the proprietary funds.

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

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Other Supplementary Information

City of Franklin, Virginia

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2006

	Special Revenue				
	Comprehensive Services Act	Regional Fire Training Grounds	Foundation Grants	Community Development Grant	Community Development Downtown Grant
Assets					
Cash and investments	\$ -	\$ 3,005	\$ 161,960	\$ 129,378	\$ 52,155
Accounts receivable	-	-	-	-	139,209
Due from other governments	43,310	-	-	-	-
Total assets	\$ 43,310	\$ 3,005	\$ 161,960	\$ 129,378	\$ 191,364
Liabilities					
Vouchers and accounts payable	\$ 13,613	\$ -	\$ 20,935	\$ -	\$ -
Tenants escrow accounts	-	-	-	-	20,240
Due to other funds	29,697	-	-	-	119,913
Total liabilities	43,310	-	20,935	-	140,153
Fund Balances					
Designated:					
Specific programs	-	-	-	-	-
Undesignated:	-	3,005	141,025	129,378	51,211
Total fund balances	-	3,005	141,025	129,378	51,211
Total liabilities and fund balances	\$ 43,310	\$ 3,005	\$ 161,960	\$ 129,378	\$ 191,364

City of Franklin, Virginia

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue						
	Western Tidewater Home Consortium	Cobbtown Grant	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development
Cash and investments	\$ -	\$ -	\$ 746	\$ 8,279	\$ 1,477	\$ 153,101	\$ 68,017
Loans receivable	-	-	-	-	-	-	-
Due from other governments	65,034	-	-	-	-	-	-
Total assets	\$ 65,034	\$ -	\$ 746	\$ 8,279	\$ 1,477	\$ 153,101	\$ 68,017
Liabilities							
Vouchers and accounts payable	\$ 170	\$ 4,486	\$ -	\$ -	\$ -	\$ 161	\$ 1,576
Tenants escrow accounts	-	-	-	-	-	-	-
Due to other funds	65,264	41,462	-	2,509	-	-	-
Total liabilities	65,434	45,948	-	2,509	-	161	1,576
Fund Balances							
Designated:							
Specific programs	-	-	-	-	-	-	-
Undesignated:	(400)	(45,948)	746	5,770	1,477	152,940	66,441
Total fund balances	(400)	(45,948)	746	5,770	1,477	152,940	66,441
Total liabilities and fund balances	\$ 65,034	\$ -	\$ 746	\$ 8,279	\$ 1,477	\$ 153,101	\$ 68,017

City of Franklin, Virginia

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue		Permanent Funds				Total Nonmajor Governmental Funds
	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	
Cash and investments	\$ 52,826	\$ 14,255	\$ 3,982	\$ 11,853	\$ 101,313	\$ 12,349	\$ 774,696
Accounts receivable	-	-	-	3,549	-	-	142,758
Due from other governments	-	-	-	-	-	-	108,344
Total assets	\$ 52,826	\$ 14,255	\$ 3,982	\$ 15,402	\$ 101,313	\$ 12,349	\$ 1,025,798
Liabilities							
Vouchers and accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,941
Tenants escrow accounts	-	-	-	-	-	-	20,240
Due to other funds	-	-	-	-	-	-	258,845
Total liabilities	-	-	-	-	-	-	320,026
Fund Balances							
Designated:							
Specific programs	-	-	3,982	15,402	101,313	12,349	133,046
Undesignated:	52,826	14,255	-	-	-	-	572,726
Total fund balances	52,826	14,255	3,982	15,402	101,313	12,349	705,772
Total liabilities and fund balances	\$ 52,826	\$ 14,255	\$ 3,982	\$ 15,402	\$ 101,313	\$ 12,349	\$ 1,025,798

City of Franklin, Virginia

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

Year Ended June 30, 2006

	Special Revenue					
	Disaster Recovery Fund	Comprehensive Services Act	Regional Fire Training Grounds	Foundation Grants	Community Development Grant	Community Development Downtown Grant
Revenues						
Intergovernmental	\$ 11,357	\$ 138,397	\$ 1,820	\$ -	\$ -	\$ -
Use of money and property	-	-	709	4,046	41,161	41,178
Donations and gifts	-	-	-	478,800	-	-
Miscellaneous	-	-	-	-	-	-
Total revenues	11,357	138,397	2,529	482,846	41,161	41,178
Expenditures						
Current:						
Public safety	-	-	12,913	117,394	-	-
Health and welfare	-	269,645	-	-	-	-
Parks, recreation, cultural	-	-	-	80,706	-	-
Community development	-	-	-	333,643	-	-
Nondepartmental	11,442	-	-	-	-	-
Total expenditures	11,442	269,645	12,913	531,743	-	-
Excess (deficiency) of revenues over expenditures	(85)	(131,248)	(10,384)	(48,897)	41,161	41,178
Other financing sources (uses)						
Transfers in	-	131,248	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	131,248	-	-	-	-
Net change in fund balances	(85)	-	(10,384)	(48,897)	41,161	41,178
Fund balances - beginning of year	85	-	13,389	189,922	88,217	10,033
Fund balances - end of year	\$ -	\$ -	\$ 3,005	\$ 141,025	\$ 129,378	\$ 51,211

City of Franklin, Virginia

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

Year Ended June 30, 2006

	Special Revenue						
	Western Tidewater Home Consortium	Cobbtown Grant	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development
Revenues							
Intergovernmental	\$ 12,239	\$ 93,952	\$ -	\$ 4,933	\$ -	\$ -	\$ -
Use of money and property	-	-	1	7	-	4,785	248,490
Donations and gifts	-	-	-	-	-	-	-
Miscellaneous	-	-	-	23,471	-	7,500	-
Total revenues	12,239	93,952	1	28,411	-	12,285	248,490
Expenditures							
Current:							
Public safety	-	-	-	26,565	104	-	-
Health and welfare	-	-	-	-	-	-	-
Parks, recreation, cultural	-	-	-	-	-	2,656	-
Community development	12,639	139,900	-	-	-	-	257,595
Nondepartmental	-	-	-	-	-	-	-
Total expenditures	12,639	139,900	-	26,565	104	2,656	257,595
Excess (deficiency) of revenues over expenditures	(400)	(45,948)	1	1,846	(104)	9,629	(9,105)
Other financing sources (uses)							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Net change in fund balances	(400)	(45,948)	1	1,846	(104)	9,629	(9,105)
Fund balances - beginning of year	-	-	745	3,924	1,581	143,311	75,546
Fund balances - end of year	\$ (400)	\$ (45,948)	\$ 746	\$ 5,770	\$ 1,477	\$ 152,940	\$ 66,441

City of Franklin, Virginia

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

Year Ended June 30, 2006

	Special Revenue		Permanent Funds				Total Nonmajor Governmental Funds
	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	
Revenues							
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 262,698
Use of money and property	1,308	37	-	1,261	825	232	344,040
Donations and gifts	-	3,365	-	-	-	-	482,165
Miscellaneous	-	2,279	-	-	-	-	33,250
Total revenues	1,308	5,681	-	1,261	825	232	1,122,153
Expenditures							
Current:							
Public safety	-	14,337	-	-	-	-	171,313
Health and welfare	-	-	-	-	-	-	269,645
Parks, recreation, cultural	-	-	-	-	-	-	83,362
Community development	-	-	-	-	-	-	743,777
Nondepartmental	2,640	-	40	-	-	-	14,122
Total expenditures	2,640	14,337	40	-	-	-	1,282,219
Excess (deficiency) of revenues over expenditures	(1,332)	(8,656)	(40)	1,261	825	232	(160,066)
Other financing sources (uses)							
Transfers in	-	-	-	-	-	-	131,248
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	131,248
Net change in fund balances	(1,332)	(8,656)	(40)	1,261	825	232	(28,818)
Fund balances - beginning of year	54,158	22,911	4,022	14,141	100,488	12,117	734,590
Fund balances - end year	\$ 52,826	\$ 14,255	\$ 3,982	\$ 15,402	\$ 101,313	\$ 12,349	\$ 705,772

City of Franklin, Virginia

Statement of Changes in Assets and Liabilities - Agency Funds

Year Ended June 30, 2006				
	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Special Welfare				
Assets:				
Cash and investments	\$ 14,240	\$ 9,553	\$ 8,367	\$ 15,426
Liabilities:				
Amounts held for others	\$ 14,240	\$ 9,553	\$ 8,367	\$ 15,426
Total liabilities	\$ 14,240	\$ 9,553	\$ 8,367	\$ 15,426
Special Welfare - SSI				
Assets:				
Cash and investments	\$ 14,165	\$ 12,952	\$ 784	\$ 26,333
Liabilities:				
Amounts held for others	\$ 14,165	\$ 12,952	\$ 784	\$ 26,333
Total liabilities	\$ 14,165	\$ 12,952	\$ 784	\$ 26,333
Franklin - Southampton				
Economic Development Commission				
Assets:				
Cash and investments	\$ 120,126	\$ 2,381	\$ -	\$ 122,507
Liabilities:				
Amounts held for others	\$ 120,126	\$ 2,381	\$ -	\$ 122,507
Total liabilities	\$ 120,126	\$ 2,381	\$ -	\$ 122,507
Flexible Benefits				
Assets:				
Cash and investments	\$ 5,939	\$ 8,279	\$ 9,556	\$ 4,662
Liabilities:				
Amounts held for others	\$ 5,939	\$ 8,279	\$ 9,556	\$ 4,662
Total liabilities	\$ 5,939	\$ 8,279	\$ 9,556	\$ 4,662
Early Childhood Commission				
Assets:				
Cash and investments	\$ -	\$ 5,000	\$ -	\$ 5,000
Liabilities:				
Amounts held for others	\$ -	\$ 5,000	\$ -	\$ 5,000
Total liabilities	\$ -	\$ 5,000	\$ -	\$ 5,000

City of Franklin, Virginia

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

June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Assets			
Cash and temporary investments	\$ -	\$ 38,051	\$ 38,051
Due from other governments	415,841	26,136	441,977
Due from primary government	337,604	-	337,604
Inventories	-	14,723	14,723
Prepaid expenses	277,380	-	277,380
Total assets	\$ 1,030,825	\$ 78,910	\$ 1,109,735
Liabilities and Equity			
Liabilities			
Vouchers and accounts payable	\$ 79,270	\$ 63,193	\$ 142,463
Deferred revenue	-	26,179	26,179
Accrued payroll	1,022,993	-	1,022,993
Total liabilities	1,102,263	89,372	1,191,635
Fund Balances			
Designated			
Inventories	-	(10,462)	(10,462)
Undesignated	(71,438)	-	(71,438)
Total fund balances	(71,438)	(10,462)	(81,900)
Total liabilities and fund balances	\$ 1,030,825	\$ 78,910	\$ 1,109,735

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

Total fund balances - component unit	\$ (81,900)
Amount reported for component unit activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	9,708,807
Noncurrent liabilities such as compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(279,141)
Total net assets - component unit - School Board	\$ 9,347,766

City of Franklin, Virginia

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

Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$ 9,965,523	\$ 418,711	\$ 10,384,234
Revenues from use of money and property	-	77	77
Revenue from the primary government	4,260,306	89,581	4,349,887
Recovery of costs	62,534	13,455	75,989
Charges for services	18,058	152,110	170,168
Donations and gifts	116,800	-	116,800
Universal services	54,707	-	54,707
Miscellaneous	-	3,513	3,513
Total revenues	14,477,928	677,447	15,155,375
Expenditures			
Education:			
Instruction	10,683,934	189,148	10,873,082
Administration, attendance and health services	991,443	-	991,443
Pupil transportation	571,190	-	571,190
Operations and maintenance	1,359,873	-	1,359,873
Technology	751,208	-	751,208
Total education	14,357,648	189,148	14,546,796
Food services	-	635,625	635,625
Total expenditures	14,357,648	824,773	15,182,421
Net changes in fund balances	120,280	(147,326)	(27,046)
Fund balances - beginning of year	(191,718)	136,864	(54,854)
Fund balances - end of year	\$ (71,438)	\$ (10,462)	\$ (81,900)

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

Net change in fund balances - total governmental funds \$ (27,046)

Amount reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the Statement of Activities, the loss on disposal of assets is reported.

Capital outlays	1,392,199
Depreciation expense	(432,576)
Loss on disposal of capital assets	(78,329)

In the statement of activities, certain operating expenses are measured by the amounts incurred during the year. In governmental funds, expenditures for those items are measured by the amount of financial resources used.

(41,579)

Change in net assets of governmental activities

\$ 812,669

City of Franklin, Virginia

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

 June 30, 2006

	Textbook	Cafeteria	Total Other Governmental Funds
Assets			
Cash and temporary investments	\$ 27,566	\$ 10,485	\$ 38,051
Due from other governments	50	26,086	26,136
Inventory	-	14,723	14,723
	<hr/>		
Total assets	\$ 27,616	\$ 51,294	\$ 78,910
<hr/>			
Liabilities			
Vouchers and accounts payable	\$ -	\$ 63,193	\$ 63,193
Deferred Revenue	-	26,179	26,179
	<hr/>		
Total liabilities	-	89,372	89,372
<hr/>			
Fund Balances			
Designated:			
Inventories	27,616	(38,078)	(10,462)
	<hr/>		
Total fund balances	27,616	(38,078)	(10,462)
	<hr/>		
Total liabilities and fund balances	\$ 27,616	\$ 51,294	\$ 78,910
	<hr/>		

City of Franklin, Virginia

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

Year Ended June 30, 2006

	Textbook	Cafeteria	Total Other Governmental Funds
Revenues			
Intergovernmental	\$ -	\$ 418,711	\$ 418,711
Revenues from use of money and property	42	35	77
Revenue from the primary government	89,581	-	89,581
Recovery of costs	9,979	3,476	13,455
Charges for services	-	152,110	152,110
Miscellaneous	-	3,513	3,513
Total revenues	99,602	577,845	677,447
Expenditures			
Education			
Instruction	189,148	-	189,148
Total education	189,148	-	189,148
Food services	-	635,625	635,625
Total expenditures	189,148	635,625	824,773
Net changes in fund balance	(89,546)	(57,780)	(147,326)
Fund balances - beginning of year	117,162	19,702	136,864
Fund balances - end of year	\$ 27,616	\$ (38,078)	\$ (10,462)

City of Franklin, Virginia

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

Year Ended June 30, 2006

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenue				
Intergovernmental:				
City of Franklin	\$ 4,260,306	\$ 4,689,851	\$ 4,260,306	\$ (429,545)
Commonwealth of Virginia	8,363,398	8,235,397	7,867,507	(367,890)
Federal government	5,000	2,096,771	2,098,016	1,245
Recovery of costs	75,000	77,200	62,534	(14,666)
Universal services	50,000	50,000	54,707	4,707
Charges for services	14,000	14,000	18,058	4,058
Revenues from use of property	2,200	-	-	-
Donations and gifts	-	60,000	116,800	56,800
Total revenue	\$ 12,769,904	\$ 15,223,219	\$ 14,477,928	\$ (745,291)
Expenditures				
Current:				
Instruction	\$ 9,961,630	\$ 11,813,762	\$ 10,683,934	\$ 1,129,828
Administration, attendance and health	1,010,249	1,010,249	991,443	18,806
Transportation	477,974	477,974	571,190	(93,216)
Operations and maintenance	1,320,051	1,320,051	1,359,873	(39,822)
Technology	-	601,183	751,208	(150,025)
Total expenditures	\$ 12,769,904	\$ 15,223,219	\$ 14,357,648	\$ 865,571

*City of Franklin, Virginia**Statement of Changes in Assets and Liabilities -
Agency Funds - Component Unit - School Board***June 30, 2006**

Assets	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Restricted cash	\$ 115,044	\$ 470,834	\$ 418,670	\$ 167,208
Total assets	\$ 115,044	\$ 470,834	\$ 418,670	\$ 167,208
Liabilities				
Cash held for others	\$ 115,044	\$ 470,834	\$ 418,670	\$ 167,208
Total liabilities	\$ 115,044	\$ 470,834	\$ 418,670	\$ 167,208

Statistical Section

City of Franklin, Virginia

Government-Wide Revenues

Years 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	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	
2006	\$ 18,767,600	\$ 3,698,397	\$ 93,952	\$11,759,538	\$ 1,136,199	\$ -	\$ 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

City of Franklin, Virginia

Government-Wide Expenditures by Function

Years Ended June 30,														
Fiscal Year	General Government	Judicial	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Non-Departmental	Interest on Long-term Debt	Water and Sewer	Electric	Airport	Total Expenditures
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

City of Franklin, Virginia

General Governmental Revenues by Source

Last Ten Fiscal Years

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General property taxes	\$ 6,359,770	\$ 5,782,264	\$ 5,523,583	\$ 5,509,757	\$ 5,306,578	\$ 5,191,290	\$ 4,865,250	\$ 4,928,999	\$ 4,781,708	\$ 4,665,219
Other local taxes	5,245,322	5,037,186	4,801,060	4,366,505	4,250,437	3,804,429	3,775,567	3,846,160	3,442,774	2,913,325
Permits, fees and licenses	111,310	69,920	72,184	43,889	39,303	50,365	53,836	98,658	51,799	42,988
Fines and forfeitures	42,865	51,248	62,331	49,407	57,330	79,354	59,381	75,383	83,683	83,063
Use of money and property	612,208	456,174	385,383	249,722	376,718	362,681	199,522	137,237	214,618	189,029
Charges for services	1,688,388	1,773,283	1,572,875	1,469,736	1,393,338	1,205,154	1,098,471	1,154,149	1,277,089	1,214,081
Miscellaneous and donations	1,856,200	1,481,570	1,368,093	1,582,999	1,981,749	1,725,897	1,761,408	2,078,866	1,355,673	1,453,829
Recovered costs	162,534	130,621	154,223	92,106	156,802	174,407	579,373	133,123	60,442	65,546
Intergovernmental	18,955,586	20,107,570	21,443,712	19,708,670	13,732,213	16,474,100	13,850,616	10,638,182	9,717,046	9,507,710
Totals	\$ 35,034,183	\$ 34,889,836	\$ 35,383,444	\$ 33,072,791	\$ 27,294,468	\$ 29,067,677	\$ 26,243,424	\$ 23,090,757	\$ 20,984,832	\$ 20,134,790

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

City of Franklin, Virginia

General Governmental Expenditures by Function

Last Ten Fiscal Years

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government administration	\$ 2,033,571	\$ 1,916,668	\$ 1,898,128	\$ 1,921,302	\$ 1,859,894	\$ 1,905,069	\$ 1,871,245	\$ 1,626,325	\$ 1,405,959	\$ 1,279,758
Judicial administration	220,786	227,962	166,707	267,988	132,119	125,702	65,900	75,981	65,505	66,199
Public safety	4,352,306	4,363,831	3,986,257	4,242,378	3,454,288	3,364,673	3,374,754	3,081,393	2,809,891	2,454,035
Public works	4,131,807	4,031,172	4,048,957	4,159,512	4,060,813	3,404,675	3,340,481	3,869,386	3,437,317	2,842,812
Health and welfare	2,411,904	2,068,157	2,097,930	1,794,405	1,815,008	1,543,135	1,542,786	1,500,570	1,295,600	1,106,130
Education	14,264,376	15,767,293	12,777,477	13,906,854	13,067,817	12,322,151	14,287,541	11,756,385	11,088,959	10,719,943
Parks, recreation and cultural	989,414	910,516	839,088	831,648	724,478	766,057	803,071	669,776	660,786	607,739
Community development	866,223	953,592	4,464,002	2,272,636	1,613,500	2,626,464	6,695,831	886,427	287,085	349,843
Nondepartmental	718,739	578,963	551,561	535,925	522,669	531,476	451,868	637,915	723,687	672,952
Capital projects	1,332,763	1,569,281	1,453,738	4,055,653	5,265,185	786,255	88,018	78,021	194,000	-
Debt service:										
Bond service and miscellaneous	44,394	3,544	36,068	4,044	4,425	2,925	32,559	900	1,900	1,125
Principal retirement	2,575,710	1,008,779	715,570	3,446,839	739,387	721,464	633,245	286,921	450,782	585,209
Interest and fiscal charges	717,482	734,455	679,110	609,309	369,963	317,942	295,555	157,789	181,786	320,067
Totals	\$34,659,475	\$34,134,213	\$33,714,593	\$38,048,493	\$33,629,546	\$28,417,988	\$33,482,854	\$24,627,789	\$22,603,257	\$21,005,812

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

Capital projects included beginning in 1998.

City of Franklin, Virginia

Property Tax Levies and Collections

Last Ten Fiscal Years

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
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 (3)	\$ 5,002,971	\$ 4,625,962	92.46%	\$ 184,033	\$ 4,809,995	96.14%	\$ 1,003,509	20.06%
1998	\$ 4,671,297	\$ 4,445,954	95.18%	\$ 209,451	\$ 4,655,405	99.66%	\$ 549,011	11.75%
1997	\$ 4,466,799	\$ 4,328,582	96.91%	\$ 221,078	\$ 4,549,660	101.86%	\$ 566,779	12.69%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

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

City of Franklin, Virginia

Assessed Value of Taxable Property

Last Ten Fiscal Years

Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Service Corporations		Total
					Real Estate	Personal Property	
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 (1)	\$ 336,027,995	\$ 47,915,578	\$ -	\$ 598,937	\$ 10,202,502	\$ 69,851	\$ 394,814,863
1999	\$ 298,000,000	\$ 42,014,422	\$ -	\$ 797,506	\$ 9,286,671	\$ 64,535	\$ 350,163,134
1998	\$ 297,441,044	\$ 41,573,378	\$ -	\$ 797,506	\$ 9,286,671	\$ 64,535	\$ 349,163,134
1997	\$ 291,895,700	\$ 40,808,266	\$ -	\$ 1,170,640	\$ 9,302,508	\$ 92,733	\$ 343,269,847

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

City of Franklin, Virginia

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

Last Ten Fiscal Years

Year	Real Estate		Personal Property	Mobile Homes	Machinery and Tools	Public Service Corporation	
						Real Estate *	Personal Property
2006	\$ 0.95 / \$ 1.19	****	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2005	\$ 0.90 / \$ 1.14	***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2004	\$ 0.90 / \$ 1.14	***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2003	\$ 0.90 / \$ 1.14	***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2002	\$ 0.90 / \$ 1.14	***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2001	\$ 0.90 / \$ 1.14	***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2000	\$ 0.90 / \$ 1.14	***	\$ 4.50	\$ -	\$ 2.00	\$ 0.90	\$ 4.50
1999	\$ 0.90 / \$ 1.14	***	\$ 4.50	\$ -	\$ 2.00	\$ 0.90	\$ 4.50
1998	\$ 0.90 / \$ 1.14	***	\$ 4.50	\$ -	\$ 2.00	\$ 0.90	\$ 4.50
1997	\$ 0.85 / \$ 1.09	**	\$ 4.50	\$ -	\$ 2.00	\$ 0.85	\$ 4.50

- * Public Service Corporation property was taxed at basic real estate rates regardless of location.
- ** Downtown district real estate tax rate was \$1.09 and remaining areas were taxed at \$0.85 for real estate.
- *** Downtown district real estate tax rate was \$1.14 and remaining areas were taxed at \$ 0.90 for real estate.
- **** Downtown district real estate tax rate was \$1.19 and remaining areas were taxed at \$ 0.95 for real estate.

City of Franklin, Virginia

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

Last Ten Fiscal Years

Year	Assessed Value (in Thousands)	Gross Bonded Debt (1)	Less:		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value
			Debt Service Monies Available	Debt Payable from Enterprise Revenues (2)		
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%
1998	\$ 349,163	\$ 14,440,563	-	\$ 6,436,585	\$ 8,003,978	2.29%
1997	\$ 343,270	\$ 12,285,946	-	\$ 4,400,925	\$ 7,885,021	2.30%

- 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.

*City of Franklin, Virginia**Ratio of Annual Debt Service Expenditures to Total General
Governmental Expenditures*

Last Ten Fiscal Years			
<u>Fiscal Year</u>	<u>Expenditures - All Governmental Fund Types</u>	<u>Total Debt Service (1)</u>	<u>Percentage of Debt Service to Expenditures</u>
2006	\$ 34,659,475	\$ 3,293,192	9.50%
2005	\$ 34,134,213	\$ 1,743,234	5.11%
2004	\$ 33,714,593	\$ 1,394,680	4.14%
2003	\$ 38,048,493	\$ 4,056,148	10.66%
2002	\$ 33,629,546	\$ 1,109,350	3.30%
2001	\$ 28,417,988	\$ 1,039,406	3.66%
2000	\$ 33,482,854	\$ 928,800	2.77%
1999	\$ 24,627,789	\$ 444,710	1.81%
1998	\$ 22,603,257	\$ 632,568	2.80%
1997	\$ 21,005,812	\$ 905,276	4.31%

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

Table 10

City of Franklin, Virginia

Principal Taxpayers - Real Estate

June 30, 2006

Taxpayer	Type of Business	2006 Assessed Valuation	Percent of Total Assessed Valuation of Real Estate
Franklin Hospital Corporation	Hospital	\$ 15,808,600	3.75%
James L. Rifkin Estate	Shopping Center	8,277,300	1.96%
Southampton Shopping Center, L.P.	Shopping Center	6,504,900	1.54%
The Village at Woods Edge	Retirement Home	6,052,300	1.43%
Wood Properties, .L.L.P.	Shopping Center	5,096,300	1.21%
Meadowridge Association	Apartments	4,308,100	1.02%
F.P. Associates	Apartments	3,718,800	0.88%
Dorchester Associates	Apartments	3,664,100	0.87%
FPA, L.L.C.	Apartments	3,378,700	0.80%
Adjacent Properties	Apartments	3,351,400	0.79%
		<u>\$ 60,160,500</u>	<u>13.83%</u>

*City of Franklin, Virginia**Principal Taxpayers - Personal Property*

June 30, 2006

Taxpayer	Type of Business	2006 Assessed Valuation	Percent of Total Assessed Personal Property
Franklin Hospital Corporation	Hospital	\$ 1,491,416	2.50%
Wal-Mart Stores, Inc.	Retail - Variety	667,266	1.12%
Charter Communications, Inc.	Cable	450,380	0.75%
Albert G Dail, Inc.	Retail - Hardware	218,141	0.37%
General Electric Credit	Lease Furniture & Fixtures	215,207	0.36%
Food Lion, Inc. L.L.C.	Retail - Grocery	208,017	0.35%
S.W. Rawls, Inc.	Retail - Variety	204,206	0.34%
CIT Financial USA, Inc.	Retail - Variety	184,095	0.31%
Belk Stores of Virginia	Retail - Clothing	141,192	0.24%
HVT, Inc.	Retail - Finance	129,068	0.22%
		<u>\$ 3,908,988</u>	<u>6.55%</u>

*City of Franklin, Virginia**Demographic Statistics***Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income (3)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate (5)</u>
2006	8,594 (1)	Not Available	1,307	Not Available
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%
1998	8,474 (1)	\$ 20,291	1,738	3.8%
1997	8,800 (1)	\$ 19,387	1,808	4.5%

(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 Public Schools

(5) Source: Virginia Employment Commission

*City of Franklin, Virginia**Net Assets by Component*

June 30,	2006	2005
Governmental activities		
Invested in capital assets - net of related debt	\$ 13,717,240	\$ 14,767,515
Restricted	1,870,206	371,875
Unrestricted	3,226,660	2,907,806
	<hr/>	<hr/>
Total governmental activities	\$ 18,814,106	\$ 18,047,196
	<hr/>	<hr/>
Business-type activities		
Invested in capital assets - net of related debt	\$ 8,276,928	\$ 7,139,689
Unrestricted	2,855,121	3,386,128
	<hr/>	<hr/>
Total business-type activities	\$ 11,132,049	\$ 10,525,817
	<hr/>	<hr/>
Primary government		
Invested in capital assets - net of related debt	\$ 21,994,168	\$ 21,907,204
Restricted	1,870,206	371,875
Unrestricted	6,081,781	6,293,934
	<hr/>	<hr/>
Total primary government	\$ 29,946,155	\$ 28,573,013
	<hr/>	<hr/>

City of Franklin, Virginia

Change in Net Assets

June 30,	2006	2005
Expenses		
Governmental activities:		
General government	\$ 3,579,360	\$ 2,154,840
Judicial	220,786	227,962
Public safety	4,581,392	4,385,901
Public works	3,273,363	4,452,836
Health and welfare	2,476,948	2,138,779
Education	4,358,068	4,155,196
Parks and recreation	908,320	993,109
Community development	1,154,255	213,146
Interest on long-term debt	761,876	738,001
Nondepartmental	580,617	577,465
Total governmental activities	<u>21,894,985</u>	<u>20,037,235</u>
Business-type activities:		
Water and sewer	2,895,536	2,794,462
Electric	10,704,954	8,887,833
Airport	571,601	614,946
Total business-type activities	<u>14,172,091</u>	<u>12,297,241</u>
Total expenses	<u>\$ 36,067,076</u>	<u>\$ 32,334,476</u>
Program revenue		
Governmental activities:		
Charges for services:		
General government	\$ 754,493	\$ 1,483,726
Judicial	51,540	59,776
Public safety	244,800	293,261
Public works	799,434	-
Health and welfare	-	15,525
Parks and recreation	54,750	53,795
Community development	48,868	-
Operating grants and contributions	3,698,397	3,645,508
Capital grants and contributions	93,952	2,168,480
Total governmental activities	<u>5,746,234</u>	<u>7,720,071</u>
Business-type activities:		
Charges for services:		
Water and sewer	3,868,775	2,979,414
Electric	12,109,011	10,958,120
Airport	835,929	384,485
Total business-type activities	<u>16,813,715</u>	<u>14,322,019</u>
Total program revenue	<u>\$ 22,559,949</u>	<u>\$ 22,042,090</u>
Governmental activities net expense	<u>\$ (16,148,751)</u>	<u>\$ (12,317,164)</u>
Business-type activities net expense/income	<u>2,641,624</u>	<u>2,024,778</u>
Total primary government net expense	<u>\$ (13,507,127)</u>	<u>\$ (10,292,386)</u>

City of Franklin, Virginia

Change in Net Assets

June 30,	2006	2005
General revenues and other changes in net assets		
Governmental activities:		
Taxes:		
Property taxes	\$ 6,344,577	\$ 5,812,087
Other taxes	5,414,961	5,170,817
Revenue sharing from counties	1,136,199	1,103,685
Revenue from use of money and property	374,124	9,025
Recovery of costs	86,545	-
Donations	482,165	-
Miscellaneous	527,309	374,154
Transfers	2,100,872	2,113,017
Total governmental activities	<u>16,466,752</u>	<u>14,582,785</u>
Business-type activities:		
Revenue from use of money and property	65,481	2,087
Transfers	(2,100,872)	(2,113,017)
Total business-type activities	<u>(2,035,391)</u>	<u>(2,110,930)</u>
Total general revenues and other changes in net assets	<u>\$ 14,431,361</u>	<u>\$ 12,471,855</u>
Change in Net Assets		
Governmental activities	\$ 318,001	\$ 2,265,621
Business-type activities	606,233	(86,152)
Total primary government	<u>\$ 924,234</u>	<u>\$ 2,179,469</u>

City of Franklin

Full-time Equivalent City Government Employees by Function/Program

Last Ten Fiscal Years										
Function/Program	Full-time Equivalent Employees as of June 30									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
GENERAL FUND										
General government	26	24.5	24.5	26	25.5	25	25	22	22	22.5
Police and Communications	42	42	42	42	42	41.5	40.5	40	39.5	34.5
Animal Control	1	1	1	1	1	1	1	1	0.5	0.5
Fire and Rescue - EMS	12	12	12	10	10	10	9	8	8	8
Community Services	6	5	5	5	5	4.5	4	4	4	3
Public Works-Streets	23	23	24	25	25	26	26.5	26.5	26	26
Garage	4	4	4	4	4	4	4	4	4	5
Refuse collection	9	9	9	9	9	9	9	9	9	15
Public Works-Bldgs and Grounds	9	9	7.5	7	6	6	6	6	5	5
Cemetery and Mosquito Control	0	0	0.5	1	1	1	3	3	2.5	2.5
Park and Recreation	7.5	7.5	7.5	7.5	7.5	7.5	7	6.5	6.5	6
Senior Program	2	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	1	1	0	0	0	0	0	0
Downtown Development	1	1	1	1	1	2	2	2	2	2
Total General Fund	143	140.5	141.5	142	139.5	140	139.5	134.5	131.5	132.5
Social Services Fund	19	19	20	20	20	20	19	19	19	17
Electric	20	20	20	20	20	20	20	20	20	19
Water and Sewer	16	17	18	18	18	18	17	15	14	18
Incubator	1	0	0	0	0	0	0	0	0	0
Airport	2	2	2	1.5	1.5	1.5	1.5	1.5	1	1
Total	201	198.5	201.5	201.5	199	199.5	197	190	185.5	187.5

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Operating Indicators by Function/Program

Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Police										
Physical arrests	955	954	882	695	667	435	736	965	1,133	1,139
Parking violations	108	80	110	120	188	411	333	42	NA	NA
Traffic violations	1,955	1,069	1,022	1,220	1,001	1,485	1,508	1,358	2,738	2,147
Fire										
Emergency responses	2,170	2,072	1,886	1,827	1,718	-	-	-	-	-
Fires extinguished	108	95	89	89	86	-	-	-	-	-
Inspections	11	10	12	10	7	-	-	-	-	-
Refuse collection										
Refuse collected (tons per day)	13.40	-	-	-	-	-	-	-	-	-
Recyclables collected (tons per day)	1.31	N/A	N/A	N/A	-	-	-	-	-	-
Other public works										
Street resurfacing (tons)	2,750	-	-	-	-	-	-	-	-	-
Potholes repaired	200	-	-	-	-	-	-	-	-	-
Park and recreation										
Athletic field permits issued	N/A	-	-	-	-	-	-	-	-	-
Community center admissions	25,956	26,605	N/A	N/A	18,438	19,038	N/A	19,902	N/A	N/A
Library										
Volumes in collection	N/A	N/A	-	-	-	-	-	-	-	-
Total volumes borrowed	107,672	102,455	-	-	-	-	-	-	-	-
Water										
New connections	40	42	36	11	7	15	13	-	-	-
Water mains breaks	20	-	-	-	-	-	-	-	-	-
Average daily consumption (thousands of gallons)	1,169	-	-	-	-	-	-	-	-	-
Peak daily consumption (thousands of gallons)	1,700	-	-	-	-	-	-	-	-	-
Wastewater										
Average daily sewage treatment	980	-	-	-	-	-	-	-	-	-
Sewer connections - New	40	42	36	11	7	15	13	-	-	-

Capital Asset Statistics by Function/Program

Last Ten Fiscal Years										
Function/Program	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	27	27	27	27	27	27	26	26	25	23
Fire stations	2	2	2	2	2	2	2	2	2	2
Refuse collection										
Collection trucks	4	3	3	3	3	3	3	3	3	3
Other public works										
Traffic signals	14	13	13	13	12	12	12	11	11	11
Park and recreation										
Acreage	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	3	3
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

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Compliance Section

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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***

Certified Public Accountants
Specialized Services
Business Solutions

Honorable Mayor and City Council
City of Franklin, Virginia

We have audited the financial statements of the *City of Franklin, Virginia* as of and for the year ended June 30, 2006, and have issued our report thereon dated December 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Franklin, 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 City Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company, L.L.P.

Newport News, Virginia
December 20, 2006

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Certified Public Accountants
Specialized Services
Business Solutions

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

Honorable Mayor and City Council
City of Franklin, Virginia

Compliance

We have audited the compliance of the *City of Franklin, Virginia* 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, 2006. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants, applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *City of Franklin, Virginia's* compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the *City 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, 2006.

Internal Control Over Compliance

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

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Honorable Mayor and City Council
City of Franklin, Virginia

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

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

Goodman & Company, L.L.P.

Newport News, Virginia
December 20, 2006



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

Certified Public Accountants
Specialized Services
Business Solutions

Honorable Mayor and City Council
City of Franklin, Virginia

We have audited the financial statements of the ***City of Franklin, Virginia*** as of and for the year ended June 30, 2006, and have issued our report thereon dated December 20, 2006.

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

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

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

Code of Virginia

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

State Agency Requirements

- Education
- Comprehensive Services Act
- Social Services

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Honorable Mayor and City Council
City of Franklin, Virginia

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

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

Goodman & Company, L.L.P.

Newport News, Virginia
December 20, 2006

City of Franklin, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
U.S. Department of Agriculture		
Pass-Through Payments:		
Department of Education:		
School Breakfast Program	* 10.553	\$ 104,109
National School Lunch Program	* 10.555	313,184
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Administration	10.561	209,593
U.S. Department of Housing and Urban Development		
Pass-Through Payments:		
Department of Housing and Urban Development Community Development Block Grant/State's Program	14.228	260,181
U.S. Department of Justice		
Pass-Through Payments:		
Department of Justice: Financial Assistance for Administration	16.592	3,390
U.S. Department of Transportation		
Direct Payments:		
Hazardous Materials Emergency Preparedness	20.703	5,793
Pass-Through Payments:		
Incentives to Prevent Intoxicated Drivers	20.605	4,402

City of Franklin, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
U.S. Department of Education		
Pass-Through Payments:		
Department of Education:		
Adult Literacy Services	84.002	8,441
Title I - Grants to Local Educational Agencies	* 84.010	540,952
Special Education - Grants to States	84.027	362,722
Vocational Education - Basic Grants to States	84.048	46,451
Special Education - Preschool Grants	84.173	35,305
Safe and Drug-Free Schools and Communities - State Grants	84.186	15,495
Title IVB	84.287	107,866
Innovative Education Program Strategies	84.298	7,668
Literacy Challenge Grant	84.318	9,875
Title II - Teacher Quality Enhancement Grant	84.336	7,865
Reading First	84.357	136,012
Title VI-Rural Education	84.358	52,053
Title II - Improving Teacher Quality State Grants	84.367	377,762
State Assessments and Related Activities	84.369	2,628
U.S. Department of Homeland Security		
Pass-Through Payments:		
Department of Military Affairs		
State Homeland Security Grant	97.004	46,331
Public Assistance Grant	97.036	458,811
Disaster Planning and Operation	97.039	15,897
Emergency Management Preparedness	97.042	19,599
U.S. Department of Health and Human Services		
Pass-Through Payments:		
Department of Social Services:		
Family Preservation and Support Services	93.556	11,250
Temporary Assistance to Needy Families (TANF)	* 93.558	249,832
Refugee and Entrant Assistance State Administered Plans	93.566	272
Low-Income Home Energy Assistance	93.568	13,432
Child Care and Development Block Grant	93.575	56,564
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	94,039
Chafee Education and Training	93.599	3,245
Foster Care -Title IV-E	93.658	181,925
Adoption Assistance	93.659	7,803
Social Services Block Grant	* 93.667	102,554
Medicaid Assistance Program	93.778	181,510
Total Federal Expenditures		\$ 4,054,811

* Represents a major program of the City of Franklin

City of Franklin, Virginia

Notes to Schedule of Expenditures of Federal Awards

June 30, 2006

1. **Basis of Presentation**

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

* * * * *

Schedule of Findings

June 30, 2006

1. Summary of Auditors' Results

- a) The auditor's report expresses an unqualified opinion on the basic financial statements of the City.
- b) There were no reportable conditions noted in internal control required to be disclosed.
- c) No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were noted during the audit.
- d) No reportable conditions requiring disclosure were noted during the audit of internal control over major federal programs.
- e) The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal award programs.
- f) The audit did not disclose any audit findings required to be reported.
- g) The major programs are:
 - i) Child Nutrition Cluster (CFDA No's. 10.533, 10.555)
 - ii) Title I (CFDA No. 84.010)
 - iii) Temporary Assistance to Needy Families (CFDA No. 93.558)
 - iv) Social Services Block Grant (CFDA No. 93.667)
- h) The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
- i) The auditee qualified as a low-risk auditee.

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

None

3. Findings and Questioned Costs for Major Federal Awards Programs

None

4. Status Prior Year Federal Awards Findings

None

5. State Compliance Findings

None (Prior year state compliance finding 2005-01 has been corrected)