



FOR THE YEAR

ENDED

JUNE 30, 2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT



CITY MANAGER

207 W. SECOND AVENUE

FRANKLIN, VIRGINIA 23851

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THE CITY OF FRANKLIN, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012



Growth – Community - Spirit

Department of Finance

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ms. Melissa D. Rollins, Director of Finance, 207 W. Second Avenue, Franklin, Virginia 23851. For information about the City, refer to the City's web page at www.franklinva.com.

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CITY OF FRANKLIN, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

INTRODUCTORY SECTION	PAGE
Title Page	iii
Table of Contents	v-viii
Directory of Principal Officials	ix
Organizational Chart	xi
Letter of Transmittal	xiii-xvi
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-13
<u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Exhibit 1 Statement of Net Assets	17
Exhibit 2 Statement of Activities	18-19
Fund Financial Statements:	
Exhibit 3 Balance Sheet - Governmental Funds	21
Exhibit 4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	22
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	23
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Exhibit 7 Statement of Net Assets - Proprietary Funds	25
Exhibit 8 Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	26
Exhibit 9 Statement of Cash Flows - Proprietary Funds	27
Exhibit 10 Statement of Fiduciary Net Assets	28
Notes to Financial Statements	29-69

CITY OF FRANKLIN, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION (CONTINUED)	PAGE
<u>Required Supplementary Information</u>	
Exhibit 11 Schedule of Revenues, Expenditures, and Changes in Fund Balances - General Fund - Budget and Actual	71
Exhibit 12 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Virginia Public Assistance Fund - Budget and Actual	72
Exhibit 13 Schedule of Pension Funding Progress for the Virginia Retirement System	73
Exhibit 14 Schedule of Funding Progress for Other Post-Employment Benefits	74
 <u>Other Supplementary Information</u>	
Combining and Individual Nonmajor Fund Statements:	
Primary Government	
Exhibit 15 Combining Balance Sheet - Nonmajor Special Revenue Funds	79-80
Exhibit 16 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	81-82
Exhibit 17 Combining Statement of Fiduciary Net Assets - Agency Funds	83
Exhibit 18 Combining Statement of Changes in Assets and Liabilities - Agency Funds	84
 Discretely Presented Component Unit - School Board:	
Exhibit 19 Combining Balance Sheet	86
Exhibit 20 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	87
Exhibit 21 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	88
 Discretely Presented Component Unit - Industrial Development Authority	
Exhibit 22 Statement of Net Assets	90
Exhibit 23 Statement of Revenues, Expenses, and Changes in Net Assets	91
Exhibit 24 Statement of Cash Flows	92

CITY OF FRANKLIN, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION (CONTINUED)	PAGE
Supporting Schedules	
Schedule 1 Schedule of Revenues - Budget and Actual - General Fund	94-96
Schedule 2 Schedule of Expenditures - Budget and Actual - General Fund	97-99
 STATISTICAL SECTION	
Table 1 Government-Wide Revenues	102
Table 2 Government-Wide Expenses by Function	103
Table 3 General Governmental Revenues by Source	104
Table 4 General Governmental Expenditures by Function	105
Table 5 Fund Balance - Governmental Funds	106
Table 6 Changes in Fund Balance - Governmental Funds	107
Table 7 Net Assets by Component	108
Table 8 Change in Net Assets	109-110
Table 9 Property Tax Levies and Collections	111
Table 10 Assessed Value of Taxable Property	112
Table 11 Property Tax Rates	113
Table 12 Principal Taxpayers - Real Estate	114
Table 13 Principal Taxpayers - Personal Property	115
Table 14 Taxable Sales by Category	116
Table 15 Ratio of Net General Bonded Debt to Assessed Value	117
Table 16 Legal Debt Margin Information	118
Table 17 Ratio of Annual Debt Service Expenditures to Total General Governmental Expenditures	119
Table 18 Ratios of Outstanding Debt by Type	120

CITY OF FRANKLIN, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS (CONTINUED)

STATISTICAL SECTION (CONTINUED)	PAGE
Table 19 Demographic Statistics	121
Table 20 Principal Employers	122
Table 21 Full-Time Equivalent City Government Employees by Function/Program	123
Table 22 Operating Indicators by Function/Program	124
Table 23 Capital Asset Statistics by Function/Program	125
COMPLIANCE SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	129-130
Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance, and the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	131-132
Schedule of Expenditures of Federal Awards	133-134
Notes to Schedule of Expenditures of Federal Awards	135
Schedule of Findings and Questioned Costs	136

CITY OF FRANKLIN, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2012

Mayor

Raystine D. Johnson

Vice Mayor

Barry Cheatham

Council Members

Donald T. Blythe

Brenton D. Burgess

Mona Murphy

Mary E. Hilliard

Gregory McLemore

Constitutional Officers

Dinah M. Babb

Brenda B. Rickman

Treasurer

Commissioner of Revenue

Franklin City Public Schools

Don Scarboro

Michelle R. Belle

Rachel Yates

Chairman of School Board

Superintendent

Director of Finance

City Administration

Randy Martin

H. Taylor Williams, IV

Melissa Rollins

Phillip M. Hardison

Mark Bly

Frank A. Davis

Jennifer L. Maynard

Vincent P. Holt

Russell L. Pace

Christopher A. Hogge

Donald E. Goodwin

City Manager

City Attorney

Director of Finance

Chief of Police

Director of Public Utilities

Director of Recreation and Parks

Registrar

Chief of Emergency Services

Director of Public Works

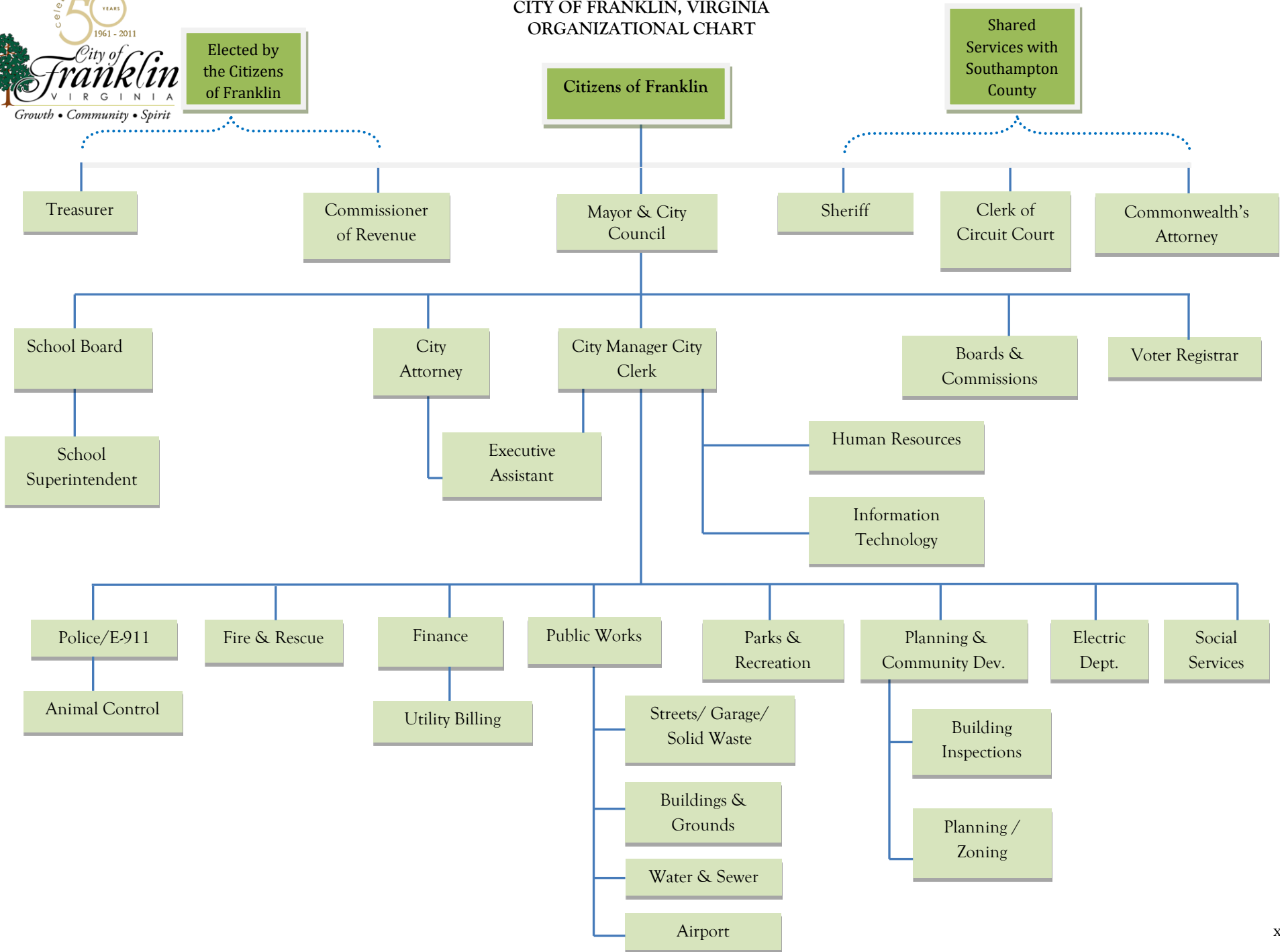
Director of Social Services

Director of Community Development

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CITY OF FRANKLIN, VIRGINIA
ORGANIZATIONAL CHART



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November 30, 2012

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Franklin (the “City”) for the fiscal year ended June 30, 2012. 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 component units of the City of Franklin.

The City of Franklin’s financial statements have been audited by Davis & Associates, 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, 2012 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, 2012, are fairly presented in conformity with GAAP. The independent auditor’s report is presented in the Financial Section 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 follows the Statistical Section of this report.

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

Profile of the City of Franklin

Background

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 and 1996 increased the population and land area of the City. The

population today is approximately 8,900 and the land area is 8.75 square miles. The City is located in the southeastern part of the state in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the country.

Franklin is organized under the Council – City Manager form of government. The Franklin City Council is comprised of seven members, which includes the Mayor. Six council members, each representing a precinct, are elected by the voters and serve four year staggered terms. 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 annual 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, and directs the business and administrative affairs of the City, which includes supervision of employees.

The City of Franklin provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City owns and operates a municipal electric company (Franklin Power & Light) which provides electrical services to City residents and certain geographical locations within surrounding jurisdictions (Southampton, Suffolk and Isle of Wight). The City also owns and operates water and sewage facilities; provides curb-side trash disposal and recycling services; owns and operates a City pool; and manages various paid recreational activities. Franklin owns and maintains a municipal airport located one mile east of Franklin in Isle of Wight County.

Component Units

In addition to general governing activities, the governing body has significant financial influence over the Schools which is reported separately within the City of Franklin's financial statements as a component unit. Component units are legally separate entities for which the City is financially accountable for. For the schools, the City must provide all capital improvement funds, pay debt on school projects, and provide a significant amount of operating funds required, but not provided by the state. 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 Industrial Development Authority is also reported as component unit. Additional information on legally separate entities can be found in the Notes to the Financial Statements in Exhibits 19 through 24.

Budgetary Systems

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 February. 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 June 30th. The appropriated budget is prepared by fund and department. The City Manager, subject to a \$10,000 limit, may make transfers of appropriations within a department. New sources of funding and transfers exceeding the \$10,000 limit require the approval of City Council. Transfers within the School Operating Fund must be approved by 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. Budget-to-actual comparisons for the General Fund are provided on exhibit 11 and schedule 2 of the report.

Economic Conditions & Outlook

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 effects of the economic downturn are still evidenced in the national, state and local economy (i.e. housing market and assessed values, unemployment rates). Unique to the City of Franklin, was the closing of International Paper (IP) in 2010 which had a significant fiscal impact (approximate loss of 1,100 jobs and \$1.2 million in revenue sharing payments) to the City. Since then, International Paper repurposed a portion of the closed mill to produce fluff pulp (material used in absorbent products). Operations commenced in May 2012 and with an investment of \$83 million in the repurposing, approximately 200 jobs were created. City officials were optimistic that this commitment to produce fluff pulp would open up new possibilities for other uses of the site, and potentially

even more jobs. The City's excellent workforce, the plant's existing technology and capability, transportation (proximity to rail), and the availability of U.S. Southern pine in the region were factors influencing IP's decision to locate the fluff pulp operation in the mill.

On July 30, 2012, Governor McDonnell announced that Tak Investments would invest \$60 million to establish a recycled tissue operation in part of the Mill. The investment would create 80 jobs and operations are planned for startup by the 3rd quarter of 2012 (FY2013). According to its spokesman, Tak Investments was attracted to the plant for reasons similar to IP including the condition of the machinery, the quality workforce, the availability of nearby resources including water and the ability to draw recyclable paper from surrounding areas including Raleigh-Durham, Hampton Roads, Washington, Baltimore and Philadelphia. In turn, the City will begin to see some revenue recovery from the operation of the plant's machinery and tools under the revenue sharing agreement with Isle of Wight County.

Enterprise Zones. In an effort to attract new business to the community, the City of Franklin has established Enterprise Zones. These zones entitle new businesses to various state and local incentives to promote further economic development including job creation. In FY 2011-2012, two businesses received incentives under the program: (1) O'Reilly's Auto Parts, a new business, invested \$1,067,000 and created 11 new jobs and (2) Tandem Inc. (McDonalds) a substantial renovation, invested \$300,000 in building improvements and equipment and created 10 new jobs.

Established industries include Butler Paper Recycling, Birdsong Peanut Co., and Southampton Memorial Hospital, which is the City's largest employer.

Long-Term Financial Planning

With the aid of financial advisors and bond counsel, the City restructured its debt in 2010 to financially prepare for the fiscal challenges as a result of the closing of International Paper. A component of the restructuring included a creation of a debt reserve with the savings generated from the refunding of bonds, which allowed cumulated funds to be appropriated in future years to assist in meeting the City's debt service obligations as they begin the ascent to higher levels established by the restructuring process. At the end of June 30, 2012, the amount of the reserve was \$2,250,866.

Looking beyond FY 2012, City management was able to utilize a portion of the reserves (\$876,222) to assist with funding the FY 2013 budget while equalizing the debt service burden over a longer period than initially planned at restructuring. Further, in FY 2013 management explored additional debt restructuring and borrowing opportunities as a result of economic improvements (i.e. lower interest rates) which will (1) allow the City more time to recover revenues from a thriving local economy to better meet future debt obligations and (2) adequately address long range capital and infrastructure needs that could not be accomplished during the economic downturn.

Through a series of strategic work sessions, City Council and City Management will continue to explore opportunities and establish priorities as the guiding principles to move the City forward while establishing collaborative partnerships between City organizations, (the Franklin Southampton Economic Development Inc., School Board, Advisory Committees, etc.) and neighboring jurisdictions to further advance the City's objectives.

Financial Policies

One of the financial policies closely monitored is the City's unassigned fund balance policy which indicates the ability of the City to cope with unexpected financial challenges or emergencies. The larger the unassigned General Fund balance, the greater the City's ability to cope with these potential financial emergencies and fluctuations in revenue cycles and to take advantage of unexpected opportunities. The City has established the ratio of unassigned General Fund balance as a percentage of budgeted annual expenditures in the General Fund at a minimum of 15%. At June 30, 2012, the City's unassigned fund balance of \$3.08 million represented nearly 14% of the budgeted annual expenditures. While this is slightly short of the minimum target, the City greatly improved its unassigned fund balance from the previous year, increasing it by over \$700,000 or 30% from the balance ending June 30, 2011.

Application for Future Award

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to local governments for their efforts in publishing an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR). This is a prestigious award valid for a one year period. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. The City of Franklin plans to submit the Comprehensive Annual Financial Report to GFOA to determine first-time eligibility for the certificate.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the Finance Department, the School Board Finance Department, the Treasurer’s Office, the Commissioner of the Revenue’s Office and other departments who played a role in a favorable year-end audit. The City is pleased to have the professional services of Davis & Associates to provide assistance with analysis and preparation of the Comprehensive Annual Financial Report. City Council’s oversight of the financial affairs of the City has resulted in the City’s strong financial position. Council is commended for their interest and support in the strategic planning for the City’s future and for conducting the operations of the City of Franklin in a responsible and progressive manner.

Respectfully Submitted,



R. Randy Martin
City Manager

Melissa D. Rollins |
Director of Finance

INDEPENDENT AUDITOR'S REPORT

**The Honorable Governing Body
City of Franklin, Virginia**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, 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 discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of June 30, 2012, 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 November 4, 2012, 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 considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin, Virginia's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Franklin, Virginia. The combining and individual fund financial statements and schedules, supporting schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Davis & Associates

November 4, 2012
Alexandria, Virginia

Management's Discussion and Analysis
Fiscal Year July 1, 2011 – June 30, 2012

The management of the City of Franklin (the City's) provides this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statements information included in this report.

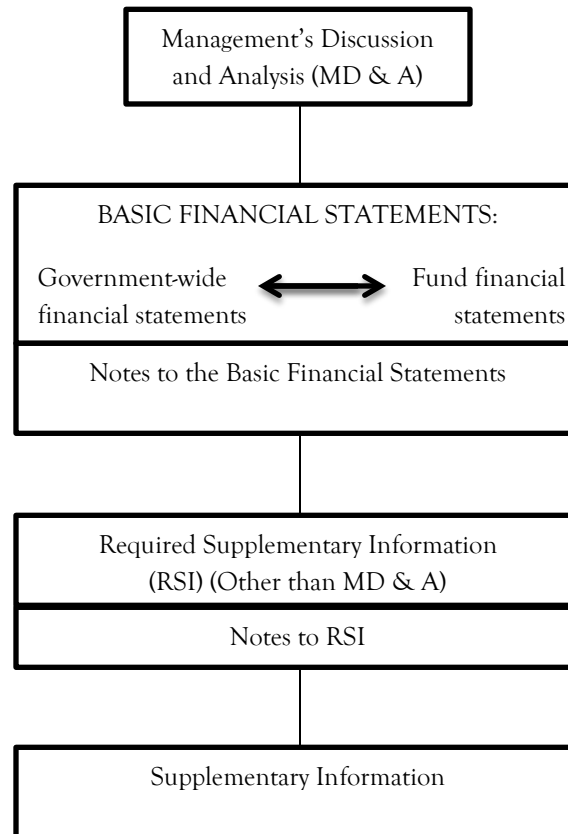
FINANCIAL HIGHLIGHTS

- The assets of the City of Franklin exceeded its liabilities at the close of fiscal year 2012 by \$30,897,678 (net assets). Of this amount, \$6,225,111 represents unrestricted net assets which may be used to meet the City's ongoing obligations and \$1,062,775 represents restricted net assets for future debt service. The residual \$23,609,792 relates to capital assets, net of related debt, and is not available for expenditure (Exhibit 1).
- The City's total net assets decreased by \$1,742,282 from the prior year. Of this amount, business-type activities net assets decreased \$1,947,198 while governmental fund net assets increased \$204,916 (Exhibit 2).
- The General Fund, on a current financial resources basis, reported revenues and other financing sources over expenditures and other financing uses of \$1,892,081. This is after making a \$4.19 million payment to Franklin City Schools, \$89,683 payment to the Airport Fund (Enterprise), \$436,734 to Special Revenue Funds, and \$915,024 to Debt Service Fund. The City received \$784,000 more in revenue sharing payments from Isle of Wight County than in FY 2010-2011 (mainly due to a fiscal period accounting change). Other local tax revenue also increased \$290,000, or 5.8%, from the previous fiscal year, also contributing to the General Fund balance increase. Expenditures decreased \$1,537,925 when compared to fiscal year 2010-2011, partly due to lower expenditures in Community Development, Public Safety, Public Works, and Education (Exhibit 5).
- The City's total outstanding general obligation debt at June 30, 2012 was \$16,743,757. This includes \$3,883,518 in business-activity debt and \$12,860,239 in general government activities (\$6,147,972 is School related debt and \$6,712,266 is other general government debt - details in Note 7 - Notes to the Financial Statements).

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical and financial compliance reports for federal funds. The financial section consists of three (3) sections: *management discussion and analysis*, basic financial statements and supplementary information. 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.

COMPONENTS OF THE FINANCIAL SECTION



The City's financial statements present two kinds of statements, each with a different snapshot of the City's finances. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both perspectives allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability.

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* (Exhibit 1) 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. However, other non-financial factors will need to be considered, such as changes in the City's property tax base and condition of the City's infrastructure. The *Statement of Activities* (Exhibit 2) presents information identifying how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

In the *Statement of Net Assets* (Exhibit 1) and the *Statement of Activities* (Exhibit 2), the City is divided into the following:

- Governmental activities – The City’s basic municipal services are reported here and include general government, public safety, highways and streets, sanitation, community development, public health, and cultural and recreation. These activities are mainly supported by taxes and intergovernmental revenue.
- Business-type activities – The City charges user fees to customers to help offset all or most of the cost of the services provided. The business-type activities of the City reported in this section include Water and Sewer Utility, Electric Utility, and Airport operations. While the Water & Sewer and Electric Utility Funds are self-supporting, the City provides general fund support for operation of the Airport.
- Component Units - 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 for providing operating and capital funding: 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 19 - 24 of this report.

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. The focus here is on (1) inflows and outflows of cash and other financial resources that can be readily converted into cash and (2) the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating whether there are more or fewer resources that can be spent in the short term to finance City operations. Because this information does not address the long-term focus 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 several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Capital Projects and Debt Service funds. Data from the other governmental funds are combined into a single aggregate presentation. Individual funds data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The City adopts an annual budget for its various funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided on Exhibits 10 and 11 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Proprietary Funds – The City maintains proprietary funds to account for enterprise fund operations 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, electrical, and airport operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on each fund and can be found in Exhibits 7, 8 and 9 of this report.

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 City programs. The accounting for fiduciary funds is similar to the proprietary funds. The fiduciary fund financial statement can be found in Exhibit 10 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found after Exhibit 10 in this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City, including financial information of the School Board component unit. Supplementary information can be found in Exhibits 13 - 24 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 \$30,897,678.

STATEMENT OF NET ASSETS (Exhibit 1)

	Governmental Activities		Business Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Current and other assets	\$ 10,591,561	\$ 8,632,010	\$ 2,709,016	\$ 4,389,987	\$ 13,300,577	\$ 13,021,997
Capital assets	28,565,771	30,037,638	11,901,171	12,256,179	40,466,942	42,293,817
Total assets	\$ 39,157,332	\$ 38,669,648	\$ 14,610,186	\$ 16,646,166	\$ 53,767,519	\$ 55,315,814
Current and other liabilities	\$ 1,641,764	\$ 1,002,981	\$ 2,270,827	\$ 2,124,076	\$ 3,912,591	\$ 3,127,057
Long-term liabilities	15,151,870	15,507,885	3,805,379	4,040,911	18,957,249	19,548,796
Total liabilities	\$ 16,793,634	\$ 16,510,866	\$ 6,076,205	\$ 6,164,987	\$ 22,869,839	\$ 22,675,853
Net assets:						
Invested in capital assets, net of related debt	\$ 15,514,000	\$ 16,568,294	\$ 8,095,793	\$ 8,400,534	\$ 23,609,793	\$ 24,968,828
Restricted for Debt service	1,062,775	1,032,007	-	-	1,062,775	1,032,007
Unrestricted net assets	5,786,923	4,558,481	438,188	2,080,645	6,225,111	6,639,126
Total net assets	\$ 22,363,698	\$ 22,158,782	\$ 8,533,981	\$ 10,481,179	\$ 30,897,678	\$ 32,639,961

The largest portion of the City's total net assets of \$30,897,679 is its \$23,609,793 investment in capital assets (e.g. land, buildings and improvements, machinery and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. The remaining net assets of \$7,287,886 are comprised of \$6,225,111 in unrestricted net assets, which may be used to meet the City's ongoing obligations, and \$1,062,775 in restricted assets for debt service obligations.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

The City's financial position includes 20% of the net assets, or \$6.22 million, as unrestricted net assets. The \$5.8 million from governmental activities and \$.4 million from business-type activities are available to allow the City to provide services to citizens.

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

**CHANGES IN NET ASSETS (Exhibit 2)
For the Fiscal Year Ended June 30, 2012**

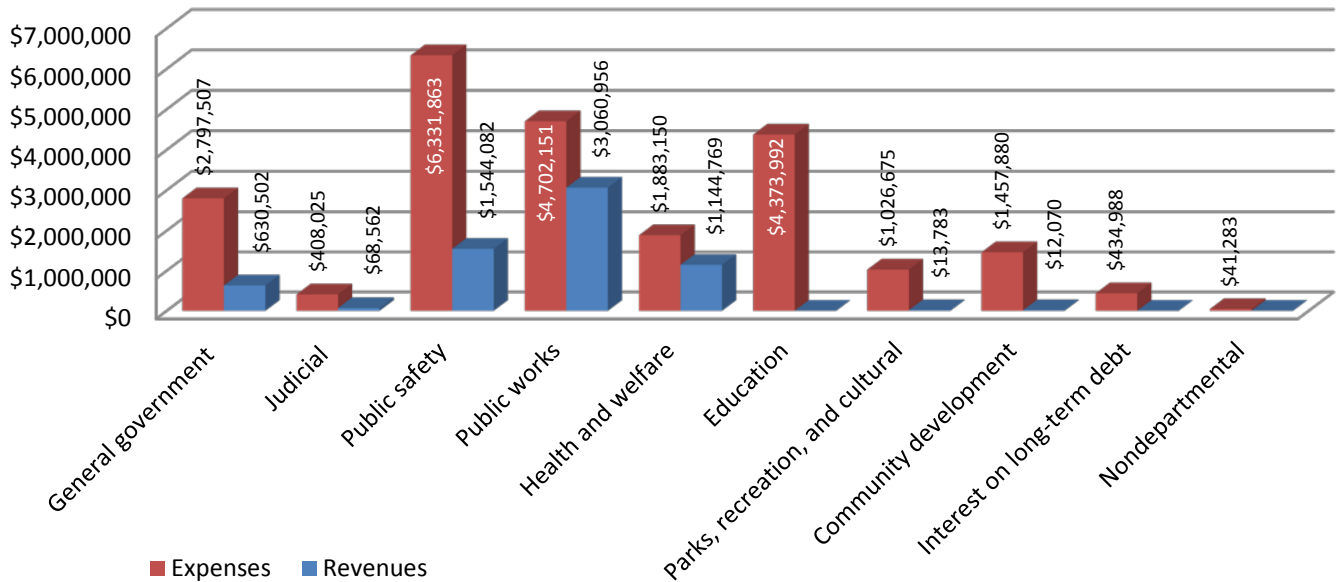
	Governmental Activities		Business-Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Revenues						
Program Revenues:						
Charges for services	\$ 2,684,001	\$ 2,811,885	\$ 16,337,974	\$ 17,086,470	\$ 19,021,975	\$ 19,898,355
Operating grants & contributions	3,790,723	4,638,338	-	-	3,790,723	4,638,338
Capital grants & contributions	-	-	22,006	109,004	22,006	109,004
General Revenues:						
Real estate & personal property taxes	6,531,186	6,499,693	-	-	6,531,186	6,499,693
Other local taxes	5,221,541	4,931,497	-	-	5,221,541	4,931,497
Revenue sharing from counties	1,212,182	438,746	-	-	1,212,182	438,746
Use of money & property	367,899	341,820	-	-	367,899	341,820
Grants & gifts - non-restricted	1,666,230	1,663,699	-	-	1,666,230	1,663,699
Miscellaneous	359,583	249,154	-	-	359,583	249,154
Total Revenues	\$ 21,833,345	\$ 21,574,832	\$ 16,359,980	\$ 17,195,474	\$ 38,193,325	\$ 38,770,306
Expenses						
General government	\$ 2,797,507	\$ 2,451,215	\$ -	\$ -	\$ 2,797,507	\$ 2,451,215
Judicial	408,025	417,073	-	-	408,025	417,073
Public safety	6,331,863	6,638,673	-	-	6,331,863	6,638,673
Public works	4,702,151	4,123,252	-	-	4,702,151	4,123,252
Health and welfare	1,883,150	2,092,175	-	-	1,883,150	2,092,175
Education	4,373,992	4,762,168	-	-	4,373,992	4,762,168
Parks, recreation, cultural	1,026,675	1,045,170	-	-	1,026,675	1,045,170
Community development	1,457,880	2,134,311	-	-	1,457,880	2,134,311
Interest & fees on long-term debt	434,988	240,711	-	-	434,988	240,711
Nondepartmental	41,283	-	-	-	41,283	-
Water & Sewer	-	-	2,972,701	3,025,608	2,972,701	3,025,608
Electric	-	-	13,153,530	12,315,508	13,153,530	12,315,508
Airport	-	-	351,863	571,057	351,863	571,057
Total Expenses	\$ 23,457,513	\$ 23,904,748	\$ 16,478,094	\$ 15,912,173	\$ 39,935,607	\$ 39,816,921
Excess of revenue over expenses	\$ (1,624,168)	\$ (2,329,916)	\$ (118,114)	\$ 1,283,301	\$ (1,742,282)	\$ (1,046,615)
Transfers	1,829,084	2,008,697	(1,829,084)	(2,008,697)	-	-
Change in net assets	\$ 204,916	\$ (321,219)	\$ (1,947,198)	\$ (725,396)	\$ (1,742,282)	\$ (1,046,615)
Net assets - beginning of year	22,158,782	22,480,001	10,481,179	11,206,575	32,639,961	33,686,576
Net assets - ending of year	\$ 22,363,698	\$ 22,158,782	\$ 8,533,981	\$ 10,481,179	\$ 30,897,679	\$ 32,639,961

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Government Activities

Real estate and personal property tax revenue, the City’s largest revenue source, totaled \$6,531,186, up \$31,493 from the previous year. The City’s real estate tax rate remained at \$0.77 per hundred dollars of assessed value. Personal property was taxed at \$4.50 per \$100 of assessed value and represents \$1.33 million of total general property taxes (excludes tax relief portion of \$1.05 million). Other local tax revenues, which totaled \$5,221,542, consist primarily of local option sales, consumer utility, business license, motor vehicle license, lodging, and meals taxes. Other local tax revenue increased by \$290,044, or 5.8%, when compared to the previous year primarily due to a \$129,000 increase in local sales tax revenue, a \$175,000 increase in meal tax revenue and \$80,000 increase in lodging tax revenue.

**EXPENSES AND PROGRAM REVENUES
GOVERNMENTAL ACTIVITIES (Graph 1)**



Revenues from other Counties of \$1,212,182 represent revenue sharing payments received from Isle of Wight and Southampton Counties as part of annexation and service providing agreements. This is significantly more than FY2011 revenue sharing payments due to the accounting for the \$900,000 payment received in July 2011 in the FY2011-2012 accounting period in order to coincide with the accounting practices of the Isle of Wight Counties. (In previous fiscal years, the payment would have been accrued to the prior year period).

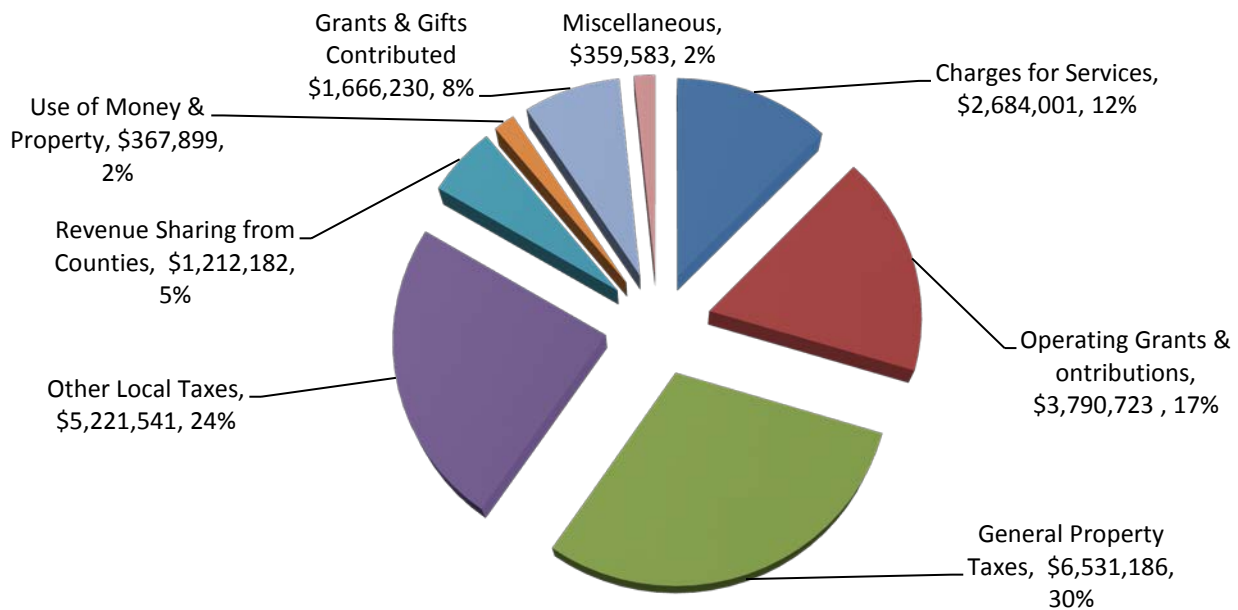
Charges for services represents revenue received primarily from waste collection, disposal charges, and ambulance services.

The chart above provides an overview of program expenses and related revenues as reflected in Exhibit 2, the Statement of Activities. The chart below denotes the major sources of revenue for the governmental funds.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Government Activities (CONTINUED)

REVENUES BY SOURCE
GOVERNMENTAL ACTIVITIES (Graph 2)



Business-Type Activities

Business Type Activities are made up of the Electric, Water & Sewer and Airport Fund activities.

Business-type activities decreased the City's net assets before transfers and capital grants by \$140,120 and after transfers and capital grants decreased net assets by \$1,947,198. Key elements of each fund were: Electric Fund revenue declined \$778,052, or 5.6%, from the prior year primarily due to a decline in charges for services. Revenues totaled \$13,093,877 when compared to \$13,871,929 in FY 2011. Electric Fund operating expenses totaled an increase of \$838,110 from the previous year, mainly the result of an increase of over \$1 million in purchases of goods and services for resale from FY 2011. The Water and Sewer Fund net income before transfers totaled \$70,628, up \$60,689 from the previous year's net income of \$9,939. This increase is primarily due to a decrease in depreciation and amortization expenses of \$149,630. The revenues for the Water & Sewer Fund remained steady from the prior fiscal year. Revenues for the Airport fund increased from the prior year due to increased aviation fuel sales.

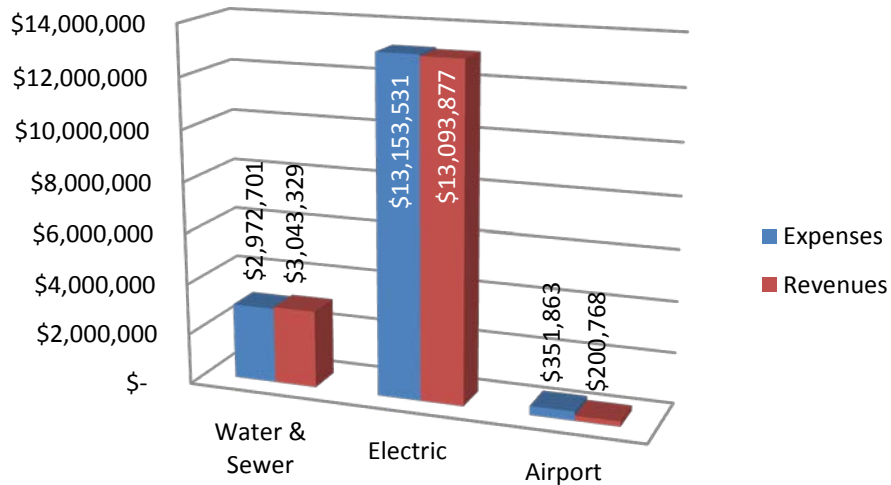
OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Business-Type Activities (CONTINUED)

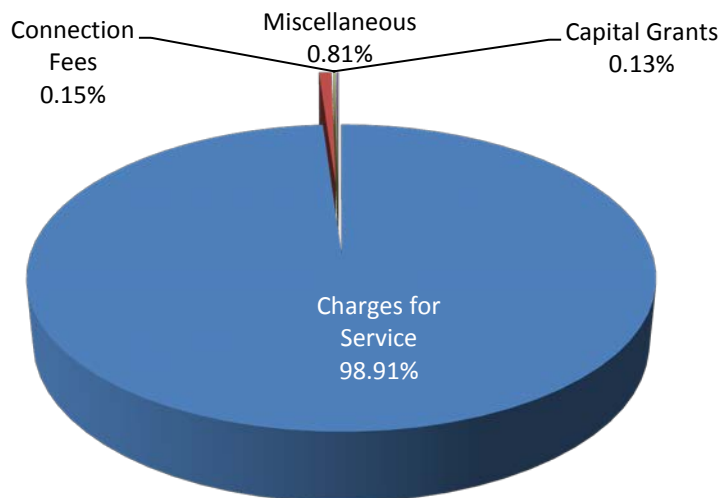
Airport Fund net assets decreased \$39,406, which was directly related to a reduction in state and federal capital grants for FY 2012 of \$86,998. The net loss before capital grants and transfers totaled \$151,094, compared to a net loss of \$392,063 last year.

Graph 3 below provides a comparison of program expenses and revenues, while Graph 4 denotes revenues by source. Graph 3 denotes revenues and expenses from continuing operations and does not include capital grants or transfers.

BUSINESS-TYPE FUNDS
Expenses and Program Revenues (Graph 3)



BUSINESS-TYPE ACTIVITIES
Revenues by Source (Graph 4)



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 a combined ending fund balance of \$8,735,793, compared to \$7,146,888 last year. The various components are discussed below.

General fund. The general fund is the chief operating fund of the City. At the conclusion of the current fiscal year, combined fund balance totaled \$6,953,693, which reflects a \$1,892,081 increase over the prior year ending fund balance of \$5,061,612. Of the \$6,953,693 balance, \$3,084,828, or 44%, represents unassigned funds which are available for operations of the government. The remaining \$3,868,866 is allocated among non-spendable, restricted and committed fund balance. (Unassigned fund balance expressed as a percentage of total fund expenditures is a useful measure of the general fund's liquidity. For the fiscal year ended June 30, 2012, this percentage totaled 16.7%. The City's financial policy measures unassigned fund balance as a percentage of budgeted annual expenses. Franklin City Council has determined that the General Fund should maintain a minimum of 15% of unassigned fund balance in order to meet unforeseen needs and potential opportunities. The unassigned fund balance of \$3.08 million is 14% of the budgeted annual expenses, slightly below policy but an improvement over last fiscal year.

Capital projects fund. The capital projects fund accounts for all general government, including schools, construction projects, excluding capital projects related to business-type activities which are accounted for elsewhere. At the end of the current fiscal year, the assigned fund balance totaled \$98,268, which is related to school capital expenditures.

Debt service fund. The debt service fund has a restricted fund balance of \$1,062,775, which represents funds purposed to pay future debt service obligations.

Proprietary funds. The City's Propriety Funds (Enterprise Funds) provide the same type of information found in the government-wide financial statements, but in more detail. The City's enterprise funds account for its water and sewer, municipal electric, and airport operations. Total net assets of the enterprise funds at the end of the current fiscal year totaled \$8,533,981, a decrease of \$1,947,198 over the prior balance of \$10,481,179. Information supporting the analysis of the proprietary funds was discussed previously.

GENERAL FUND BUDGETARY HIGHLIGHTS

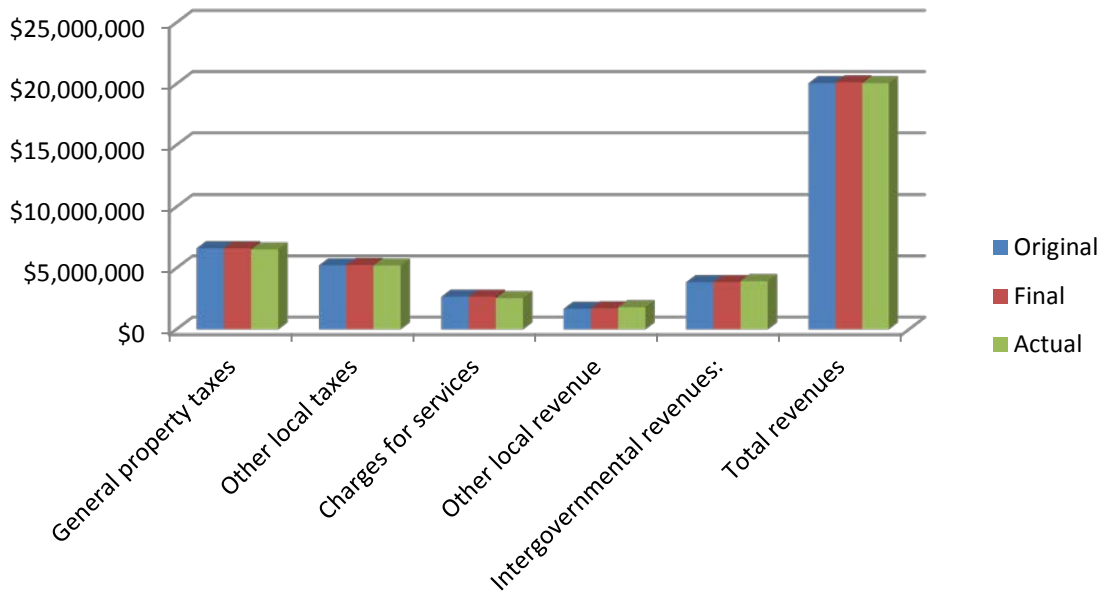
The City's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations. Annual operating budgets are adopted by ordinance for the General Fund, Debt Service Fund, Water & Sewer Fund, Electric Fund, Airport Fund and several Special Revenue Funds. However,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

During the year, City Council revised the budget on several occasions to include the appropriation of grants, donations, and other revenues. While there was relatively little change in the budget, actual expenditures varied significantly from the final budgeted amount for the General Fund. The actual contribution to the local school board was \$643,174 lower than the budgeted amount. Additionally, expenditures for Public Safety and Public Works were \$167,275 and \$368,795 below budget, respectively. This is attributed to savings realized from position vacancies in Police and Public Works, solid waste fees in Refuse Collection and Disposal and drainage expenditures in Public Works. City Council also appropriated \$372,846 from prior year fund balance to fund uncompleted projects in the General Fund, namely street paving and draining improvements.

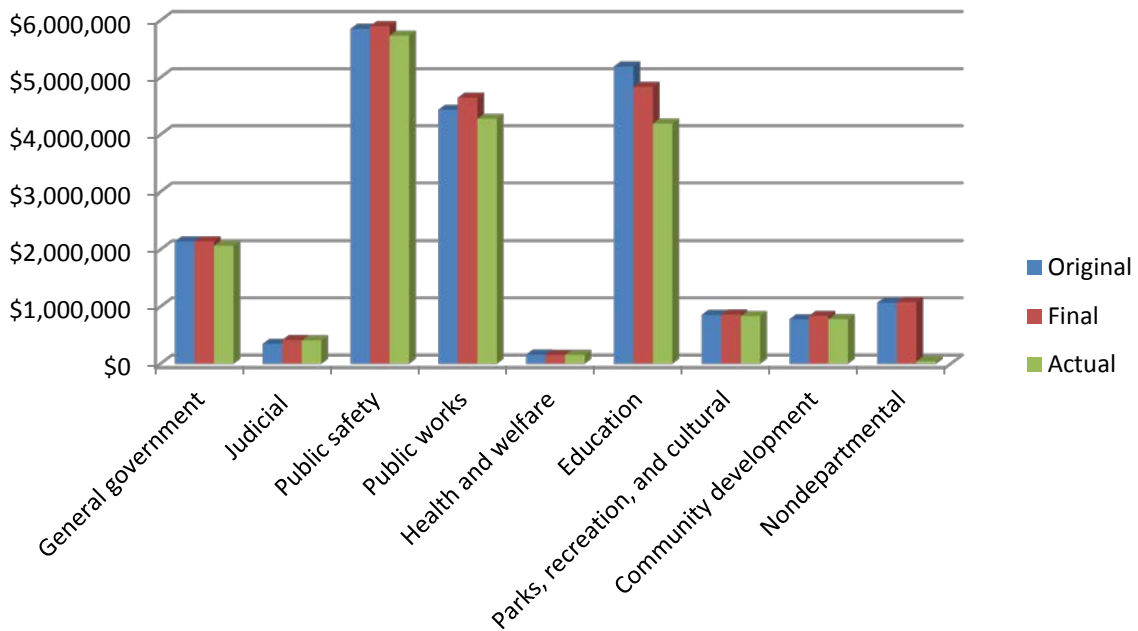
GENERAL FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

The following graphs provide an overview of the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

GENERAL FUND REVENUE
Comparison of Budget to Actual
Fiscal Year 2011-2012 (Graph 5)



GENERAL FUND EXPENDITURES
Comparison of Budget to Actual
Fiscal Year 2011-2012 (Graph 6)



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, 2012, totaled \$40,466,943, net of accumulated depreciation. Investment in capital assets includes land and easements, buildings, improvements other than buildings, infrastructure, machinery and equipment, and construction in progress. The current year reduction in capital asset of \$1,826,873 is primarily due to depreciation expense, which totaled \$1,988,125 in the governmental activities and \$1,164,855 in the proprietary activities. School board capital assets are not included in the schedule below. Additional details on school board capital assets can be located in Note 6 to the financial statements. The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Land	\$ 5,069,980	\$ 5,069,980	\$ 110,101	\$ 99,630	\$ 5,180,081	\$ 5,169,610
Construction in progress	-	-	2,670,854	2,348,460	2,670,854	2,348,460
Buildings	13,189,881	13,866,762	284,865	451,566	13,474,746	14,318,328
Improvements other than buildings	1,479,705	1,614,675	-	-	1,479,705	1,614,675
Machinery and equipment	1,907,158	2,108,986	595,260	400,499	2,502,418	2,509,485
Infrastructure	4,450,876	5,006,825	8,240,092	8,956,024	12,690,968	13,962,849
Allocations of component units	2,468,172	2,370,410	-	-	2,468,172	2,370,410
Totals	\$ <u>28,565,772</u>	\$ <u>30,037,638</u>	\$ <u>11,901,171</u>	\$ <u>12,256,179</u>	\$ <u>40,466,943</u>	\$ <u>42,293,817</u>

Debt Administration. The City's total outstanding general obligation debt at June 30, 2012 was \$16,743,757. This includes \$6,147,972 in School related debt and \$6,712,266 of general government debt. Of this total, \$12,860,239 is considered to be tax supported debt. A total \$3,883,518 of this total is related to Enterprise Fund (water & sewer, electric and airport) debt, which is directly supported by revenues generated from operations and not supported by taxes.

State statutes limit the amount of general obligation debt a government may issue to 10% of its total assessed valuation of real and public service corporations. The ratio of net bonded debt to assessed value totals 2.09% (see Table 8).

	FY 2012	FY 2011
General Government Activities:		
Bonds Payable - General	\$ 6,712,266	\$ 6,893,984
School Related Bonds & Notes	<u>6,147,972</u>	<u>6,276,286</u>
Total Tax Supported Debt	\$ <u>12,860,239</u>	\$ <u>13,170,270</u>
Business-type Activities:	\$ 3,883,518	\$ 3,940,296
Total Long-Term Debt	\$ <u>16,743,757</u>	\$ <u>17,110,566</u>
Per Capita Tax Supported	\$ 1,499	\$ 1,535
Total Per Capita Debt	\$ <u>1,951</u>	\$ <u>1,994</u>

Additional information on the City's long-term debt can be found in Note 7.

ECONOMIC FACTORS

The June 30, 2012 unemployment rate for the City of Franklin was 10.4% compared to 5.6% for Virginia and the national rate of 7.6%. The June 30, 2011 unemployment rate for the City of Franklin was 10.9%, compared to the state's unemployment rate of 6.3% and the average national rate of 9.3%.

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.

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CITY OF FRANKLIN
Statement of Net Assets
June 30, 2012

Exhibit 1

	Primary Government			Component Units	
	Governmental Activities	Business- Type Activities	Total	School Board	Industrial Development Authority
ASSETS					
Cash and cash Equivalents	\$ 6,242,224	\$ 1,792,147	\$ 8,034,370	\$ 1,343,619	\$ 14,297
Receivables (net of allowance for uncollectibles):					
Property taxes receivable	534,343	-	534,343	-	-
Accounts receivable	685,257	1,787,109	2,472,366	8,401	-
Internal balances	969,874	(969,874)	-	-	-
Due from other governmental units	764,368	-	764,368	547,414	-
Inventories	226,048	15,624	241,672	11,155	-
Prepaid expenses	-	-	-	-	-
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	1,062,775	-	1,062,775	-	-
Other assets:					
Deposits	-	12,633	12,633	-	-
Unamortized bond issue costs	106,673	71,377	178,050	-	-
Capital assets (net of accumulated depreciation):					
Land	5,069,980	110,101	5,180,081	-	-
Construction in progress	-	2,670,854	2,670,854	83,900	-
Land improvements	-	-	-	56,690	-
Buildings	15,658,053	284,865	15,942,918	4,739,077	-
Improvements other than buildings	1,479,705	-	1,479,705	-	-
Machinery and equipment	1,907,158	595,260	2,502,418	693,146	-
Infrastructure	4,450,876	8,240,092	12,690,968	3,807,045	-
Total assets	<u>\$ 39,157,332</u>	<u>\$ 14,610,186</u>	<u>\$ 53,767,519</u>	<u>\$ 11,290,447</u>	<u>\$ 14,297</u>
LIABILITIES					
Reconciled overdraft	\$ -	\$ 61,454	\$ 61,454	\$ -	\$ -
Accounts payable and accrued liabilities	1,157,461	1,588,545	2,746,006	1,292,366	-
Customers' deposits	-	598,467	598,467	-	-
Accrued interest payable	318,087	22,361	340,448	-	-
Deferred Revenue	113,369	-	113,369	-	-
Deposits held in escrow	52,847	-	52,847	-	-
Long-term liabilities:					
Due within one year	1,279,538	55,113	1,334,651	19,832	-
Due in more than one year	13,872,332	3,750,266	17,622,598	411,345	-
Total liabilities	<u>\$ 16,793,634</u>	<u>\$ 6,076,205</u>	<u>\$ 22,869,839</u>	<u>\$ 1,723,543</u>	<u>\$ -</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 15,514,000	\$ 8,095,793	\$ 23,609,792	\$ 9,379,858	\$ -
Restricted for:					
Debt service	1,062,775	-	1,062,775	-	-
Unrestricted (deficit)	<u>5,786,923</u>	<u>438,188</u>	<u>6,225,111</u>	<u>187,046</u>	<u>14,297</u>
Total net assets	<u>22,363,698</u>	<u>8,533,981</u>	<u>30,897,678</u>	<u>9,566,904</u>	<u>14,297</u>
Total liabilities and net assets	<u>\$ 39,157,332</u>	<u>\$ 14,610,186</u>	<u>\$ 53,767,519</u>	<u>\$ 11,290,447</u>	<u>\$ 14,297</u>

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities				
General government administration	\$ 2,797,507	\$ 630,502	\$ -	\$ -
Judicial administration	408,025	68,562	-	-
Public safety	6,331,863	441,386	733,167	-
Public works	4,702,151	1,517,698	1,543,258	-
Health and welfare	1,883,150	-	1,144,769	-
Education	4,373,992	-	-	-
Parks, recreation, and cultural	1,026,675	13,783	-	-
Community development	1,457,880	12,070	369,529	-
Interest on long-term debt	434,988	-	-	-
Nondepartmental	41,283	-	-	-
Total governmental activities	<u>\$ 23,457,513</u>	<u>\$ 2,684,001</u>	<u>\$ 3,790,723</u>	<u>\$ -</u>
Business-type activities:				
Water and sewer	\$ 2,972,701	\$ 3,043,329	\$ -	\$ -
Electric	13,153,530	13,093,877	-	-
Airport	351,863	200,768	-	22,006
Total business-type activities	<u>\$ 16,478,094</u>	<u>\$ 16,337,974</u>	<u>\$ -</u>	<u>\$ 22,006</u>
Total primary government	<u>\$ 39,935,607</u>	<u>\$ 19,021,975</u>	<u>\$ 3,790,723</u>	<u>\$ 22,006</u>
COMPONENT UNITS:				
School Board	\$ 16,000,483	\$ 116,497	\$ 10,805,098	\$ -
Industrial Development Authority	-	-	-	-
Total component units	<u>\$ 16,000,483</u>	<u>\$ 116,497</u>	<u>\$ 10,805,098</u>	<u>\$ -</u>

	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government			Component Units	
	Governmental Activities	Business- type Activities	Total	School Board	Industrial Development Authority
	\$ (2,167,005)	\$ -	\$ (2,167,005)	\$ -	\$ -
	(339,463)	-	(339,463)	-	-
	(5,157,310)	-	(5,157,310)	-	-
	(1,641,195)	-	(1,641,195)	-	-
	(738,381)	-	(738,381)	-	-
	(4,373,992)	-	(4,373,992)	-	-
	(1,012,892)	-	(1,012,892)	-	-
	(1,076,281)	-	(1,076,281)	-	-
	(434,988)	-	(434,988)	-	-
	(41,283)	-	(41,283)	-	-
	<u>\$ (16,982,789)</u>	<u>\$ -</u>	<u>\$ (16,982,789)</u>	<u>\$ -</u>	<u>\$ -</u>
	\$ -	\$ 70,628	\$ 70,628	\$ -	\$ -
	-	(59,653)	(59,653)	-	-
	-	(129,089)	(129,089)	-	-
	<u>\$ -</u>	<u>\$ (118,114)</u>	<u>\$ (118,114)</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ (16,982,789)</u>	<u>\$ (118,114)</u>	<u>\$ (17,100,903)</u>	<u>\$ -</u>	<u>\$ -</u>
	\$ -	\$ -	\$ -	\$ (5,078,888)	\$ -
	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,078,888)</u>	<u>\$ -</u>
General revenues:					
General property taxes	\$ 6,531,186	\$ -	\$ 6,531,186	\$ -	\$ -
Local sales and use taxes	1,722,471	-	1,722,471	-	-
Restaurant food taxes	1,330,207	-	1,330,207	-	-
Business licenses	926,518	-	926,518	-	-
Consumers' utility taxes	469,348	-	469,348	-	-
Other local taxes	772,998	-	772,998	-	-
Revenue sharing from counties	1,212,182	-	1,212,182	-	-
Unrestricted revenues from use of money and property	367,899	-	367,899	-	21
Miscellaneous	359,583	-	359,583	345,531	-
Contribution from City of Franklin	-	-	-	4,194,221	-
Grants and contributions not restricted to specific programs	1,666,230	-	1,666,230	-	-
Transfers	<u>1,829,084</u>	<u>(1,829,084)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues	<u>\$ 17,187,705</u>	<u>\$ (1,829,084)</u>	<u>\$ 15,358,621</u>	<u>\$ 4,539,751</u>	<u>\$ 21</u>
Change in net assets	\$ 204,916	\$ (1,947,198)	\$ (1,742,282)	\$ (539,136)	\$ 21
Net assets - beginning, as restated	<u>22,158,782</u>	<u>10,481,179</u>	<u>32,639,961</u>	<u>10,106,041</u>	<u>14,276</u>
Net assets - ending	<u>\$ 22,363,698</u>	<u>\$ 8,533,981</u>	<u>\$ 30,897,679</u>	<u>\$ 9,566,905</u>	<u>\$ 14,297</u>

CITY OF FRANKLIN, VIRGINIA

Exhibit 3

Balance Sheet

Governmental Funds

June 30, 2012

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 5,846,636	\$ -	\$ 98,268	\$ -	\$ 703,537	\$ 6,648,442
Receivables (net of allowance for uncollectibles):						
Property taxes receivable	534,343	-	-	-	-	534,343
Accounts receivable	665,581	-	-	-	19,676	685,257
Due from other funds	969,874	-	-	-	-	969,874
Due from other governmental units	557,088	176,588	-	-	30,691	764,368
Prepays	-	-	-	-	-	-
Inventory	-	-	-	-	226,048	226,048
Restricted assets:						
Cash and cash equivalents	-	-	-	1,062,775	-	1,062,775
Total assets	<u>\$ 8,573,522</u>	<u>\$ 176,588</u>	<u>\$ 98,268</u>	<u>\$ 1,062,775</u>	<u>\$ 979,953</u>	<u>\$ 10,891,105</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Reconciled overdraft	\$ -	\$ 121,903	\$ -	\$ -	\$ 284,315	\$ 406,218
Accounts payable and accrued liabilities	1,058,985	47,110	-	-	51,366	1,157,461
Deferred revenue	538,783	-	-	-	-	538,783
Deposits held in escrow	22,060	-	-	-	30,787	52,847
Total liabilities	<u>\$ 1,619,828</u>	<u>\$ 169,013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 366,468</u>	<u>\$ 2,155,309</u>
Fund balances:						
Nonspendable:						
Inventory and prepaids	\$ -	\$ -	\$ -	\$ -	\$ 226,048	\$ 226,048
Long-term receivables - Airport	969,874	-	-	-	-	969,874
Restricted:						
Public safety - Chowan River						
Gauge Funds	80,000	-	-	-	65,657	145,657
Parks, recreation, and cultural	-	-	-	-	54,985	54,985
Community development	-	-	-	-	294,749	294,749
Debt service	-	-	-	1,062,775	-	1,062,775
Committed:						
General government	16,465	-	-	-	-	16,465
Public safety	17,575	-	-	-	-	17,575
Public works	55,541	-	-	-	-	55,541
Education - FY12 carry-over	98,268	-	-	-	-	98,268
Community development	43,123	-	-	-	-	43,123
Assigned:						
Capital projects	337,154	-	98,268	-	-	435,422
Debt service	2,250,866	-	-	-	-	2,250,866
Unassigned:						
General fund	3,084,828	-	-	-	-	3,084,828
Special revenue fund	-	7,575	-	-	(27,955)	(20,380)
Total fund balances	<u>\$ 6,953,694</u>	<u>\$ 7,575</u>	<u>\$ 98,268</u>	<u>\$ 1,062,775</u>	<u>\$ 613,484</u>	<u>\$ 8,735,796</u>
Total liabilities and fund balances	<u>\$ 8,573,522</u>	<u>\$ 176,588</u>	<u>\$ 98,268</u>	<u>\$ 1,062,775</u>	<u>\$ 979,952</u>	<u>\$ 10,891,106</u>

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

CITY OF FRANKLIN, VIRGINIA
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
June 30, 2012

Exhibit 4

Total Fund Balances from Exhibit 3 - Balance Sheet Governmental Funds	\$	8,735,796
Capital Assets are Not Included	\$	28,565,772
Other Long Term Assets	\$	645,456
Long-Term Liabilities	\$	<u>(15,583,326)</u>
Net Assets of Governmental Activities	\$	<u>22,363,698</u>

CITY OF FRANKLIN, VIRGINIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

Exhibit 5

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES						
General property taxes	\$ 6,531,186	\$ -	\$ -	\$ -	\$ -	\$ 6,531,186
Other local taxes	5,221,541	-	-	-	-	5,221,541
Permits, privilege fees, and regulatory licenses	65,986	-	-	-	-	65,986
Fines and forfeitures	60,735	-	-	-	-	60,735
Revenue from the use of money and property	241,686	-	-	30,768	95,446	367,899
Charges for services	2,557,279	-	-	-	-	2,557,279
Miscellaneous	1,366,869	-	-	-	133,591	1,500,459
Recovered costs	71,306	-	-	-	-	71,306
Intergovernmental revenues:						
Commonwealth	3,801,486	398,887	-	-	147,035	4,347,408
Federal	141,169	745,882	-	-	222,494	1,109,545
Total revenues	<u>\$ 20,059,243</u>	<u>\$ 1,144,769</u>	<u>\$ -</u>	<u>\$ 30,768</u>	<u>\$ 598,565</u>	<u>\$ 21,833,345</u>
EXPENDITURES						
Current:						
General government administration	\$ 2,064,443	\$ -	\$ -	\$ -	\$ -	\$ 2,064,443
Judicial administration	408,025	-	-	-	-	408,025
Public safety	5,732,482	-	-	-	183,684	5,916,167
Public works	4,277,392	-	-	-	-	4,277,392
Health and welfare	154,622	1,488,965	-	-	213,164	1,856,751
Education	4,194,221	-	82,009	-	-	4,276,230
Parks, recreation, and cultural	833,969	-	-	-	18,122	852,091
Community development	779,837	-	-	-	678,043	1,457,880
Nondepartmental	41,283	-	-	-	-	41,283
Debt service:						
Principal retirement	-	-	-	480,037	-	480,037
Interest and other fiscal charges	-	-	-	434,988	-	434,988
Total expenditures	<u>\$ 18,486,274</u>	<u>\$ 1,488,965</u>	<u>\$ 82,009</u>	<u>\$ 915,024</u>	<u>\$ 1,093,013</u>	<u>\$ 22,065,285</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 1,572,968</u>	<u>\$ (344,196)</u>	<u>\$ (82,009)</u>	<u>\$ (884,257)</u>	<u>\$ (494,447)</u>	<u>\$ (231,941)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 1,918,826	\$ 360,009	\$ -	\$ 915,024	\$ 234,997	\$ 3,428,856
Transfers (out)	(1,599,713)	-	-	-	(59)	(1,599,773)
Issuance of capital leases	-	-	-	-	-	-
Total other financing sources (uses)	<u>\$ 319,113</u>	<u>\$ 360,009</u>	<u>\$ -</u>	<u>\$ 915,024</u>	<u>\$ 234,938</u>	<u>\$ 1,829,084</u>
Net change in fund balances	\$ 1,892,081	\$ 15,813	\$ (82,009)	\$ 30,768	\$ (259,510)	\$ 1,597,143
Fund balances - beginning, as restated	5,061,612	(8,238)	180,277	1,032,007	872,992	7,138,650
Fund balances - ending	<u>\$ 6,953,693</u>	<u>\$ 7,575</u>	<u>\$ 98,268</u>	<u>\$ 1,062,775</u>	<u>\$ 613,484</u>	<u>\$ 8,735,793</u>

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

CITY OF FRANKLING, VIRGINIA

Exhibit 6

Reconciliation of Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$	1,597,143
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following is a computation of these differences.

Capital asset additions	\$	643,290	
Depreciation expense		<u>(1,988,125)</u>	(1,344,835)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			(241,696)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This following is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt, net of premiums and deferred amount on refunding	\$	-	
Proceeds from capital lease obligations		-	
Principal payments		495,606	
Bond issue costs		(8,931)	
Premium on bond issue		6,036	
Deferred amount on refunding		<u>(24,070)</u>	468,641

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

Compensated absences	\$	(8,225)	
Other postemployment benefits		(80,413)	
Accrued interest		<u>(185,699)</u>	(274,337)

Change in net assets of governmental activities	\$	<u><u>204,916</u></u>
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The accompanying notes to the financial statements are an integral part of this statement

CITY OF FRANKLIN, VIRGINIA

Exhibit 7

Statement of Net Assets

Proprietary Funds

June 30, 2012

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,406,496	\$ 385,651	\$ -	\$ 1,792,147
Accounts receivable, net of allowances for uncollectibles	233,566	1,534,716	18,827	1,787,109
Due from other governmental units	-	-	-	-
Inventories	-	-	15,624	15,624
Unamortized bond issue costs - current portion	3,931	2,017	-	5,948
Total current assets	<u>\$ 1,643,994</u>	<u>\$ 1,922,384</u>	<u>\$ 34,451</u>	<u>\$ 3,600,828</u>
Noncurrent assets:				
Other assets:				
Deposits	\$ -	\$ -	\$ 12,633	\$ 12,633
Unamortized bond issue costs	43,237	22,192	-	65,429
Capital assets:				
Land	-	-	110,101	110,101
Construction in progress	497,799	60,356	2,112,699	2,670,854
Buildings and improvements	-	34,966	1,415,026	1,449,992
Equipment and furniture/fixtures	1,045,452	1,914,114	363,995	3,323,561
Infrastructure	14,960,548	12,789,400	3,378,893	31,128,841
Less: accumulated depreciation	(12,775,447)	(10,361,518)	(3,645,213)	(26,782,178)
Total capital assets	<u>\$ 3,728,352</u>	<u>\$ 4,437,318</u>	<u>\$ 3,735,501</u>	<u>\$ 11,901,171</u>
Total noncurrent assets	<u>\$ 3,771,589</u>	<u>\$ 4,459,510</u>	<u>\$ 3,748,134</u>	<u>\$ 11,979,233</u>
Total assets	<u><u>\$ 5,415,582</u></u>	<u><u>\$ 6,381,894</u></u>	<u><u>\$ 3,782,585</u></u>	<u><u>\$ 15,580,062</u></u>
LIABILITIES				
Current liabilities:				
Reconciled overdraft	\$ -	\$ -	\$ 61,454	\$ 61,454
Accounts payable and accrued liabilities	471,504	1,093,617	23,424	1,588,545
Customers' deposits	-	598,467	-	598,467
Accrued interest payable	22,361	-	-	22,361
Due to other funds	-	-	969,874	969,874
Current portion of long-term liabilities	55,113	-	-	55,113
Total current liabilities	<u>\$ 548,978</u>	<u>\$ 1,692,083</u>	<u>\$ 1,054,752</u>	<u>\$ 3,295,813</u>
Noncurrent liabilities:				
Long-term liabilities - less current position	<u>\$ 2,636,940</u>	<u>\$ 1,113,325</u>	<u>\$ -</u>	<u>\$ 3,750,266</u>
Total noncurrent liabilities	<u>\$ 2,636,940</u>	<u>\$ 1,113,325</u>	<u>\$ -</u>	<u>\$ 3,750,266</u>
Total liabilities	<u><u>\$ 3,185,919</u></u>	<u><u>\$ 2,805,409</u></u>	<u><u>\$ 1,054,752</u></u>	<u><u>\$ 7,046,079</u></u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 1,036,299	\$ 3,323,993	\$ 3,735,501	\$ 8,095,793
Unrestricted	1,193,365	252,491	(1,007,668)	438,188
Total net assets	<u>\$ 2,229,664</u>	<u>\$ 3,576,484</u>	<u>\$ 2,727,833</u>	<u>\$ 8,533,981</u>
Total liabilities and net assets	<u><u>\$ 5,415,583</u></u>	<u><u>\$ 6,381,893</u></u>	<u><u>\$ 3,782,585</u></u>	<u><u>\$ 15,580,061</u></u>

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

CITY OF FRANKLIN, VIRGINIA

Exhibit 8

Statement of Revenues, Expenses, and Changes in Net Assets

Proprietary Funds

For the Year Ended June 30, 2012

	<u>Water and Sewer Fund</u>	<u>Electric Fund</u>	<u>Airport Fund</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 3,042,690	\$ 12,937,702	\$ 200,479	\$ 16,180,870
Miscellaneous	639	130,937	290	131,865
Total operating revenues	<u>\$ 3,043,329</u>	<u>\$ 13,068,638</u>	<u>\$ 200,768</u>	<u>\$ 16,312,735</u>
OPERATING EXPENSES				
Personal services	\$ 596,742	\$ 768,396	\$ 78,060	\$ 1,443,198
Benefits	182,020	247,298	26,257	455,574
Purchased services/goods - for resale	-	10,898,155	120,347	11,018,502
Contractual services	89,423	12,829	22,957	125,209
Other charges	1,112,337	402,233	(8,117)	1,506,454
Payment to general fund for services and taxes	341,334	355,596	2,020	698,950
Depreciation and amortization	562,839	411,382	110,030	1,084,251
Total operating expenses	<u>\$ 2,884,696</u>	<u>\$ 13,095,889</u>	<u>\$ 351,554</u>	<u>\$ 16,332,138</u>
Operating income (loss)	<u>\$ 158,633</u>	<u>\$ (27,251)</u>	<u>\$ (150,785)</u>	<u>\$ (19,403)</u>
NONOPERATING REVENUES (EXPENSES)				
Connection fees	\$ -	\$ 25,239	\$ -	\$ 25,239
Interest expense	(88,005)	(57,642)	(309)	(145,956)
Total nonoperating revenues (expenses)	<u>\$ (88,005)</u>	<u>\$ (32,403)</u>	<u>\$ (309)</u>	<u>\$ (120,717)</u>
Income before capital grants and transfers	<u>\$ 70,628</u>	<u>\$ (59,653)</u>	<u>\$ (151,094)</u>	<u>\$ (140,120)</u>
Capital grants:				
Commonwealth	\$ -	\$ -	\$ 6,829	\$ 6,829
Federal	-	-	15,177	15,177
Transfers in	-	-	89,683	89,683
Transfers (out)	<u>(430,901)</u>	<u>(1,487,866)</u>	<u>-</u>	<u>(1,918,767)</u>
Change in net assets	<u>\$ (360,273)</u>	<u>\$ (1,547,519)</u>	<u>\$ (39,406)</u>	<u>\$ (1,947,198)</u>
Total net assets - beginning, as restated	<u>2,589,937</u>	<u>5,124,003</u>	<u>2,767,239</u>	<u>10,481,179</u>
Total net assets - ending	<u><u>\$ 2,229,664</u></u>	<u><u>\$ 3,576,484</u></u>	<u><u>\$ 2,727,833</u></u>	<u><u>\$ 8,533,981</u></u>

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

CITY OF FRANKLIN, VIRGINIA

Exhibit 9

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2012

	<u>Water and Sewer Fund</u>	<u>Electric Fund</u>	<u>Airport Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 3,089,076	\$ 13,588,687	\$ 270,405	\$ 16,948,168
Payments to suppliers for goods and services	(1,374,329)	(11,669,813)	(132,890)	(13,177,031)
Payments to and on behalf of employees	(778,762)	(1,015,693)	(104,317)	(1,898,772)
Net cash provided (used) by operating activities	<u>\$ 935,985</u>	<u>\$ 903,180</u>	<u>\$ 33,199</u>	<u>\$ 1,872,364</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (to) other funds	\$ (430,901)	\$ (1,487,866)	\$ -	\$ (1,918,767)
Transfers from other funds	-	-	89,683	89,683
Net cash provided (used) by noncapital financing activities	<u>\$ (430,901)</u>	<u>\$ (1,487,866)</u>	<u>\$ 89,683</u>	<u>\$ (1,829,084)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants	\$ -	\$ -	\$ 22,006	\$ 22,006
Acquisition and construction of capital assets	-	-	-	-
Capital Asset Adjustment	(451,990)	(202,330)	(74,921)	(729,241)
Principal paid on capital debt	(128,616)	(96,299)	(10,621)	(235,535)
Interest paid on capital debt	(88,005)	(76,024)	(309)	(164,338)
Payments on long-term liabilities	-	-	-	-
Connection and cut-off fees	-	25,239	-	25,239
Net cash provided (used) by capital and related financing activities	<u>\$ (668,611)</u>	<u>\$ (349,413)</u>	<u>\$ (63,845)</u>	<u>\$ (1,081,869)</u>
Net increase (decrease) in cash and cash equivalents	\$ (163,527)	\$ (934,099)	\$ 59,036	\$ (1,038,589)
Cash and cash equivalents - beginning	1,570,023	1,319,748	(120,490)	2,769,281
Cash and cash equivalents - ending	<u>\$ 1,406,496</u>	<u>\$ 385,649</u>	<u>\$ (61,454)</u>	<u>\$ 1,730,692</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 158,633	\$ (27,251)	\$ (150,785)	\$ (19,403)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	\$ 562,839	\$ 411,382	\$ 110,030	\$ 1,084,251
(Increase) decrease in accounts receivable	45,747	449,335	69,637	564,719
Increase (decrease) in other post-employment benefits	-	-	-	-
(Increase) decrease in inventories	-	-	12,679	12,679
(Increase) decrease in prepaid items	3,932	2,017	-	5,949
Increase (decrease) in accounts payable and accrued liabilities	164,833	(3,016)	(8,362)	153,455
Increase (decrease) in compensated absences	-	-	-	-
Increase (decrease) in customer deposits	-	70,714	-	70,714
Total adjustments	<u>\$ 777,352</u>	<u>\$ 930,431</u>	<u>\$ 183,984</u>	<u>\$ 1,891,767</u>
Net cash provided (used) by operating activities	<u>\$ 935,985</u>	<u>\$ 903,180</u>	<u>\$ 33,199</u>	<u>\$ 1,872,364</u>

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

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 205,474
Total assets	\$ <u>205,474</u>
LIABILITIES	
Amounts held for others	\$ 205,474
Total liabilities	\$ <u>205,474</u>
Total net assets	\$ <u> -</u>

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

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS AS OF JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

A. Government-wide and Fund Financial Statements

Management's Discussion and Analysis

GASB Statement No. 34 and GASB Statement No. 37 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 of the 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).

A. Government-wide and Fund Financial Statements (CONTINUED)

Budgetary Comparison Schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments, however, revise their original budget over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments will continue to provide budgetary comparison information in their annual report including the government's original budget and a comparison of final budget and actual results.

B. Other Related Organizations

Included in the City's Financial Report

None

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

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

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

Government-Wide and Fund Accounting Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund accounting financial statements. The focus is on either the City as a whole or major individual fund (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.

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

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

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

The focus of the GASB 34 model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

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

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

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

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

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

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

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

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

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

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

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

Governmental Funds

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

General Fund

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

Special Revenue Funds

The Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Funds of the City are as follows:

Virginia Public Assistance Fund – accounts for revenues and expenditures related to services provided by the Department of Social Services. Most revenues are derived from the Commonwealth of Virginia and the federal government. This fund is considered a major fund.

Regional Fire Training Grounds Fund – accounts for revenues and expenditures related to maintenance of the Regional Fire Training grounds. Most revenues are derived from interest earned on bank deposits.

Police Federal Forfeiture Fund – accounts for revenues and expenditures related to police forfeitures. Revenues are derived from entitlement funds received from the federal government.

Community Development Block Grant Fund – accounts for all entitlement funds received under Title I of the Housing and Community Development Act of 1974, commonly known as the Community Development Block Grant Program.

Foundation Grants Fund – accounts for revenues and expenditures related to local grants. Revenues are derived from local grants.

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

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 Fund – accounts for revenues and expenditures related to a joint venture with the City of Suffolk and Isle of Wight County to provide affordable housing.

Neighborhood Stabilization Fund – accounts for a federal grant and the related expenditures. The grant is to be used for community development.

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 Fund – accounts for revenues and expenditures related to the maintenance of the Willie Camp Younts cemetery.

Community Development Downtown Grant Fund – accounts for revenues and expenditures related to development and rehabilitation of the downtown area. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.

Cobbtown Grant Fund – accounts for revenues and expenditures related to development and rehabilitation of the Cobbtown area of the City. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.

Disaster Recovery Fund – accounts for revenues and expenditures related to the reconstruction of the City area caused by the devastation of Hurricane Isabel. Revenues are derived from aid received from the Commonwealth of Virginia and the federal government.

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

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

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

Charles Smith Cemetery Trust Fund – accounts for revenues and expenditures of the Charles Smith Cemetery.

Cemetery Perpetual Care Trust Fund – accounts for revenues and expenditures of the Cemetery.

Southview Cemetery Trust Fund – accounts for revenues and expenditures of the Southview Cemetery.

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

Debt Service Fund

The Debt Service Fund accounts for and reports resources that are restricted, committed or assigned to expenditure for principal and interest, reports financial resources being accumulated for future debt service, and accounts 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 governmental fund.

Capital Projects Fund

The Capital Projects Fund accounts and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The Capital Projects Fund is considered a major governmental fund.

Proprietary Fund

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 applies all GASB as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. 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, operating, maintenance, billing, collections, financing and related debt service, and capital assets of the water and sewage systems.

Electric Fund – accounts for the provision of electrical services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, financing and related debt service, and capital assets of the electrical systems.

Airport Fund – accounts for the operations of the City-owned airport. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, financing and related debt service, and capital assets of the airport.

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.

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

Trust and Agency Funds

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

Agency Funds

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

Special Welfare Fund and Special Welfare – SSI Fund – account for receipts of welfare checks and foster children support checks from the state government and payments made on behalf of individuals.

Flexible Spending Fund – accounts for monies received from employees to pay for medical claims.

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

Employees Emergency Trust – accounts for monies received from employees to be used for emergencies in the City.

Discretely Presented Component Units

City of Franklin Public Schools

The City of Franklin Public Schools (School Board) is responsible for elementary and secondary education within the City. The Schools are fiscally dependent upon the City because the City Council approves the annual budget of the Schools, levies the necessary taxes to finance the Schools' operations, and approves the borrowing of money. The School Board is reported in a separate column to emphasize that it is legally separate from the City. During the current year, the City contributed \$4,194,221 to the School Board.

School Operating Fund – accounts for revenues and expenditures relating to the operation of the City of Franklin Public Schools. Revenues are derived from the General Fund and from state and federal funds.

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

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

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. In prior years the City made significant capital contributions toward properties the IDA developed and marketed.

D. Budgets and Budgetary Accounting

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

D. Budgets and Budgetary Accounting (CONTINUED)

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

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

E. Allowance for Uncollectible Amounts

The City calculates its allowances for uncollectible property taxes, refuse collection, and utility service charges using historical collection data. At June 30, 2012, the allowance attributed to property taxes amounted to \$78,314, water and sewer in the amount of \$242,396 and utility service charges in the amount of \$1,557,884.

F. Cash and Investments

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

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

G. Inventories

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

H. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City’s capitalization threshold is met. Depreciation is recorded on capital assets on a government-wide basis.

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

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

The estimated useful lives of capital assets are as follows:

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

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

I. Compensated Absences

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

J. Deferred Revenue

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

K. Statement of Cash Flows

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

L. Estimates

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

M. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

N. Credit Risk

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 15.27% and 14.12% 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.

O. Net Assets

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

P. Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amount cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Council policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

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

P. Fund Equity (CONTINUED)

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

Q. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable in two installments on June 5th and December 5th. Personal property taxes are due and collectible annually on November 5th. The City bills and collects its own property taxes.

NOTE 2 – DEPOSITS AND INVESTMENTS:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and, depending upon that choice, will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements, and the State Treasurer’s Local Government Investment Pool (LGIP).

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

The policy requires that all investments shall be held by the City or purchased by a third-party custodial agent who may not otherwise be a counterparty to the investment transaction.

Credit Risk of Debt Securities

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

Interest Rate Risk

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

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Interfund balances at June 30, 2012, were as follows:

	<u>Interfund</u>	<u>Interfund</u>
Major funds:		
General	\$ 969,874	\$ -
Proprietary funds:		
Airport	<u>-</u>	<u>969,874</u>
Total	\$ <u>969,874</u>	\$ <u>969,874</u>

The receivables and payables between funds account for the time differences in recording interfund transfers.

Interfund transfers for the year ended June 30, 2012, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:		
General	\$ 1,918,826	\$ 1,599,713
Virginia public assistance	360,009	-
Capital projects	-	-
Debt service	915,024	-
Nonmajor governmental funds:		
Disaster recovery	-	-
Comprehensive services act	76,725	-
Block grant fund	-	59
Economic development	158,272	-
Proprietary funds:		
Water and sewer	-	430,901
Airport	89,683	-
Electric	<u>-</u>	<u>1,487,866</u>
Total	\$ <u>3,518,540</u>	\$ <u>3,518,540</u>

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

NOTE 4 – RECEIVABLES:

Receivables in the fund statements at June 30, 2012, are as follows:

Primary Government

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Business- type Activities</u>	<u>Total</u>
Property taxes	\$ 612,657	\$ -	\$ -	\$ 612,657
Accounts receivable	891,570	16,059	3,587,390	4,495,019
Total receivables	\$ 1,504,227	\$ 16,059	\$ 3,587,390	\$ 5,107,676
Less-allowance for uncollectible accounts:				
Property taxes	\$ 78,314	\$ -	\$ -	\$ 78,314
Utility and other service charges	-	-	1,800,280	1,800,280
Receivables - net	\$ <u>1,425,913</u>	\$ <u>16,059</u>	\$ <u>1,787,109</u>	\$ <u>3,229,081</u>

NOTE 5 – DUE FROM OTHER GOVERNMENTS:

Due from other governments consists of the following at June 30, 2012:

Primary Government

	<u>General</u>	<u>Virginia Public Assistance</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>	<u>Component Unit - School Board</u>
Commonwealth of Virginia:					
Sales tax	\$ 301,880	\$ -	\$ -	\$ 301,880	\$ -
Local revenue	109,025	-	-	109,025	-
Communication tax	96,825	-	-	96,825	-
Comprehensive Services Act	-	-	30,691	30,691	-
Other	49,358	-	-	49,358	-
Department of Social Services	-	171,013	-	171,013	-
Total due from the Commonwealth of Virginia	\$ <u>557,088</u>	\$ <u>171,013</u>	\$ <u>30,691</u>	\$ <u>758,792</u>	\$ <u>-</u>
Federal Government:					
Department of Social Services	-	-	-	-	-
School grants	-	-	-	-	547,414
Federal Aviation Administration	-	-	-	-	-
Department of Housing and Community Development	-	-	-	-	-
Total due from federal government	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>547,414</u>
Total due from other governments	\$ <u>557,088</u>	\$ <u>171,013</u>	\$ <u>30,691</u>	\$ <u>758,792</u>	\$ <u>547,414</u>

NOTE 6 – CAPITAL ASSETS:

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

Governmental Activities

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 5,069,980	\$ -	\$ -	\$ 5,069,980
Total capital assets not being depreciated	<u>\$ 5,069,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,069,980</u>
Capital assets being depreciated				
Buildings	\$ 17,974,061	\$ 92,439	\$ 122,889	\$ 17,943,611
Improvements other than buildings	3,151,302	15,700	-	3,167,002
Machinery and equipment	8,495,521	481,083	427,393	8,549,211
School joint tenancy assets	4,888,086	-	-	4,888,086
Infrastructure	15,646,385	54,068	-	15,700,453
Total capital assets being depreciated	<u>\$ 50,155,355</u>	<u>\$ 643,290</u>	<u>\$ 550,282</u>	<u>\$ 50,248,363</u>
Less-accumulated depreciation				
Buildings	\$ 4,254,565	\$ 459,685	\$ 8,778	\$ 4,705,472
Improvements other than buildings	1,536,627	150,670	-	1,687,297
Machinery and equipment	6,386,535	669,991	414,473	6,642,053
School joint tenancy assets	2,370,410	97,762	-	2,468,172
Infrastructure	10,639,560	610,017	-	11,249,577
Total accumulated depreciation	<u>\$ 25,187,697</u>	<u>\$ 1,988,125</u>	<u>\$ 423,251</u>	<u>\$ 26,752,571</u>
Subtotal capital assets, net	<u>\$ 24,967,658</u>	<u>\$ (1,344,835)</u>	<u>\$ 127,031</u>	<u>\$ 23,495,792</u>
Total capital assets, governmental activities, net	<u>\$ 30,037,638</u>	<u>\$ (1,344,835)</u>	<u>\$ 127,031</u>	<u>\$ 28,565,772</u>

- 1) Legislation enacted during the year ended June 30, 2002, Section 15.2-1800.1 of the Code of Virginia 1950, as amended, has changed the reporting of local capital assets and related debt for financial statement purposes. Historically, debt incurred by local governments “on-behalf” of school boards was reported in the school board’s discrete column along with the related capital assets. Under the law local governments have a “tenancy in common” with the school board whenever the locality incurs any financial obligations for any school property which is payable over more than one year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt. The effect on the City of Franklin, Virginia for the year ended June 30, 2012, is that school financed assets in the amount of \$2,419,914 net are reported in the Primary Government for financial reporting purposes.

NOTE 6 – CAPITAL ASSETS: (CONTINUED)

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

General Governmental Administration	\$	425,674
Public Safety		415,696
Public Works		424,759
Health and Welfare		26,399
Parks, Recreation, and Cultural		174,584
Education		97,762
Total	\$	<u>1,564,874</u>

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

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
Water and Sewer Fund:				
Capital assets not being depreciated				
Construction in progress	\$ 175,405	\$ 322,394	\$ -	\$ 497,799
Total capital assets not being depreciated	<u>\$ 175,405</u>	<u>\$ 322,394</u>	<u>\$ -</u>	<u>\$ 497,799</u>
Other capital assets				
Infrastructure	\$ 14,871,830	\$ 88,718	\$ -	\$ 14,960,548
Machinery and equipment	1,004,574	72,278	31,400	1,045,452
Total other capital assets	<u>\$ 15,876,404</u>	<u>\$ 160,996</u>	<u>\$ 31,400</u>	<u>\$ 16,006,000</u>
Less - accumulated depreciation				
Infrastructure	\$ 11,364,225	\$ 575,982	\$ -	\$ 11,940,207
Machinery and equipment	848,385	18,254	31,400	835,239
Total accumulated depreciation	<u>\$ 12,212,610</u>	<u>\$ 594,237</u>	<u>\$ 31,400</u>	<u>\$ 12,775,447</u>
Subtotal capital assets, net	<u>\$ 3,663,794</u>	<u>\$ (433,241)</u>	<u>\$ -</u>	<u>\$ 3,230,553</u>
Total Water and Sewer Fund	<u>\$ 3,839,199</u>	<u>\$ (110,847)</u>	<u>\$ -</u>	<u>\$ 3,728,352</u>

NOTE 6 – CAPITAL ASSETS: (CONTINUED)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
Electric Fund:				
Capital assets not being depreciated				
Construction in progress	\$ 60,356	\$ -	\$ -	\$ 60,356
Total capital assets not being depreciated	\$ 60,356	\$ -	\$ -	\$ 60,356
Other capital assets				
Infrastructure	\$ 12,600,196	\$ 189,204	\$ -	\$ 12,789,400
Buildings and improvements	34,966	-	-	34,966
Machinery and equipment	1,900,988	65,481	52,355	1,914,114
Total other capital assets	\$ 14,536,150	\$ 254,685	\$ 52,355	\$ 14,738,480
Less - accumulated depreciation				
Infrastructure	\$ 8,300,848	\$ 371,018	\$ -	\$ 8,671,866
Buildings and improvements	34,966	-	-	34,966
Machinery and equipment	1,614,322	84,570	44,206	1,654,686
Total accumulated depreciation	\$ 9,950,136	\$ 455,588	\$ 44,206	\$ 10,361,518
Subtotal capital assets, net	\$ 4,586,014	\$ (200,903)	\$ 8,149	\$ 4,376,962
Total Electric Fund	\$ 4,646,370	\$ (200,903)	\$ 8,149	\$ 4,437,318
Airport Fund:				
Capital assets not being depreciated				
Land	\$ 99,630	\$ 10,471	\$ -	\$ 110,101
Construction in progress	2,112,699	-	-	2,112,699
Total capital assets not being depreciated	\$ 2,212,329	\$ 10,471	\$ -	\$ 2,222,800
Other capital assets				
Infrastructure	\$ 3,378,893	\$ -	\$ -	\$ 3,378,893
Buildings and improvements	1,405,576	9,450	-	1,415,026
Machinery and equipment	308,995	60,000	5,000	363,995
Total other capital assets	\$ 5,093,464	\$ 69,450	\$ 5,000	\$ 5,157,914
Less - accumulated depreciation				
Infrastructure	\$ 2,229,822	\$ 46,854	\$ -	\$ 2,276,676
Buildings and improvements	1,072,642	57,519	-	1,130,161
Machinery and equipment	232,719	10,657	5,000	238,376
Total accumulated depreciation	\$ 3,535,183	\$ 115,030	\$ 5,000	\$ 3,645,213
Subtotal capital assets, net	\$ 1,558,281	\$ (45,580)	\$ -	\$ 1,512,701
Total Airport Fund	\$ 3,770,610	\$ (35,109)	\$ -	\$ 3,735,501
Total capital assets, business-type activities, net	\$ 12,256,179	\$ (346,859)	\$ 8,149	\$ 11,901,171

NOTE 6 – CAPITAL ASSETS: (CONTINUED)

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

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 83,900	\$ -	\$ 83,900
Total capital assets not being depreciated	\$ -	\$ 83,900	\$ -	\$ 83,900
Other capital assets				
Land improvement	\$ 144,911	\$ -	\$ -	\$ 144,911
Buildings	12,998,188	-	-	12,998,188
Infrastructure	4,292,955	-	-	4,292,955
School joint tenancy assets	(4,888,086)	-	-	(4,888,086)
Machinery and equipment	3,115,970	196,020	-	3,311,990
Total other capital assets	\$ 15,663,938	\$ 196,020	\$ -	\$ 15,859,958
Less- accumulated depreciation				
Land improvement	\$ 82,046	\$ 6,175	\$ -	\$ 88,221
Buildings	5,503,198	335,999	-	5,839,197
Infrastructure	572,906	-	86,996	485,910
School joint tenancy assets	(2,370,410)	(97,762)	-	(2,468,172)
Machinery and equipment	2,178,875	439,969	-	2,618,844
Total accumulated depreciation	\$ 5,966,615	\$ 684,381	\$ 86,996	\$ 6,564,000
Other capital assets - net	\$ 9,697,323	\$ (488,361)	\$ (86,996)	\$ 9,295,958
Total capital assets, net	\$ 9,697,323	\$ (404,461)	\$ (86,996)	\$ 9,379,858

NOTE 7 - LONG-TERM OBLIGATIONS:

The following is a summary of the changes in long-term obligations of the primary government and its Component Unit - School Board, respectively, for the year ended June 30, 2012:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due</u> <u>within</u> <u>one year</u>
Primary Government:					
Governmental Activities					
General obligation bonds	\$ 13,170,270	\$ -	\$ 310,031	\$ 12,860,239	\$ 706,744
Capital lease obligations	533,520	60,000	185,575	407,945	149,705
Premium on bond issuance	78,464	-	6,036	72,428	6,036
Deferred amount on refunding	(312,910)	-	(24,070)	(288,840)	(24,070)
Landfill post-closure/corrective action	935,741	-	27,081	908,660	-
Compensated absences	743,147	449,348	441,123	751,372	441,123
Other postemployment benefits	359,653	99,547	-	459,200	-
Total - Governmental activities	<u>\$ 15,507,885</u>	<u>\$ 608,895</u>	<u>\$ 945,776</u>	<u>\$ 15,171,004</u>	<u>\$ 1,279,538</u>
Business-type Activities					
Bonds payable	\$ 3,435,000	\$ -	\$ -	\$ 3,435,000	\$ -
Premium on bond issuance	51,485	-	3,960	47,525	3,960
Deferred amount on refunding	(136,136)	-	(10,472)	(125,664)	(10,472)
Revolving loan	505,296	-	56,778	448,518	57,630
Total bonds and loans	\$ 3,855,645	\$ -	\$ 50,266	\$ 3,805,379	\$ 51,118
Compensated absences	95,919	99,524	105,942	89,502	89,502
Other postemployment benefits	89,347	25,453	-	114,800	-
Total - Business-type activities	<u>\$ 4,040,911</u>	<u>\$ 124,977</u>	<u>\$ 156,208</u>	<u>\$ 4,009,681</u>	<u>\$ 140,620</u>
Total - Primary Government	<u>\$ 19,548,796</u>	<u>\$ 733,872</u>	<u>\$ 1,101,984</u>	<u>\$ 19,180,685</u>	<u>\$ 1,420,158</u>
Component Unit - School Board:					
Compensated absences	\$ 276,340	\$ 20,237	\$ -	\$ 296,577	\$ 19,832
Other postemployment benefits	109,500	25,100	-	134,600	-
Total School Board	<u>\$ 385,840</u>	<u>\$ 45,337</u>	<u>\$ -</u>	<u>\$ 431,177</u>	<u>\$ 19,832</u>

Note: General obligation bonds have been issued for both governmental and business-type activities. These bonds are direct obligations and pledge the full faith and credit of the government and are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage, interest and income tax regulations under those provisions.

NOTE 7 - LONG-TERM OBLIGATIONS: (CONTINUED)

General obligation debt of the governmental activities at June 30, 2012, is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2012
Primary Government:					
Governmental Obligations:					
General obligation bonds:					
Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	5,235,000	\$ 5,235,000
Public Improvement Series 2001C	10/01/01	01/15/22	6	685,000	455,000
Public Improvement Series 2002	10/02/02	09/01/42	5	2,500,000	2,257,704
Public Improvement Series 1999A	05/28/99	07/15/19	4	2,041,330	724,526
Public Improvement Series 2003C	12/04/03	01/15/27	6	565,000	443,301
Public Improvement Series 2004	12/01/04	12/01/14	4	310,000	104,591
Public Improvement Series 2008	02/15/08	01/15/18	4	400,000	258,000
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	19,395
Virginia Public School Authority Series 1995A	12/21/95	01/15/16	5.10-6.10	567,942	139,623
Virginia General Obligation Qualified Zone Academy Bond, Series 2003	12/31/03	12/31/17	-	1,000,000	1,000,000
Southampton county debt assumed*	01/01/96	06/30/14	N/A	N/A	8,670
Total general obligation bonds	-	-	-	-	<u>\$ 12,860,239</u>
Capital lease obligations:					
Voice over IP	12/20/06	12/20/11	5	315,624	\$ -
Garbage Truck	10/05/07	09/30/12	4	187,524	33,140
E-911 Equipment	04/14/08	06/30/13	4	270,687	58,341
Garbage Truck	06/20/11	06/20/16	3	101,955	82,836
Fire Truck	06/13/11	08/30/20	4	217,020	193,628
Refueller Truck	10/01/11	09/30/14	-	60,000	40,000
Total capital lease obligations					<u>\$ 407,945</u>
Premium on bond issuance	-	-	-	-	\$ 72,428
Deferred amount on refunding	-	-	-	-	(288,840)
Landfill post-closure/corrective action	-	-	-	-	908,660
Compensated absences	-	-	-	-	751,372
Other postemployment benefits	-	-	-	-	459,200
Total general long-term obligations	-	-	-	-	<u>\$ 15,171,004</u>

The assets acquired through capital leases are as follows:

Asset:		
Machinery and equipment		\$ 1,308,645
Less: Accumulated depreciation		(609,106)
Total		<u>\$ 699,359</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 7 - LONG-TERM OBLIGATIONS: (CONTINUED)

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2012
Water and Sewer Fund:					
General obligation bonds - Public					
Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	\$ 3,435,000	\$ 2,270,000
Virginia Resources Authority - revolving loan	04/30/99	07/01/19	3	1,050,000	448,518
Premium on bond issuance	-	-	-	-	31,407
Deferred amount on refunding	-	-	-	-	(57,871)
Compensated absences	-	-	-	-	28,588
Other postemployment benefits	-	-	-	-	45,920
					2,766,562
Total Water and Sewer Fund	-	-	-	-	\$ 2,766,562
Electric Fund:					
General obligation bonds - Public					
Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	\$ 3,435,000	\$ 1,165,000
Premium on bond issuance	-	-	-	-	16,118
Deferred amount on refunding	-	-	-	-	(67,793)
Compensated absences	-	-	-	-	54,151
Other postemployment benefits	-	-	-	-	63,140
					1,230,616
Total Electric Fund	-	-	-	-	\$ 1,230,616
Airport Fund:					
Compensated absences	-	-	-	-	\$ 6,763
Other postemployment benefits	-	-	-	-	5,740
					12,503
Total Airport Fund	-	-	-	-	\$ 12,503
Total Proprietary Funds	-	-	-	-	\$ 4,009,681
Total Primary Government	-	-	-	-	\$ 19,180,685

NOTE 7 - LONG-TERM OBLIGATIONS: (CONTINUED)

Annual requirements to amortize long-term obligations and related interest are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2013	\$ 706,744	\$ 391,535	\$ 149,705	\$ 12,697
2014	994,613	367,333	59,552	8,590
2015	748,698	337,258	40,925	7,216
2016	722,839	311,078	42,348	5,794
2017	715,619	282,807	21,418	4,322
2018	698,276	254,159	22,220	3,520
2019	1,576,395	226,204	23,052	2,688
2020	601,811	201,032	23,915	1,825
2021	2,734,494	173,877	24,810	929
2022	546,534	148,783	-	-
2023	373,064	122,378	-	-
2024	389,659	107,533	-	-
2025	218,321	92,059	-	-
2026	232,162	82,617	-	-
2027	86,193	72,586	-	-
2028	70,244	68,356	-	-
2029	73,563	65,037	-	-
2030	77,038	61,652	-	-
2031	80,678	57,922	-	-
2032	84,489	54,111	-	-
2033	88,481	50,119	-	-
2034	92,661	45,939	-	-
2035	97,038	41,562	-	-
2036	101,623	36,977	-	-
2037	106,424	32,176	-	-
2038	111,451	27,149	-	-
2039	116,717	21,883	-	-
2040	122,231	16,369	-	-
2041	128,005	10,595	-	-
2042	134,053	4,547	-	-
2043	30,120	159	-	-
	<u>\$ 12,860,238</u>	<u>\$ 3,765,792</u>	<u>\$ 407,945</u>	<u>\$ 47,581</u>

NOTE 7 – LONG-TERM OBLIGATIONS: (CONTINUED)

Long-Term Liabilities – Business-Type Activities:

Long-term obligations of the business-type activities at June 30, 2012, are comprised of the following:

Fiscal Year Ending June 30,	General Obligation Bonds						Revolving loan	
	Water and Sewer Fund		Electric Fund		Total		Water and Sewer Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ -	\$ 65,681	\$ -	\$ 40,106	\$ -	\$ 105,787	\$ 58,495	\$ 13,020
2014	310,000	65,681	110,000	40,106	420,000	105,787	60,263	11,252
2015	400,000	59,481	115,000	37,906	515,000	97,387	62,084	9,431
2016	405,000	50,481	120,000	35,319	525,000	85,800	63,961	7,554
2017	420,000	38,331	125,000	31,719	545,000	70,050	65,894	5,621
2018	440,000	25,731	130,000	27,969	570,000	53,700	67,885	3,629
2019	45,000	11,981	135,000	23,906	180,000	35,887	69,937	1,577
2020	45,000	10,463	135,000	19,350	180,000	29,813	-	-
2021	50,000	8,438	145,000	13,275	195,000	21,713	-	-
2022	50,000	6,188	150,000	6,750	200,000	12,938	-	-
2023	50,000	3,938	-	-	50,000	3,938	-	-
2024	55,000	2,063	-	-	55,000	2,063	-	-
Total	\$ 2,270,000	\$ 348,457	\$ 1,165,000	\$ 276,406	\$ 3,435,000	\$ 624,863	\$ 448,519	\$ 52,084

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, 2012, the City's aggregate general obligation indebtedness is approximately \$38.3 million less than the Commonwealth's limit as summarized in the following table:

Total assessed value of taxed assessed value	
Assessed value of real estate	\$ <u>550,495,439</u>
Debt limit – 10% of total assessed value	\$ 55,049,544
Amount of debt applicable to debt limit	
General obligation debt:	
Primary government	\$ 12,860,239
Business-type	3,435,000
Virginia Resources Authority revolving loan	<u>448,518</u>
Legal debt margin	<u>\$ 38,305,787</u>

Note: The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2012.

NOTE 7 - LONG-TERM OBLIGATIONS: (CONTINUED)

The following provides the purpose for each debt issuance of the City of Franklin.

Debt Issuance	Reason for Debt Issuance
Governmental Activities:	
Public Improvement and Refunding Series 2010	Schools Realignment and Gym, Social Services Building., King Center, City Buildings
Public Improvement Series 2001C	Incubator Building
Public Improvement Series 2002	Rural Development
Public Improvement Series 1999A	School Roofs
Public Improvement Series 2003C	Incubator Building
Public Improvement Series 2004	Bleachers - Armory Field/Athletic Field FHS
Public Improvement Series 2008	Cemetery Expansion - Poplar Springs
Virginia General Obligation Qualified Zone Academy Bond, Series 2005	Capital School Improvements
City of Franklin, Virginia School Bond Series 1992	J P King School
Virginia Public School Authority Series 1995A	Franklin High School Air Conditioning and Band Room
Virginia General Obligation Qualified Zone Academy Bond, Series 2003	Capital School Improvement Projects
Southampton county debt assumed*	Phase II Annexation
Business-Type Activities:	
<i>Water and Sewer Fund:</i>	
General obligation bonds - Public Improvement and Refunding Series 2010	Water/Sewer Line Extensions, Hunterdale Pump Station
Virginia Resources Authority - revolving loan	Sewer Line Rehabilitation
<i>Electric Fund:</i>	
General obligation bonds - Public Improvement and Refunding Series 2010	Generation and Distribution Facilities Improvements

NOTE 8 – COMPENSATED ABSENCES:

City employees earn annual leave at the rate of 17 to 29 days per year depending on length of service. A maximum of 34 to 58 days of annual leave, depending on length of service, may be carried over to succeeding years and may be paid if not used prior to termination. The governmental and business-type activities have outstanding accrued vacation totaling \$751,372 and \$89,502, respectively, as of June 30, 2012.

City employees no longer earn sick leave. A 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.

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 \$30 per day, not to exceed 200 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. At June 30, 2012 accumulated unpaid vacation and sick leave amounted to \$296,577

NOTE 9 – DEFINED PENSION BENEFIT OBLIGATION:

A. Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. 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.

NOTE 9 – DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

A. Plan Description (CONTINUED)

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City’s contribution rate for the fiscal year ended 2012 was 10.98% of annual covered payroll.

C. Annual Pension Cost

Primary Government

For fiscal year 2012, the City’s annual pension cost of \$748,861 was equal to the City’s required and actual contributions.

Three – Year Trend Information - Primary Government

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)¹</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2010	\$ 642,989	100%	\$ -
6/30/2011	735,224	100%	-
6/30/2012	748,861	100%	-

¹Employer portion only

The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City’s assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. City’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

NOTE 9 – DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

C. Annual Pension Cost (CONTINUED)

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

For fiscal year 2012, the School Board’s annual pension cost of \$36,858 was equal to the School Board’s required and actual contributions.

<u>Three – Year Trend Information for School Board - Component Unit</u>				
<u>Fiscal Year</u>		<u>Annual</u>	<u>Percentage of</u>	
<u>Ending</u>		<u>Pension</u>	<u>APC</u>	<u>Net Pension</u>
		<u>Cost (APC)¹</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2010	\$	35,674	100%	\$ -
6/30/2011		37,999	100%	-
6/30/2012		36,858	100%	-

¹Employer portion only

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. The School Board has elected to assume the 5.00% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board’s contribution rate for the fiscal year ended 2012 was 3.93% of annual covered payroll.

D. Funded Status and Funding Progress

Primary Government

As of June 30, 2011, the most recent actuarial valuation date, the plan was 75.22% funded. The actuarial accrued liability for benefits was \$32,168,046, and the actuarial value of assets was \$24,197,474, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,970,572. The covered payroll (annual payroll of active employees covered by the plan) was \$6,636,170, and ratio of the UAAL to the covered payroll was 120.11%.

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

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

As of June 30, 2011, the most recent actuarial valuation date, the plan was 78.35% funded. The actuarial accrued liability for benefits was \$1,760,712, and the actuarial value of assets was \$1,379,587, resulting in an unfunded actuarial accrued liability (UAAL) of \$381,125. The covered payroll (annual payroll of active employees covered by the plan) was \$424,976, and ratio of the UAAL to the covered payroll was 89.68%.

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

NOTE 9 – DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

E. Professional Employees – Discretely Presented Component Unit – School Board:

Plan Description

The Franklin City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. That report may be obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500 or a copy may be downloaded from the VRS website at <http://www.varetire.org/Publications/PDF/2011-Annual-Report.pdf>.

Funding Policy

Plan members are required to contribute 5.00% of their annual covered salary and Franklin City School Board is required to contribute at an actuarially determined rate. The current rate is 8.94% of annual covered payroll. The contribution requirements of plan members and Franklin City School Board are established and may be amended by the VRS Board of Trustees. The School Board's contributions to VRS for the years ending June 30, 2012, 2011, and 2010 were \$540,792, \$284,468 and \$865,317, respectively, equal to the required contributions for each year.

NOTE 10 – JOINT VENTURES AND RELATED ORGANIZATIONS:

Blackwater Regional Library

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

Franklin-Southampton Economic Development Commission

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

Western Tidewater Regional Jail Authority

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

Western Tidewater Community Services Board

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

NOTE 11 – CONTINGENT LIABILITIES:

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

General obligation bonds of \$3,435,000 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 a 90 day notice. The local employer is responsible for any adverse experience adjustments that apply to the terminating year and any prior year within which the employer participated in the program. No estimate can be made as to possible future costs in excess of monthly premiums paid.

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS PROGRAM:

Background

In fiscal year 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits (OPEB) offered to retirees. This standard addresses how local governments should account for and report their costs related to post-employment health-care and nonpension benefits, such as the City's retiree health benefit subsidy. Historically, the City's subsidy was funded on a pay-as-you go basis, but GASB Statement No. 45 requires that the City accrue the cost of the retiree health subsidy and other post-employment benefits during the period of the employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the City. This funding methodology mirrors the funding approach used for pension benefits.

City:

A. Plan Description

In addition to the pension benefits described in Note 9, the City provides post-retirement medical and dental coverage benefits for employees who are eligible for retirement benefits and are covered by the active plan at time of retirement. Individuals who retire from City service with full VRS benefits (i.e. 50 years of age and 30 years of continuous service) and 10 years (retirees employed after June 30, 2004) or 5 years (retirees employed prior to July 1, 2004) of service with the City, are eligible for medical insurance and dental coverage benefits under the City's plan for active employees until age 65 when they become eligible for Medicare, at which time benefits cease. The retiree's spouse can receive benefits under the plan with the premium to be paid by the retiree.

B. Funding Policy

The City establishes employer contribution rates for plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will partially fund the plan or fully fund the plan. Again this is determined annually as part of the budgetary process. Participating retirees are responsible for the insurance premium (health and dental) at the same cost as for active employees. Retirees pay 100% of spousal premiums. Coverage ceases when retirees reach the age of 65. Surviving spouses are not allowed access to the plan. In addition, retirees employed after June 30, 2004 and all retirees with less than 10 years of service with the City must pay a 2.00% administrative fee.

C. Annual OPEB and Net OPEB Obligation:

The annual cost of other post-employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay as you go cost for OPEB benefits is \$293,000 for fiscal year 2012. The City has paid an estimated \$167,000 towards this obligation during the fiscal year. The City is required to contribute the annual required contribution of the employer (ARC) an amount actuarially determined in accordance within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 12—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

City: (Continued)

C. Annual OPEB and Net OPEB Obligation: (Continued)

Annual OPEB Cost

The estimated contributions are based on projected medical premium payments and credit for the implicit rate subsidy made during the year for the retirees by the City. The following table shows the components of the City's annual OPEB cost for the year, the estimated annual contributions to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	\$	293,000
Interest on net OPEB obligation		18,000
Adjustment to annual required contribution		<u>(19,000)</u>
Annual OPEB cost (expense)	\$	292,000
Estimated contributions made		<u>(167,000)</u>
Increase in net OPEB obligation		125,000
Net OPEB obligation, beginning of year	\$	<u>449,000</u>
Net OPEB obligation, end of year	\$	<u><u>574,000</u></u>

For 2012, the City's expected cash payment of \$167,000 was \$125,000 less than the OPEB cost. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012, 2011 and 2010 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 295,000	57%	\$ 296,000
June 30, 2011	284,000	46%	449,000
June 30, 2012	292,000	57%	574,000

City: (Continued)D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012 (based on the valuation dated July 1, 2011) is as follows:

Actuarial accrued liability (AAL)	\$	3,685,000
Actuarial value of plan assets	\$	-
Unfunded actuarial accrued liability	\$	3,685,000
Funded ratio (actuarial value of plan assets / AAL)		0.00%
Covered payroll (active plan members)	\$	5,473,000
UAAL as a percentage of covered payroll		67.33%

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Cost Method

The entry age normal cost method is used to determine the plan's funding of liabilities and costs. Under this cost method, the actuarial present value of projected benefits of every active participant as if the plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. A normal cost for each year from the assumed entry date is determined by applying this level percentage of pay to the assumed earnings for that year (or if benefits are not pay related, the level amount for each year).

Under these methods, inactive participants have no normal cost, and their actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The plan's total annual normal cost and actuarial liability are the sum of the individual participant amounts.

City: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

An experience gain or loss is a decrease or increase in the unfunded actuarial liability attributable to actual experience that differed from that expected by the actuarial assumptions. Such gains or losses are explicitly recognized under this method.

The UAAL is being amortized as a level percentage of projected payroll over 28 years.

Interest Assumptions

Discount rate (unfunded)	4.00%
Annual amortization increase rate	2.50%
Amortization period	30 years
Healthcare trend rate	9%

School Board:

A. Plan Description

In addition to the pension benefits described in Note 10, the School Board provides post-retirement medical and dental coverage benefits for employees who are eligible for retirement benefits and are covered by the active plan at time of retirement. Individuals who retire from School Board service with full VRS benefits (i.e. 50 years of age and 30 years of continuous service) and 5 years of service with the School Board, are eligible for medical insurance and dental coverage benefits under the School Board’s plan for active employees until age 65 when they become eligible for Medicare, at which time benefits cease. The retiree’s spouse can receive benefits under the plan with the premium to be paid by the retiree.

B. Funding Policy:

The School Board establishes employer contribution rates for plan participants as part of the budgetary process each year. The School Board also determines how the plan will be funded each year, whether it will partially fund the plan or fully fund the plan. Again this is determined annually as part of the budgetary process. Retirees pay the full premium for health and dental coverage. Retirees pay 100% of spousal premiums. Coverage ceases when retirees reach the age of 65.

C. Annual OPEB Cost and Net OPEB Obligation:

The annual cost of other post-employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay-as-you-go cost for OPEB benefits is \$66,700 for fiscal year 2012. The School Board has paid an estimated \$41,600 towards this obligation during the fiscal year. The School Board is required to contribute the annual required contribution of the employer (ARC) an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 12—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

School Board: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation: (Continued)

The estimated contributions are based on projected medical premium payments and credit for the implicit rate subsidy made during the year for the retirees by the School Board. The following table shows the components of the School Board's annual OPEB cost for the year, the estimated annual contributions to the plan, and changes in the School Board's net OPEB obligation.

Annual required contribution	\$	66,900
Interest on net OPEB obligation		4,400
Adjustment to annual required contribution		<u>(4,600)</u>
Annual OPEB cost (expense)	\$	66,700
Estimated contributions made		<u>(41,600)</u>
Increase in net OPEB obligation	\$	25,100
Net OPEB obligation, beginning of year		<u>109,500</u>
Net OPEB obligation, end of year	\$	<u><u>134,600</u></u>

Annual OPEB Cost

For 2012, the School Board's expected cash payment of \$41,600 was \$25,100 less than the OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012, 2011 and 2010 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 75,700	51%	\$ 78,200
June 30, 2011	78,300	60%	109,500
June 30, 2012	66,900	62%	134,600

NOTE 12—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

School Board: (Continued)

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012 is as follows:

Actuarial accrued liability (AAL)	\$	607,800
Actuarial value of plan assets	\$	-
Unfunded actuarial accrued liability	\$	607,800
Funded ratio (actuarial value of plan assets / AAL)		0%
Covered payroll (active plan members)	\$	5,543,600
UAAL as a percentage of covered payroll		11.00%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Cost Method

The entry age normal cost method is used to determine the plan's funding of liabilities and costs. Under this cost method, the actuarial present value of projected benefits of every active participant as if the plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. A normal cost for each year from the assumed entry date is determined by applying this level percentage of pay to the assumed earnings for that year (or if benefits are not pay related, the level amount for each year).

Under these methods, inactive participants have no normal cost, and their actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The plan's total annual normal cost and actuarial liability are the sum of the individual participant amounts.

School Board: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

Cost Method: (Continued)

An experience gain or loss is a decrease or increase in the unfunded actuarial liability attributable to actual experience that differed from that expected by the actuarial assumptions. Such gains or losses are explicitly recognized under this method.

The UAAL is being amortized as a level percentage of projected payroll over 28 years.

Interest Assumptions

Discount rate (unfunded)	4.00%
Annual Amortization increase rate	2.50%
Amortization period	30 years
Healthcare trend rate	10%

In addition to the benefits described above, the School Board participates in the Health Insurance Credit Program administered by the Virginia Retirement System.

A. **Plan Description**

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing, multiple employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of the School Board who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 9.

NOTE 12—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

B. Funding Policy

As a participating local political subdivision, the School Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2012 was .82% of annual covered payroll.

C. OPEB Cost and Net OPEB Obligations

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, is based on the annual required contribution (ARC). The School Board is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For 2012, the School Board's contribution of \$1,193 was equal to the ARC and OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 1,193	100%	\$ -

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 30,900
Actuarial value of plan assets	\$ 25,633
Unfunded actuarial accrued liability	\$ 5,267
Funded ratio (actuarial value of plan assets / AAL)	82.95%
Covered payroll (active plan members)	\$ 424,976
UAAL as a percentage of covered payroll	1.24%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

D. Funded Status and Funding Progress: (Continued)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.5% investment rate of return, compounded annually, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2009 was 27 years.

F. Professional Employees – Discretely Presented Component Unit School Board

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service.

A teacher, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$4 per year of creditable service. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive a monthly health insurance credit of \$4 multiplied by the smaller of (i) twice the amount of their creditable service or (ii) the amount of creditable service they would have completed at age 60 if they had remained in service to that age.

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is .60% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2012, 2011, and 2010 were \$30,487, \$43,503, and \$57,984, respectively and equaled the required contributions for each year.

NOTE 13—LANDFILL POST-CLOSURE CARE COSTS:

State and federal laws and regulations require that the City perform certain maintenance and monitoring functions subsequent to closure of the City’s landfill site. The City ceased accepting solid waste at the landfill in 1984 and completed initial closure measures in 1987. In letters dated January 13, 1995, and February 1, 1995, the Virginia Department of Environmental Quality informed the City the thirty-year postclosure period would begin in 1995 and the landfill closure had been completed in accordance with the Virginia Solid Waste Management Regulations, respectively. The original estimated total cost of the postclosure care of approximately \$132,608 was based on the expected costs of all equipment, facilities, and services required to monitor and maintain the landfill’s postclosure care. However, the actual cost of postclosure care is higher due to inflation, changes in technology, and changes in applicable laws and regulations. The total reported as landfill postclosure care/corrective action cost liability in the amount of \$908,660 represents \$694,444 of postclosure care liability and \$214,216 of corrective action monitoring costs. The postclosure care costs and corrective action activities will continue through June 30, 2025 and June 30, 2014, respectively.

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

NOTE 14—SURETY BONDS:

Surety bonds of the City of Franklin are as follows:

Division of Risk Management Surety:
Commonwealth Funds

Commissioner of Revenue	Brenda B. Rickman	\$	3,000
Treasurer	Dinah M. Babb		500,000

NOTE 15—ANNEXATIONS:

Southampton County

The City entered into an annexation agreement with Southampton County (County) that provided for annexation in two phases. Annexation of the Phase I area, 3.93 square miles with 3.1% of the County’s population per the 1980 census, was effective December 31, 1985. Annexation of the Phase II area, 0.73 square miles with 1.96% of the County’s population, was effective December 31, 1995. As part of Phase I, the City agreed to pay to the County 3.798% of all the County’s future obligations on general obligation debt existing at December 31, 1985. As part of Phase II, the City agreed to pay the County 2.04% of all the County’s future obligations on general obligation debt existing at December 31, 1996. In addition, the City compensated the County for estimated loss of tax revenue through fiscal year 2007. The City further agreed not to institute, participate in or support, directly or indirectly, any further annexation of Southampton County prior to December 31, 2010.

NOTE 15—ANNEXATIONS: (CONTINUED)

Southampton County: (Continued)

The City adopted a Revenue-Sharing Agreement with the County in January 1997. County residents approved this agreement in November 1997. The agreement was reviewed and recommended for Court approval by the Commission on Local Government of the Commonwealth of Virginia in January 1999. The Revenue Sharing Agreement covers approximately 17.1 square miles in Southampton County immediately contiguous to the City of Franklin. The agreement provides that the County will pay to the City on October 15th of each year, 30% of local tax revenue collected through June 30 of that year by industries and commercial establishments located within this area that are served by City water and sewer treatment. The City is required to provide potable water for non-residential use to industrial and commercial businesses in the designated area and receive wastewater from such businesses. The agreement is to remain in effect in perpetuity as adopted, subject to amendment by agreement of the parties, except if the City, or a City water and/or sewer authority decides to discontinue operation of both its water and sewer treatment systems, the agreement may be voided upon two years' notice to the County. The designated area, which includes all portions of the County immediately contiguous to the City, is immune from annexation as long as the agreement remains in force and the City exists as a political subdivision in the nature of a city. For the year ending June 30, 2012, the City received \$19,158 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 Ending</u>		<u>Percentage</u>
1986	\$	5%
1987		10%
1988 - 1995		20%
1996 and thereafter		¹ 17.23%

¹as 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, 2012, the City received \$1,193,025 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2011.

NOTE 16—DEFICIT FUND BALANCE:

The following funds had a deficit fund balance at June 30, 2012:

<u>Fund</u>	<u>Amount</u>
Disaster Recovery	\$ 175,008
Regional Fire Training	38
Community Development Downtown Grant	19,251

NOTE 17—DEFERRED REVENUE:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting such amounts are measurable, but not available. Deferred revenue totaling \$538,783 is comprised of the following:

Deferred Property Tax Revenue: Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$534,343.

NOTE 18—ASSIGNED AND UNASSIGNED BALANCES

Portions of the General Fund balance are assigned/unassigned as follows:

Fund balance in the amount of \$337,154 is assigned for capital projects

Fund balance in the amount of \$2,250,866 is assigned for debt service.

Fund balance in the amount of \$3,084,828 is unassigned and available for subsequent expenditures.

Portions of the Virginia Public Assistance Fund are assigned/unassigned as follows:

Fund balance in the amount of \$7,575 is unassigned and available for subsequent expenditures

Portions of the Capital Projects Fund are assigned/unassigned as follows:

Fund balance in the amount of \$98,268 is assigned for expenditures for capital outlays.

NOTE 19—EXPENDITURES IN EXCESS OF APPROPRIATIONS:

There were no expenditures in excess of appropriations at June 30, 2012.

NOTE 20—EVALUATION OF SUBSEQUENT EVENTS:

The City has evaluated subsequent events through November 4, 2012, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts			Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final			
Revenues					
General property taxes	\$ 6,621,943	\$ 6,621,943	\$ 6,531,186	\$ (90,757)	
Other local taxes	5,227,230	5,261,225	5,221,541	(39,684)	
Permits, privilege fees, and regulatory licenses	53,100	53,100	65,986	12,886	
Fines and forfeitures	67,747	67,747	60,735	(7,012)	
Revenue from the use of money and property	261,258	261,258	241,686	(19,572)	
Charges for services	2,668,967	2,669,552	2,557,279	(112,273)	
Miscellaneous	1,273,030	1,273,030	1,366,869	93,839	
Recovered costs	28,500	66,425	71,306	4,881	
Intergovernmental revenues:					
Commonwealth	3,749,117	3,749,117	3,801,486	52,369	
Federal	101,621	108,556	141,169	32,613	
Total revenues	\$ 20,052,513	\$ 20,131,953	\$ 20,059,243	\$ (72,710)	
Expenditures					
Current:					
General government administration	\$ 2,141,394	\$ 2,142,888	\$ 2,064,443	\$ 78,445	
Judicial administration	347,379	416,015	408,025	7,989	
Public safety	5,852,730	5,899,757	5,732,482	167,275	
Public works	4,433,580	4,646,187	4,277,392	368,795	
Health and welfare	160,173	154,633	154,622	11	
Education	5,192,279	4,837,395	4,194,221	643,174	
Parks, recreation, and cultural	853,988	860,527	833,969	26,558	
Community development	778,038	836,000	779,837	56,163	
Nondepartmental	1,068,254	1,079,254	41,283	1,037,971	
Total expenditures	\$ 20,827,815	\$ 20,872,656	\$ 18,486,274	\$ 2,386,382	
Excess (deficiency) of revenues over (under) expenditures	\$ (775,302)	\$ (740,703)	\$ 1,572,968	\$ 2,313,671	
Other Financing Sources (Uses)					
Transfers in	\$ 2,458,154	\$ 2,427,770	\$ 1,918,826	\$ (508,944)	
Transfers out	(1,682,852)	(1,687,067)	(1,599,713)	87,354	
Total other financing sources and uses	\$ 775,302	\$ 740,703	\$ 319,113	\$ (421,590)	
Net change in fund balances	\$ -	\$ -	\$ 1,892,081	\$ 1,892,081	
Fund balances - beginning, as restated	-	-	5,061,612	5,061,612	
Fund balances - ending	\$ -	\$ -	\$ 6,953,693	\$ 6,953,693	

Virginia Public Assistance Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues:				
Commonwealth	1,388,279	1,389,298	398,887	(990,411)
Federal	-	-	745,882	745,882
Total revenues	<u>\$ 1,388,279</u>	<u>\$ 1,389,298</u>	<u>\$ 1,144,769</u>	<u>\$ (244,529)</u>
EXPENDITURES				
Current:				
Health and welfare	\$ 1,798,042	\$ 1,800,473	\$ 1,488,965	\$ 311,508
Total expenditures	<u>\$ 1,798,042</u>	<u>\$ 1,800,473</u>	<u>\$ 1,488,965</u>	<u>\$ 311,508</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (409,763)</u>	<u>\$ (411,175)</u>	<u>\$ (344,196)</u>	<u>\$ 66,979</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	\$ 409,763	\$ 411,175	\$ 360,009	\$ (51,166)
Total other financing sources and uses	<u>\$ 409,763</u>	<u>\$ 411,175</u>	<u>\$ 360,009</u>	<u>\$ (51,166)</u>
Net change in fund balances	\$ -	\$ -	\$ 15,813	\$ 15,813
Fund balances - beginning	-	-	(15,813)	(15,813)
Fund balances - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF FRANKLIN, VIRGINIA
 Required Supplementary Information
 Schedule of Pension Funding Progress for the Virginia Retirement System
 Last Three Fiscal Years

Exhibit 13

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)	Funded Ratio (d)	Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			(b) - (a)			(a)/(b)
6/30/2011	\$ 24,197,474	\$ 32,168,046	\$ 7,970,572	75.22%	\$ 6,636,170	120.11%
6/30/2010	23,695,173	31,019,400	7,324,227	76.39%	6,675,318	109.72%
6/30/2009	23,959,070	28,434,041	4,474,971	84.26%	7,077,456	63.23%

School Board Non-Professionals:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)	Funded Ratio (d)	Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			(b) - (a)			(a)/(b)
6/30/2011	\$ 1,379,587	\$ 1,760,712	\$ 381,125	78.35%	\$ 424,976	89.68%
6/30/2010	1,349,535	1,708,021	358,486	79.01%	442,585	81.00%
6/30/2009	1,344,094	1,552,283	208,189	86.59%	471,132	44.19%

CITY OF FRANKLIN, VIRGINIA
 Required Supplementary Information
 Schedule of Funding Progress for Other Post-Employment Benefits
 Last Two Fiscal Years

Exhibit 14

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)		Funded ratio (d)	Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			(b) - (a)	(a)/(b)			
7/1/2010	\$ -	\$ 3,378,000	\$ 3,378,000	0.00%	\$ 5,972,000	56.56%	
7/1/2011	-	3,685,000	3,685,000	0.00%	5,473,000	67.33%	

School Board:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)		Funded ratio (d)	Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			(b) - (a)	(a)/(b)			
7/1/2010	\$ -	\$ 710,600	\$ 710,600	0.00%	\$ 5,870,000	12.10%	
7/1/2011	-	607,800	607,800	0.00%	5,543,600	11.00%	

School Board - VRS Health Insurance Credit:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)		Funded ratio (d)	Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			(b) - (a)	(a)/(b)			
6/30/2010	\$ 21,403	\$ 28,414	\$ 7,011	75.33%	\$ 442,585	1.58%	
6/30/2011	25,633	30,900	5,267	82.95%	424,976	1.24%	

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CITY OF FRANKLIN, VIRGINIA
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012

	Disaster Recovery	Compre- hensive Services Act Fund	Regional Fire Training Ground Act	Foundation Grants Fund	Community Development			Western Tidewater Home Consortium Fund	Neigh- bor- hood Stabilization Program Fund
					Block Grant Fund	Block Grant Incubator	Down- town Grant Fund		
Assets									
Cash and cash equivalents	\$ -	\$ -	\$ 12	\$ 22,463	\$ 146,915	\$ -	\$ -	\$ 27,759	\$ -
Receivables (net of allowance for uncollectibles):									
Accounts Receivable	3,617	-	-	-	-	-	1,082	-	14,977
Inventory	-	-	-	-	-	-	-	-	183,648
Due from other governmental units	-	30,691	-	-	-	-	-	-	-
Total assets	\$ 3,617	\$ 30,691	\$ 12	\$ 22,463	\$ 146,915	\$ -	\$ 1,082	\$ 27,759	\$ 198,625
Liabilities and Fund Balances									
Liabilities:									
Reconciled overdraft	\$ 264,772	\$ 8,460	\$ -	\$ -	\$ -	\$ -	\$ 93	\$ -	\$ 2,287
Accounts payable and accrued expenses	-	22,232	52	4,783	-	-	-	9,775	2,617
Deposits held in escrow	-	-	-	-	-	-	20,240	-	-
Total liabilities	\$ 264,772	\$ 30,691	\$ 52	\$ 4,783	\$ -	\$ -	\$ 20,333	\$ 9,775	\$ 4,904
Fund balances:									
Nonspendable:									
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 183,648
Restricted:									
Public safety	-	-	(40)	17,680	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	-	-	-	-	-	-
Community development	(261,155)	-	-	-	146,915	-	-	17,984	10,074
Unassigned:									
Special Revenue (deficit)	-	-	-	-	-	-	(19,251)	-	-
Total fund balances	\$ (261,155)	\$ -	\$ (40)	\$ 17,680	\$ 146,915	\$ -	\$ (19,251)	\$ 17,984	\$ 193,721
Total liabilities and fund balances	\$ 3,617	\$ 30,691	\$ 12	\$ 22,463	\$ 146,915	\$ -	\$ 1,082	\$ 27,759	\$ 198,625

Cobbtoww Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
\$ -	\$ 33,841	\$ 3,632	\$ 1,477	\$ 90,706	\$ 191,147	\$ 54,985	\$ 9,067	\$ 3,596	\$ 105,245	\$ 12,693	\$ 703,537
-	-	-	-	-	-	-	-	-	-	-	19,676
42,400	-	-	-	-	-	-	-	-	-	-	226,048
\$ 42,400	\$ 33,841	\$ 3,632	\$ 1,477	\$ 90,706	\$ 191,147	\$ 54,985	\$ 9,067	\$ 3,596	\$ 105,245	\$ 12,693	\$ 979,953
\$ 8,703	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 284,315
-	-	-	-	132	11,776	-	-	-	-	-	51,366
-	-	-	-	-	10,547	-	-	-	-	-	30,787
\$ 8,703	\$ -	\$ -	\$ -	\$ 132	\$ 22,323	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 366,468
\$ 42,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 226,048
-	-	-	-	-	-	-	-	-	-	-	-
-	33,841	3,632	1,477	-	-	-	9,067	-	-	-	65,657
-	-	-	-	-	-	54,985	-	-	-	-	54,985
-	-	-	-	90,574	168,824	-	-	3,596	105,245	12,693	294,749
-	-	-	-	-	-	-	-	-	-	-	-
(8,703)	-	-	-	-	-	-	-	-	-	-	(27,955)
\$ 33,697	\$ 33,841	\$ 3,632	\$ 1,477	\$ 90,574	\$ 168,824	\$ 54,985	\$ 9,067	\$ 3,596	\$ 105,245	\$ 12,693	\$ 613,485
\$ 42,400	\$ 33,841	\$ 3,632	\$ 1,477	\$ 90,706	\$ 191,147	\$ 54,985	\$ 9,067	\$ 3,596	\$ 105,245	\$ 12,693	\$ 979,953

CITY OF FRANKLIN, VIRGINIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012

	Disaster Recovery Fund	Compre- hensive Serivces Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Community Development			Western Tidewater Home Consortium Fund	Neighbor- hood Stabilization Program Fund
					Block Grant Fund	Block Grant Incubator	Dow- n- town Grant Fund		
Revenues									
Revenue from the use of money and property	\$ -	\$ -	\$ -	\$ -	\$ 3,428	\$ -	\$ -	\$ -	\$ -
Miscellaneous	5,542	-	500	52,000	-	-	15,168	-	-
Intergovernmental revenues:									
Commonwealth	820	136,439	-	-	-	-	-	9,775	-
Federal	84,336	-	-	-	-	110,051	-	-	28,107
Total Revenues	\$ 90,698	\$ 136,439	\$ 500	\$ 52,000	\$ 3,428	\$ 110,051	\$ 15,168	\$ 9,775	\$ 28,107
Expenditures									
Current:									
Public safety	\$ 67,747	\$ -	\$ 1,633	\$ 101,038	\$ -	\$ -	\$ -	\$ -	\$ -
Health and welfare	-	213,164	-	-	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	3,454	-	-	-	-	-
Community development	284,106	-	-	-	421	103,805	-	9,775	21,902
Total expenditures	\$ 351,853	\$ 213,164	\$ 1,633	\$ 104,492	\$ 421	\$ 103,805	\$ -	\$ 9,775	\$ 21,902
Excess (deficiency) of revenues over (under) expenditures	\$ (261,155)	\$ (76,725)	\$ (1,133)	\$ (52,492)	\$ 3,007	\$ 6,246	\$ 15,168	\$ -	\$ 6,205
OTHER FINANCING SOURCES (USES)									
Transfers in	\$ -	\$ 76,725	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (out)	-	-	-	-	-	(59)	-	-	-
Total other financing sources and uses	\$ -	\$ 76,725	\$ -	\$ -	\$ -	\$ (59)	\$ -	\$ -	\$ -
Net change in fund balances	\$ (261,155)	\$ -	\$ (1,133)	\$ (52,492)	\$ 3,007	\$ 6,187	\$ 15,168	\$ -	\$ 6,205
Fund balances - beginning	-	-	1,095	70,172	143,908	(6,187)	(34,419)	17,984	187,515
Fund balances - ending	\$ (261,155)	\$ -	\$ (38)	\$ 17,680	\$ 146,915	\$ -	\$ (19,251)	\$ 17,984	\$ 193,720

Cobb-town Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Home-stead Fund	Economic Develop-ment Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	South-view Cemetery Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
\$ -	\$ 4	\$ 1	\$ -	\$ 1,500	\$ 89,301	\$ 1,066	\$ -	\$ -	\$ 105	\$ 42	\$ 95,446
-	32,317	2,628	-	-	10,194	-	14,642	-	600	-	133,591
-	-	-	-	-	-	-	-	-	-	-	147,035
-	-	-	-	-	-	-	-	-	-	-	222,494
<u>\$ -</u>	<u>\$ 32,320</u>	<u>\$ 2,629</u>	<u>\$ -</u>	<u>\$ 1,500</u>	<u>\$ 99,495</u>	<u>\$ 1,066</u>	<u>\$ 14,642</u>	<u>\$ -</u>	<u>\$ 705</u>	<u>\$ 42</u>	<u>\$ 598,565</u>
\$ -	\$ -	\$ 925	\$ -	\$ -	\$ -	\$ -	\$ 12,341	\$ -	\$ -	\$ -	\$ 183,684
-	-	-	-	-	-	-	-	-	-	-	213,164
-	-	-	-	14,668	-	-	-	-	-	-	18,122
-	-	-	-	-	257,354	592	-	87	-	-	678,043
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 925</u>	<u>\$ -</u>	<u>\$ 14,668</u>	<u>\$ 257,354</u>	<u>\$ 592</u>	<u>\$ 12,341</u>	<u>\$ 87</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,093,013</u>
\$ -	\$ 32,320	\$ 1,704	\$ -	\$ (13,168)	\$ (157,859)	\$ 474	\$ 2,301	\$ (87)	\$ 705	\$ 42	\$ (494,447)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 158,272	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 234,997
-	-	-	-	-	-	-	-	-	-	-	(59)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 158,272</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 234,938</u>
\$ -	\$ 32,320	\$ 1,704	\$ -	\$ (13,168)	\$ 413	\$ 474	\$ 2,301	\$ (87)	\$ 705	\$ 42	\$ (259,510)
33,696	1,520	1,928	1,477	103,742	168,413	54,507	6,766	3,684	104,540	12,651	872,992
<u>\$ 33,696</u>	<u>\$ 33,840</u>	<u>\$ 3,632</u>	<u>\$ 1,477</u>	<u>\$ 90,574</u>	<u>\$ 168,826</u>	<u>\$ 54,981</u>	<u>\$ 9,067</u>	<u>\$ 3,597</u>	<u>\$ 105,245</u>	<u>\$ 12,693</u>	<u>\$ 613,484</u>

	Agency Funds					
	Special Welfare Fund	Special Welfare - SSI Fund	Flexible Spending Fund	Employee Emergency Trust Fund	Early Childhood Commission Fund	Total
ASSETS						
Cash and cash equivalents	\$ 25,535	\$ 23,802	\$ 6,283	\$ 9,402	\$ 140,453	\$ 205,474
Total assets	<u>\$ 25,535</u>	<u>\$ 23,802</u>	<u>\$ 6,283</u>	<u>\$ 9,402</u>	<u>\$ 140,453</u>	<u>\$ 205,474</u>
LIABILITIES						
Amounts held for others	\$ 25,535	\$ 23,802	\$ 6,283	\$ 9,402	\$ 140,453	\$ 205,474
Total liabilities	<u>\$ 25,535</u>	<u>\$ 23,802</u>	<u>\$ 6,283</u>	<u>\$ 9,402</u>	<u>\$ 140,453</u>	<u>\$ 205,474</u>

CITY OF FRANKLIN, VIRGINIA
Combining Statements of Changes in Assets and Liabilities
Agency Funds
For The Year Ended June 30, 2012

Exhibit 18

	<u>Balance</u> <u>Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End</u> <u>of Year</u>
Special Welfare Fund:				
ASSETS				
Cash and cash equivalents	\$ 25,535	\$ -	\$ -	\$ 25,535
Total assets	<u>\$ 25,535</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,535</u>
LIABILITIES				
Amounts held for others	\$ 25,535	\$ -	\$ -	\$ 25,535
Total liabilities	<u>\$ 25,535</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,535</u>
Special Welfare - SSI Fund:				
ASSETS				
Cash and cash equivalents	\$ 23,802	\$ -	\$ -	\$ 23,802
Total assets	<u>\$ 23,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,802</u>
LIABILITIES				
Amounts held for others	\$ 23,802	\$ -	\$ -	\$ 23,802
Total liabilities	<u>\$ 23,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,802</u>
Flexible Spending Fund:				
ASSETS				
Cash and cash equivalents	\$ 5,646	\$ 26,712	\$ 26,076	\$ 6,283
Total assets	<u>\$ 5,646</u>	<u>\$ 26,712</u>	<u>\$ 26,076</u>	<u>\$ 6,283</u>
LIABILITIES				
Amounts held for others	\$ 5,646	\$ 26,712	\$ 26,076	\$ 6,283
Total liabilities	<u>\$ 5,646</u>	<u>\$ 26,712</u>	<u>\$ 26,076</u>	<u>\$ 6,283</u>
Employee Emergency Trust Fund:				
ASSETS				
Cash and cash equivalents	\$ 8,040	\$ 4,612	\$ 3,250	\$ 9,402
Total assets	<u>\$ 8,040</u>	<u>\$ 4,612</u>	<u>\$ 3,250</u>	<u>\$ 9,402</u>
LIABILITIES				
Amounts held for others	\$ 8,040	\$ 4,612	\$ 3,250	\$ 9,402
Total liabilities	<u>\$ 8,040</u>	<u>\$ 4,612</u>	<u>\$ 3,250</u>	<u>\$ 9,402</u>
Early Childhood Commission Fund:				
ASSETS				
Cash and cash equivalents	\$ 180,408	\$ 240,291	\$ 280,246	\$ 140,453
Total assets	<u>\$ 180,408</u>	<u>\$ 240,291</u>	<u>\$ 280,246</u>	<u>\$ 140,453</u>
LIABILITIES				
Amounts held for others	\$ 180,408	\$ 240,291	\$ 280,246	\$ 140,453
Total liabilities	<u>\$ 180,408</u>	<u>\$ 240,291</u>	<u>\$ 280,246</u>	<u>\$ 140,453</u>
Totals - All Agency Funds:				
ASSETS				
Cash and cash equivalents	\$ 243,431	\$ 271,615	\$ 309,572	\$ 205,474
Total assets	<u>\$ 243,431</u>	<u>\$ 271,615</u>	<u>\$ 309,572</u>	<u>\$ 205,474</u>
LIABILITIES				
Amounts held for others	\$ 243,431	\$ 271,615	\$ 309,572	\$ 205,474
Total liabilities	<u>\$ 243,431</u>	<u>\$ 271,615</u>	<u>\$ 309,572</u>	<u>\$ 205,474</u>

DISCRETELY PRESENTED COMPONENT UNIT-
SCHOOL BOARD

School Operating Fund accounts for the School Board's elementary, middle and high schools. The Textbook Fund accounts for the distribution of textbooks to students. The Cafeteria Fund accounts for the operations of the school food services.

	<u>School Operating Fund</u>	<u>Cafeteria Fund</u>	<u>Textbook Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 680,076	\$ 154,175	\$ 509,368	\$ 1,343,619
Receivables (net of allowance for uncollectibles):				
Accounts receivable	3,005	-	5,396	8,401
Due from other governmental units	513,998	33,416	-	547,414
Inventories	-	11,155	-	11,155
Prepaid items	-	-	-	-
Total assets	<u>\$ 1,197,079</u>	<u>\$ 198,746</u>	<u>\$ 514,764</u>	<u>\$ 1,910,589</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 50,846	\$ 54,971	\$ -	\$ 105,817
Accrued liabilities	<u>1,149,013</u>	<u>37,537</u>	<u>-</u>	<u>1,186,550</u>
Total liabilities	<u>\$ 1,199,859</u>	<u>\$ 92,508</u>	<u>\$ -</u>	<u>\$ 1,292,366</u>
Fund balances:				
Nonspendable:				
Inventory	-	-	-	-
Restricted:				
Special revenue	<u>(2,780)</u>	<u>106,239</u>	<u>514,764</u>	<u>618,223</u>
Total fund balances	<u>\$ (2,780)</u>	<u>\$ 106,239</u>	<u>\$ 514,764</u>	<u>\$ 618,223</u>
Total liabilities and fund balances	<u>\$ 1,197,079</u>	<u>\$ 198,747</u>	<u>\$ 514,764</u>	<u>\$ 1,910,589</u>

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

Total fund balances per above	\$ 618,223
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Capital assets	\$ 15,943,858	
Less: accumulated depreciation	<u>(6,564,000)</u>	9,379,858

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

Other postemployment benefits obligation	\$ (134,600)	
Compensated absences	<u>(296,577)</u>	<u>(431,177)</u>

Net assets of governmental activities	\$ <u>9,566,904</u>
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CITY OF FRANKLIN, VIRGINIA

Exhibit 20

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds – Discretely Presented Component Unit – School Board
 For the Year Ended June 30, 2012

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
REVENUES				
Revenue from the use of money and property	\$ 724	\$ 20	\$ 103	\$ 847
Charges for services	13,783	102,714	-	116,497
Miscellaneous	282,308	962	-	283,270
Recovered costs	57,353	-	4,060	61,413
Intergovernmental revenues:				
Local government	4,194,221	-	-	4,194,221
Commonwealth	7,745,175	8,794	-	7,753,969
Federal	2,439,210	611,919	-	3,051,129
Total revenues	<u>\$ 14,732,774</u>	<u>\$ 724,409</u>	<u>\$ 4,164</u>	<u>\$ 15,461,346</u>
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 11,200,362	\$ -	\$ 93,000	\$ 11,293,361
Administration, attendance and health	840,580	-	-	840,580
Transportation	584,581	-	-	584,581
Operations and maintenance	1,360,279	-	-	1,360,279
Technology	726,984	-	-	726,984
Food services	(25,232)	770,131	-	744,899
Total expenditures	<u>\$ 14,687,554</u>	<u>\$ 770,131</u>	<u>\$ 93,000</u>	<u>\$ 15,550,685</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 45,220</u>	<u>\$ (45,722)</u>	<u>\$ (88,836)</u>	<u>\$ (89,338)</u>
OTHER FINANCING SOURCES (USED)				
Transfers in	\$ -	\$ -	\$ 48,000	\$ 48,000
Transfers out	48,000	-	-	48,000
Total other financing sources and uses	<u>\$ (48,000)</u>	<u>\$ -</u>	<u>\$ 48,000</u>	<u>\$ -</u>
Net change in fund balances	\$ (2,780)	\$ (45,722)	\$ (40,836)	\$ (89,338)
Fund balances - beginning	-	151,962	555,599	707,561
Fund balances - ending	<u>\$ (2,780)</u>	<u>\$ 106,240</u>	<u>\$ 514,763</u>	<u>\$ 618,224</u>

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

Net change in fund balances - total governmental funds - per above \$ (89,338)

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

Capital asset additions	\$ 279,920	
Depreciation expense	<u>(684,381)</u>	(404,461)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (accrued leave & OPEB)

(45,337)

Change in net assets of governmental activities \$ (539,136)

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2012

	School Operating Fund			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Revenue from the use of money and property	\$ 2,000	\$ 2,000	\$ 724	\$ (1,276)
Charges for services	11,400	11,400	13,783	2,383
Miscellaneous	175,711	356,875	282,308	(74,567)
Recovered costs	62,718	62,718	57,353	(5,365)
Intergovernmental revenues:				
Local government	5,192,279	4,982,469	4,194,221	(788,248)
Commonwealth	7,524,200	7,545,925	7,745,175	199,250
Federal	2,195,529	2,788,647	2,439,210	(349,437)
Total revenues	\$ 15,163,837	\$ 15,750,034	\$ 14,732,774	\$ (1,017,260)
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 11,888,573	\$ 12,461,270	\$ 11,248,362	\$ 1,212,908
Administration, attendance and health	906,792	906,792	840,580	66,212
Transportation	489,360	489,360	584,581	(95,221)
Operations and maintenance	1,244,211	1,244,211	1,360,279	(116,068)
Technology	634,901	648,401	726,984	(78,583)
Food services	-	-	(25,232)	25,232
Total expenditures	\$ 15,163,837	\$ 15,750,034	\$ 14,735,554	\$ 1,014,480
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (2,780)	\$ (2,780)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-
Total other financing sources and uses	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ -	\$ -	\$ (2,780)	\$ (2,780)
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ (2,780)	\$ (2,780)

Statement of Net Assets

Discretely Presented Component Unit - Industrial Development Authority

June 30, 2012

	<u>Industrial Development Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>14,297</u>
Total assets	\$ <u><u>14,297</u></u>
NET ASSETS	
Unrestricted	\$ <u>14,297</u>
Total net assets	\$ <u><u>14,297</u></u>

Statement of Revenues, Expenses, and Changes in Net Assets
Discretely Presented Component Unit - Industrial Development Authority
For the Year Ended June 30, 2012

	<u>Industrial Development Authority</u>
NONOPERATING REVENUES	
Contribution from Primary Government	\$ -
Interest income	<u>21</u>
Total nonoperating income	\$ <u>21</u>
Change in net assets	\$ 21
Total net assets - beginning	<u>14,276</u>
Total net assets - ending	<u><u>\$ 14,297</u></u>

Statement of Cash Flows

Discretely Presented Component Unit - Industrial Development Authority

For the Ended June 30, 2012

	<u>Industrial Development Authority</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Contribution from Primary Government	\$ -
Repayment of amount due Primary Government	<u>-</u>
Net cash provided by capital and related financing activities	<u>\$ -</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	\$ <u>21</u>
Net cash provided by investing activities	<u>\$ 21</u>
Net increase (decrease) in cash and cash equivalents	\$ 21
Cash and cash equivalents - beginning	<u>14,276</u>
Cash and cash equivalents - ending	<u><u>\$ 14,297</u></u>

CITY OF FRANKLIN, VIRGINIA
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2012

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 5,027,933	\$ 5,027,933	\$ 4,879,963	\$ (147,970)
Real and personal public service corporation taxes	61,900	61,900	57,477	(4,423)
Personal property taxes	1,341,490	1,341,490	1,334,281	(7,209)
Machinery and tools taxes	60,389	60,389	60,671	282
Penalties	90,000	90,000	121,391	31,391
Interest	40,231	40,231	77,402	37,171
Total general property taxes	<u>\$ 6,621,943</u>	<u>\$ 6,621,943</u>	<u>\$ 6,531,186</u>	<u>\$ (90,757)</u>
Other local taxes:				
Local sales and use taxes	\$ 1,617,000	\$ 1,617,000	\$ 1,722,471	\$ 105,471
Consumers' utility taxes	650,000	650,000	469,348	(180,652)
Right-of-way use fee	31,412	31,412	24,832	(6,580)
Electric consumption taxes	33,000	33,000	28,962	(4,038)
Business license taxes	940,400	940,400	926,518	(13,882)
Motor vehicle license taxes	166,418	166,418	180,859	14,441
Bank stock taxes	70,000	70,000	62,068	(7,932)
Taxes on recordation and wills	30,000	30,000	32,837	2,837
Cigarette taxes	239,000	239,000	244,959	5,959
Lodging taxes	150,000	183,995	198,481	14,486
Restaurant food taxes	1,300,000	1,300,000	1,330,207	30,207
Total other local taxes	<u>\$ 5,227,230</u>	<u>\$ 5,261,225</u>	<u>\$ 5,221,541</u>	<u>\$ (39,684)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 3,600	\$ 3,600	\$ 3,719	\$ 119
Building and related permits	23,000	23,000	32,486	9,486
Transfer fees	9,000	9,000	11,734	2,734
Permits and other licenses	17,500	17,500	18,048	548
Total permits, privilege fees, and regulatory licenses	<u>\$ 53,100</u>	<u>\$ 53,100</u>	<u>\$ 65,986</u>	<u>\$ 12,886</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 67,747	\$ 67,747	\$ 60,735	\$ (7,012)
Total fines and forfeitures	<u>\$ 67,747</u>	<u>\$ 67,747</u>	<u>\$ 60,735</u>	<u>\$ (7,012)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 282	\$ 282
Revenue from use of property	261,258	261,258	241,404	(19,854)
Total revenue from use of money and property	<u>\$ 261,258</u>	<u>\$ 261,258</u>	<u>\$ 241,686</u>	<u>\$ (19,572)</u>
Charges for services:				
Law library and court fees	\$ 4,250	\$ 4,250	\$ 3,727	\$ (523)
J & D Services - Southampton County	4,100	4,100	4,100	-
Fire and emergency services	108,354	108,354	108,354	-

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Ambulance services	\$ 300,000	\$ 300,000	\$ 266,756	\$ (33,244)
Southampton County - fire truck	-	-	-	-
Animal boarding and adoption fees	500	500	290	(210)
Janitorial services	17,509	17,509	17,294	(215)
Social services - telephone system	16,800	16,800	-	(16,800)
Waste collection and disposal	1,539,746	1,539,746	1,543,919	4,173
Weed Cutting Charges	21,000	21,000	(16,609)	(37,609)
Demolition and debris removal	2,200	2,200	(9,612)	(11,812)
Administration - water and sewer	314,874	314,874	314,874	-
Administration - airport	2,020	2,020	2,020	-
Administration - electric	296,314	296,314	296,314	-
Recreation fees and admissions	22,000	22,585	13,783	(8,802)
Other charges for services	19,300	19,300	12,070	(7,230)
Total charges for services	<u>\$ 2,668,967</u>	<u>\$ 2,669,552</u>	<u>\$ 2,557,279</u>	<u>\$ (112,273)</u>
Miscellaneous revenue:				
Miscellaneous	\$ 17,800	\$ 17,800	\$ 32,316	\$ 14,516
Payment in lieu of taxes - water and sewer	26,460	26,460	26,460	-
Payment in lieu of taxes - airport	59,282	59,282	59,282	-
Payment in lieu of taxes - FRHA	9,988	9,988	6,578	(3,410)
Isle of Wight - revenue sharing	1,100,000	1,100,000	1,193,025	93,025
Southampton County - revenue sharing	23,500	23,500	19,158	(4,342)
Sale of cemetery lots	36,000	36,000	30,050	(5,950)
Total miscellaneous revenue	<u>\$ 1,273,030</u>	<u>\$ 1,273,030</u>	<u>\$ 1,366,869</u>	<u>\$ 93,839</u>
Recovered costs:				
Workers' compensation	\$ -	\$ -	\$ -	\$ -
Insurance recovery - liability	13,500	13,500	-	(13,500)
Other recovered costs	15,000	52,925	71,306	18,381
Total recovered costs	<u>\$ 28,500</u>	<u>\$ 66,425</u>	<u>\$ 71,306</u>	<u>\$ 4,881</u>
Total revenue from local sources	<u>\$ 16,201,775</u>	<u>\$ 16,274,280</u>	<u>\$ 16,116,588</u>	<u>\$ (157,692)</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Railroad rolling stock tax	\$ 6,000	\$ 6,000	\$ 5,470	\$ (530)
Motor vehicle rental tax	28,707	28,707	32,415	3,708
Communication taxes	582,000	582,000	566,945	(15,055)
State recordation tax	15,000	15,000	12,504	(2,496)
Personal property tax relief funds	1,048,897	1,048,897	1,048,897	-
Total noncategorical aid	<u>\$ 1,680,604</u>	<u>\$ 1,680,604</u>	<u>\$ 1,666,230</u>	<u>\$ (14,374)</u>

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 73,746	\$ 73,746	\$ 72,840	\$ (906)
Treasurer	60,615	60,615	60,291	(324)
Registrar/electoral board	36,658	36,658	33,136	(3,522)
Total shared expenses	<u>\$ 171,019</u>	<u>\$ 171,019</u>	<u>\$ 166,267</u>	<u>\$ (4,752)</u>
Other categorical aid:				
HB 599 Law enforcement grant	\$ 419,239	\$ 419,239	\$ 382,001	\$ (37,238)
Fire and rescue grant	-	-	47,040	47,040
Street and highway maintenance funds	1,406,045	1,406,045	1,458,258	52,213
Litter control grants	5,910	5,910	5,000	(910)
Wireless 911 grant	51,300	51,300	56,439	5,139
Other categorical aid	15,000	15,000	17,751	2,751
Arts grant	-	-	2,500	2,500
Total other categorical aid	<u>\$ 1,897,494</u>	<u>\$ 1,897,494</u>	<u>\$ 1,968,989</u>	<u>\$ 71,495</u>
Total categorical aid	<u>\$ 2,068,513</u>	<u>\$ 2,068,513</u>	<u>\$ 2,135,256</u>	<u>\$ 66,743</u>
Total revenue from the Commonwealth	<u>\$ 3,749,117</u>	<u>\$ 3,749,117</u>	<u>\$ 3,801,486</u>	<u>\$ 52,369</u>
Revenue from the federal government:				
Categorical aid:				
ARRA - summer youth work program	\$ -	\$ -	\$ -	\$ -
Emergency services grant	16,595	16,595	23,246	6,651
Police grants	62,000	68,935	28,608	(40,327)
Forest land management	-	-	-	-
USGS grant - river gauge	-	-	80,000	80,000
Fire department - safer grant	-	-	9,315	9,315
Other federal categorical aid	23,026	23,026	-	(23,026)
Total categorical aid	<u>\$ 101,621</u>	<u>\$ 108,556</u>	<u>\$ 141,169</u>	<u>\$ 32,613</u>
Total revenue from the federal government	<u>\$ 101,621</u>	<u>\$ 108,556</u>	<u>\$ 141,169</u>	<u>\$ 32,613</u>
Total General Fund	<u>\$ 20,052,513</u>	<u>\$ 20,131,953</u>	<u>\$ 20,059,243</u>	<u>\$ (72,710)</u>

CITY OF FRANKLIN, VIRGINIA
Statement of Expenditures – Budget and Actual
General Fund
For the Year Ended June 30, 2012

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
City council	\$ 132,272	\$ 126,022	\$ 125,895	\$ 127
General and financial administration:				
City manager	\$ 184,026	\$ 162,347	\$ 149,596	\$ 12,751
City attorney	135,801	136,667	136,646	21
Management services and human resources	128,183	128,311	123,298	5,013
Commissioner of revenue	232,717	233,059	229,075	3,984
Real estate assessor	120,471	124,907	107,849	17,058
Treasurer	242,842	243,227	231,843	11,384
Accounting	317,713	334,880	331,482	3,398
Purchasing	76,036	77,381	76,444	937
Utility billings and collections	218,079	224,576	220,935	3,641
Insurance	114,211	111,211	106,882	4,329
Information Technology	121,650	121,650	111,335	10,315
Total general and financial administration	\$ 1,891,729	\$ 1,898,216	\$ 1,825,383	\$ 72,833
Board of elections:				
Electoral board and officials	\$ 117,393	\$ 118,650	\$ 113,165	\$ 5,485
Total board of elections	\$ 117,393	\$ 118,650	\$ 113,165	\$ 5,485
Total general government administration	\$ 2,141,394	\$ 2,142,888	\$ 2,064,443	\$ 78,445
Judicial administration:				
Courts:				
Circuit court - joint operations	\$ 11,578	\$ 13,115	\$ 13,115	\$ -
General district court	21,075	21,075	15,592	5,483
Magistrates	150	150	-	150
Clerk of the circuit court	54,514	54,514	54,514	-
Juvenile and domestic relations court	114,065	182,701	181,526	1,175
Sheriff - courts	100,607	99,070	97,889	1,181
Total courts	\$ 301,989	\$ 370,625	\$ 362,636	\$ 7,989
Commonwealth's attorney:				
Commonwealth's attorney	\$ 45,390	\$ 45,390	\$ 45,390	\$ -
Total commonwealth's attorney	\$ 45,390	\$ 45,390	\$ 45,390	\$ -
Total judicial administration	\$ 347,379	\$ 416,015	\$ 408,025	\$ 7,989
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,835,827	\$ 2,831,995	\$ 2,714,914	\$ 117,081
Total law enforcement and traffic control	\$ 2,835,827	\$ 2,831,995	\$ 2,714,914	\$ 117,081

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Public safety: (Continued)				
Emergency services:				
E-911 operations	\$ 623,127	\$ 623,897	\$ 580,963	\$ 42,934
Emergency management services	1,332,638	1,396,332	1,395,800	532
Total emergency services	<u>\$ 1,955,765</u>	<u>\$ 2,020,229</u>	<u>\$ 1,976,764</u>	<u>\$ 43,465</u>
Correction and detention:				
Detention - Western Tidewater Regional Jail	\$ 525,402	\$ 522,586	\$ 522,586	-
Total correction and detention	<u>\$ 525,402</u>	<u>\$ 522,586</u>	<u>\$ 522,586</u>	<u>-</u>
Inspections:				
Building	\$ 363,191	\$ 361,188	\$ 355,522	\$ 5,666
Total inspections	<u>\$ 363,191</u>	<u>\$ 361,188</u>	<u>\$ 355,522</u>	<u>\$ 5,666</u>
Other protection:				
Animal control	\$ 102,200	\$ 111,328	\$ 110,861	\$ 467
Civil defense	68,845	52,431	51,835	596
Safety and health	1,500	-	-	-
Total other protection	<u>\$ 172,545</u>	<u>\$ 163,759</u>	<u>\$ 162,696</u>	<u>\$ 1,063</u>
Total public safety	<u>\$ 5,852,730</u>	<u>\$ 5,899,757</u>	<u>\$ 5,732,482</u>	<u>\$ 167,275</u>
Public works:				
Maintenance of highways, streets, bridges, and sidewalks:				
Streets and highways	\$ 1,799,001	\$ 1,898,567	\$ 1,773,406	\$ 125,161
Snow removal	7,500	2,500	46	2,454
Garage	228,798	229,140	227,031	2,109
Total maintenance of highways, streets, bridges, and sidewalks	<u>\$ 2,035,299</u>	<u>\$ 2,130,207</u>	<u>\$ 2,000,483</u>	<u>\$ 129,724</u>
Sanitation and waste removal:				
Refuse collection	\$ 1,466,751	\$ 1,572,019	\$ 1,350,795	\$ 221,224
Total sanitation and waste removal	<u>\$ 1,466,751</u>	<u>\$ 1,572,019</u>	<u>\$ 1,350,795</u>	<u>\$ 221,224</u>
Maintenance of general buildings and grounds:				
Maintenance of general buildings and grounds	\$ 610,748	\$ 602,961	\$ 590,645	\$ 12,316
Maintenance of armory	52,675	48,861	46,948	1,913
Maintenance of city hall	173,687	197,773	195,470	2,303
Maintenance of social services	70,639	71,892	71,423	470
Maintenance of health department	23,781	22,474	21,628	846
Total maintenance of general buildings and grounds	<u>\$ 931,530</u>	<u>\$ 943,961</u>	<u>\$ 926,113</u>	<u>\$ 17,848</u>
Total public works	<u>\$ 4,433,580</u>	<u>\$ 4,646,187</u>	<u>\$ 4,277,392</u>	<u>\$ 368,795</u>

CITY OF FRANKLIN, VIRGINIA
Statement of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2012

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Health and welfare:				
Health:				
Local health department	\$ 110,000	\$ 110,000	\$ 110,000	\$ -
Mosquito control	16,000	10,460	10,449	11
Mental health	34,173	34,173	34,173	-
Total health	<u>\$ 160,173</u>	<u>\$ 154,633</u>	<u>\$ 154,622</u>	<u>\$ 11</u>
Total health and welfare	<u>\$ 160,173</u>	<u>\$ 154,633</u>	<u>\$ 154,622</u>	<u>\$ 11</u>
Education:				
Contribution to local school board	<u>\$ 5,192,279</u>	<u>\$ 4,837,395</u>	<u>\$ 4,194,221</u>	<u>\$ 643,174</u>
Total education	<u>\$ 5,192,279</u>	<u>\$ 4,837,395</u>	<u>\$ 4,194,221</u>	<u>\$ 643,174</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Programs and operations	\$ 392,078	\$ 393,583	\$ 371,341	\$ 22,242
Senior citizen programs	95,175	95,261	91,386	3,875
Senior citizen nutrition	39,006	39,092	39,282	(190)
Cemeteries	57,050	57,050	56,570	480
Total parks and recreation	<u>\$ 583,309</u>	<u>\$ 584,986</u>	<u>\$ 558,579</u>	<u>\$ 26,407</u>
Library:				
Library administration	<u>\$ 270,679</u>	<u>\$ 275,541</u>	<u>\$ 275,390</u>	<u>\$ 151</u>
Total library	<u>\$ 270,679</u>	<u>\$ 275,541</u>	<u>\$ 275,390</u>	<u>\$ 151</u>
Total parks, recreation, and cultural	<u>\$ 853,988</u>	<u>\$ 860,527</u>	<u>\$ 833,969</u>	<u>\$ 26,558</u>
Community development:				
Planning and community development:				
Planning and zoning	\$ 64,992	\$ 70,676	\$ 32,644	\$ 38,032
Beautification commission	7,530	20,745	2,617	18,128
Downtown development	105,516	105,841	105,838	3
Contribution to component unit IDA	-	-	-	-
Payments to Southampton County	600,000	638,738	638,738	-
Total planning and community development	<u>\$ 778,038</u>	<u>\$ 836,000</u>	<u>\$ 779,837</u>	<u>\$ 56,163</u>
Total community development	<u>\$ 778,038</u>	<u>\$ 836,000</u>	<u>\$ 779,837</u>	<u>\$ 56,163</u>
Nondepartmental:				
Nondepartmental capital	\$ 1,038,254	\$ 1,038,254	\$ -	\$ 1,038,254
Other nondepartmental	30,000	41,000	41,283	(283)
Total nondepartmental	<u>\$ 1,068,254</u>	<u>\$ 1,079,254</u>	<u>\$ 41,283</u>	<u>\$ 1,037,971</u>
Total General Fund	<u><u>\$ 20,827,815</u></u>	<u><u>\$ 20,872,656</u></u>	<u><u>\$ 18,486,274</u></u>	<u><u>\$ 2,386,382</u></u>

This section of the City of Franklin, Virginia's Financial Statements presents detailed information as a perspective for understanding what the information contained in the financial statements, notes and required supplementary information convey about the overall financial position of the City of Franklin, Virginia.

STATISTICAL SECTION

Contents

Tables

Financial Trends

These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

1-8

Revenue Capacity

These tables contain information to help the reader assess the factors affecting the City's ability to generate its property and sales tax.

9-14

Debt Capacity

These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue debt in the future.

15-18

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

19-20

Operating Information

These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs

21-23

Sources:

Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

CITY OF FRANKLIN, VIRGINIA
 Government-Wide Revenues
 Year Ended June 30, 2012

Table 1

Fiscal Year	Program Revenues			General Revenues						Total
	Charges for Services	Operating Grants and Contribution	Capital Grants and Contributions	Taxes	Revenue Sharing from Counties	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous		
2012	\$ 19,021,975	\$ 3,790,723	\$ 22,006	\$ 11,752,727	\$ 1,212,182	\$ 1,666,230	\$ 367,899	\$ 359,583	\$ 38,193,325	
2011	19,898,355	4,638,338	109,004	11,431,190	438,746	1,663,699*	341,820	249,154	38,770,306	
2010	18,285,763	4,077,928	2,072,735	11,579,344	1,316,661	1,673,064*	354,881	305,705	39,666,081	
2009	19,491,230	4,056,878	758,780	12,482,692	1,310,461	1,108,120*	362,362	533,867	40,104,390	
2008	18,313,540	2,520,711	2,537,650	11,988,424	1,279,456	1,323,968*	474,392	1,015,319	39,453,460	
2007	17,601,728	4,096,205	1,607,455	11,735,772	1,175,879	1,132,497*	132,207	1,556,708	39,038,451	
2006	18,767,600	3,698,397	93,952	10,627,041	1,136,199	1,132,497*	38,191	1,431,952	36,925,829	
2005	16,228,102	3,645,508	2,168,480	10,982,904	1,103,685	-	9,025	374,154	34,511,858	
2004	15,647,334	7,482,463	1,266,990	10,477,483	1,094,768	-	64,895	287,280	36,321,213	
2003	13,778,672	3,751,675	2,245,681	9,940,796	1,273,965	-	61,152	203,068	31,255,009	

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

CITY OF FRANKLIN, VIRGINIA
 Government-Wide Expenses by Function
 Year Ended June 30, 2012

Table 2

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
2012	\$ 2,797,507	\$ 408,025	\$ 6,331,863	\$ 4,702,151	\$ 1,883,150	\$ 4,373,992	\$ 1,026,675	\$ 1,457,880	\$ 41,283	\$ 434,988	\$ 2,972,701	\$ 13,153,530	\$ 351,863	\$ 39,935,607
2011	2,451,215	417,073	6,638,673	4,123,252	2,092,175	4,762,168	1,045,170	2,134,311	-	240,711	3,025,608	12,315,508	571,057	39,816,921
2010	2,301,552	227,580	5,786,765	4,497,628	2,406,592	4,633,929	1,049,424	1,370,039	-	549,261	3,069,237	10,319,351	572,686	36,784,044
2009	2,570,721	238,213	6,175,136	4,328,943	2,607,817	4,866,262	1,156,868	1,249,752	-	554,434	2,994,753	12,844,876	584,294	40,172,069
2008	2,648,658	254,382	5,244,287	4,360,802	2,479,570	5,005,226	1,030,677	1,551,031	-	594,528	3,028,136	11,084,995	637,885	37,920,177
2007	2,418,619	276,708	5,199,732	4,049,898	2,328,871	5,877,702	1,035,540	1,658,873	-	879,419	2,931,072	10,833,758	628,378	38,118,570
2006	3,579,360	220,786	4,581,392	3,273,363	2,476,948	4,358,068	908,320	1,154,255	580,617	717,482	2,895,536	10,704,954	571,601	36,022,682
2005	2,154,840	227,962	4,385,901	4,452,836	2,138,779	4,155,196	993,109	213,146	577,465	734,457	2,794,462	8,887,833	614,946	32,330,932
2004	2,136,656	107,674	4,172,103	3,711,353	2,148,536	7,271,975	869,713	4,464,002	546,196	751,139	2,714,447	8,645,465	620,913	38,160,172
2003	1,975,927	267,988	3,940,130	3,996,765	1,807,915	4,264,145	871,299	3,477,458	536,786	613,353	2,603,237	7,926,959	570,952	32,852,914

CITY OF FRANKLIN, VIRGINIA
 General Government Revenues by Source
 Year Ended June 30, 2012

Table 3

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General property taxes	\$ 6,531,186	\$ 6,564,430	\$ 6,530,638	\$ 6,738,891	\$ 6,583,034	\$ 5,996,085	\$ 6,359,770	\$ 5,782,264	\$ 5,523,583	\$ 5,509,757
Other local taxes	5,221,541	4,931,497	5,496,343	5,508,466	5,612,005	5,598,044	5,245,322	5,037,186	4,801,060	4,366,505
Permits, fees and licenses	65,986	43,827	42,070	50,721	85,785	84,958	111,310	69,920	72,184	43,889
Fines and forfeitures	60,735	67,659	62,877	59,119	51,650	67,106	42,865	51,248	62,331	49,407
Use of money and property	368,747	344,072	355,363	363,039	380,946	463,110	612,208	456,174	385,383	249,722
Charges for services	2,673,776	2,813,659	2,716,955	2,395,449	2,205,796	2,109,470	1,688,388	1,773,283	1,572,875	1,469,736
Miscellaneous and donations	1,783,730	925,311	1,965,875	2,212,987	2,561,414	2,375,228	1,856,200	1,481,570	1,368,093	1,582,999
Recovered costs	132,719	69,151	140,199	109,572	208,839	832,764	162,534	130,621	154,223	92,106
Intergovernmental	16,262,051	16,919,937	16,640,925	17,063,702	17,187,544	17,823,513	18,955,586	20,107,570	21,443,712	19,708,670
Total	\$ <u>33,100,470</u>	\$ <u>32,679,543</u>	\$ <u>33,951,245</u>	\$ <u>34,501,946</u>	\$ <u>34,877,013</u>	\$ <u>35,350,278</u>	\$ <u>35,034,183</u>	\$ <u>34,889,836</u>	\$ <u>35,383,444</u>	\$ <u>33,072,791</u>

NOTE: Includes General, Special Revenue, Debt Service, Permanent, Capital Project, School Operating, Textbook and School Cafeteria Funds. School Funds are reported in the component unit section of the financial statements but are included here as they are a component of the general government function.

CITY OF FRANKLIN, VIRGINIA
 General Government Expenditures by Function
 Last Ten Fiscal Years Ended June 30,

Table 4

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General government administration	\$ 2,064,443	\$ 2,060,446	\$ 2,083,550	\$ 2,231,540	\$ 2,342,771	\$ 2,170,465	\$ 2,033,571	\$ 1,916,668	\$ 1,898,128	\$ 1,921,302
Judicial administration	408,025	417,073	226,508	236,455	260,681	277,318	220,786	227,962	166,707	267,988
Public safety	5,916,167	6,039,390	5,379,484	5,871,389	5,132,088	5,179,909	4,352,306	4,363,831	3,986,257	4,242,378
Public works	4,277,392	4,644,403	4,253,984	4,155,038	4,279,138	4,729,833	4,131,807	4,031,172	4,048,957	4,159,512
Health and welfare	1,856,751	2,047,487	2,314,766	2,531,118	2,418,143	2,395,651	2,411,904	2,068,157	2,097,930	1,794,405
Education	15,680,694	15,627,197	16,189,511	16,245,264	16,260,078	15,648,683	14,264,376	15,767,293	12,777,477	13,906,854
Parks, recreation and cultural	852,091	867,991	877,561	1,098,785	1,142,871	978,109	989,414	910,516	839,088	831,648
Community development	1,457,880	2,162,246	1,486,489	1,306,902	1,553,177	1,668,299	866,223	953,592	4,464,002	2,272,636
Nondepartmental	41,283	104,155	61,375	50,554	782,653	20,869	718,739	578,963	551,561	535,925
Capital Projects	-	-	46,127	152,417	1,231,340	2,413,468	1,332,763	1,569,281	1,453,738	4,055,653
Debt service:										
Principal retirement	480,037	674,229	1,173,938	1,157,421	1,041,923	2,557,013	2,575,710	1,008,779	715,570	3,446,839
Interest and fiscal charges	434,988	318,941	1,066,708	577,131	589,825	679,916	761,876	737,999	715,178	613,353
Totals	\$ <u>33,469,749</u>	\$ <u>34,963,558</u>	\$ <u>35,160,001</u>	\$ <u>35,614,014</u>	\$ <u>37,034,688</u>	\$ <u>38,719,533</u>	\$ <u>34,659,475</u>	\$ <u>34,134,213</u>	\$ <u>33,714,593</u>	\$ <u>38,048,493</u>

NOTE: Includes General, Special Revenue, Debt Service, Permanent, Capital Project, School Operating, Textbook and School Cafeteria Funds. School Funds are reported in the component unit section of the financial statements, but are included here as they are a component of the general government function.

CITY OF FRANKLIN, VIRGINIA
Fund Balance – Governmental Funds
Last Ten Fiscal Years Ended June 30,

Table 5

Pre-GASB 54 Implementation:

	2010	2009	2008	2007	2006	2005	2004	2003
General Fund								
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	5,211,536	4,671,350	3,998,815	3,094,618	2,635,891	2,414,750	2,018,421	2,050,725
Total general fund	<u>\$ 5,211,536</u>	<u>\$ 4,671,350</u>	<u>\$ 3,998,815</u>	<u>\$ 3,094,618</u>	<u>\$ 2,635,891</u>	<u>\$ 2,414,750</u>	<u>\$ 2,018,421</u>	<u>\$ 2,050,725</u>
All Other Governmental Funds								
Reserved	\$ 834,736	\$ 644,623	\$ 460,698	\$ 279,236	\$ 1,870,206	\$ 312,438	\$ 1,097,958	\$ 528,263
Unreserved, reported in:								
Special revenue funds	1,094,142	1,297,002	1,460,560	1,179,047	-	-	-	-
Debt service funds	(325,499)	(280,924)	-	-	-	-	-	-
Capital projects funds	118,884	89,921	192,338	545,812	-	-	-	-
Permanent funds	136,060	129,787	126,030	133,068	133,046	130,768	132,014	121,938
Unreserved and undesignated	-	-	-	-	912,516	916,594	367,479	365,128
Total all other governmental funds	<u>\$ 1,858,323</u>	<u>\$ 1,880,409</u>	<u>\$ 2,239,626</u>	<u>\$ 2,137,163</u>	<u>\$ 2,915,768</u>	<u>\$ 1,359,800</u>	<u>\$ 1,597,451</u>	<u>\$ 1,015,329</u>

Post-GASB 54 Implementation:

	2012	2011
General Fund		
Nonspendable	\$ 969,874	\$ 978,500
Restricted	80,000	146,044
Committed	230,972	343,194
Assigned	2,588,020	1,212,612
Unassigned	3,084,828	2,381,262
Total general fund	<u>\$ 6,953,694</u>	<u>\$ 5,061,612</u>
All Other Governmental Funds		
Nonspendable	\$ 226,048	\$ 226,048
Restricted	1,478,166	1,728,261
Assigned	98,268	180,277
Unassigned, reported in:		
Special revenue funds	(20,380)	(49,310)
Total all other governmental funds	<u>\$ 1,782,102</u>	<u>\$ 2,085,276</u>

Note: FY2011 was the first year the City implemented GASB 54, which revised fund balance classifications.

CITY OF FRANKLIN, VIRGINIA
 Changes in Fund Balance - Governmental Funds
 Last Ten Fiscal Years Ended June 30,

Table 6

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues										
General property taxes	\$ 6,531,186	\$ 6,564,430	\$ 6,530,638	\$ 6,738,891	\$ 6,583,034	\$ 5,996,085	\$ 6,359,770	\$ 5,782,264	\$ 5,523,583	\$ 5,509,757
Other local taxes	5,221,541	4,931,497	5,496,343	5,508,466	5,612,005	5,598,044	5,245,322	5,037,186	4,801,060	4,366,505
Permits, privilege fees, and regulatory licenses	65,986	43,827	42,070	50,721	85,785	84,958	111,310	69,920	72,184	43,889
Fines and forfeitures	60,735	67,659	62,877	59,119	51,650	67,106	42,865	51,248	62,331	49,407
Revenue from use of money and property	367,899	341,820	354,881	362,362	380,114	460,631	612,131	426,048	368,797	246,639
Charges for services	2,557,279	2,700,399	2,573,185	2,235,778	2,053,757	1,945,295	1,688,388	1,618,827	1,410,296	1,305,282
Miscellaneous	1,500,459	687,900	1,622,366	1,844,328	2,294,775	2,250,451	1,759,510	1,405,454	1,301,573	1,441,027
Recovered costs	71,306	27,261	100,749	61,314	82,857	773,902	86,545	29,354	60,814	47,973
Intergovernmental	5,456,953	6,302,037	5,214,853	5,821,774	6,376,876	6,436,014	4,221,465	5,739,714	8,977,448	6,115,385
Total revenues	\$ 21,833,344	\$ 21,666,830	\$ 21,997,962	\$ 22,682,753	\$ 23,520,853	\$ 23,612,486	\$ 20,127,306	\$ 20,160,015	\$ 22,578,086	\$ 19,125,864
Expenditures										
Current:										
General government administration	\$ 2,064,443	\$ 2,060,446	\$ 2,083,550	\$ 2,231,540	\$ 2,342,771	\$ 2,170,465	\$ 2,033,571	\$ 1,916,668	\$ 1,898,128	\$ 1,921,302
Judicial administration	408,025	417,073	226,508	236,455	260,681	277,318	220,786	227,962	166,707	267,988
Public safety	5,916,167	6,039,390	5,379,484	5,871,389	5,132,088	5,179,909	4,352,306	4,363,831	3,986,257	4,242,378
Public works	4,277,392	4,644,403	4,253,984	4,155,038	4,279,138	4,729,833	4,131,807	4,031,172	4,048,957	4,159,512
Health and welfare	1,856,751	2,047,487	2,314,766	2,531,118	2,418,143	2,395,651	2,411,904	2,068,157	2,097,930	1,794,405
Education	4,276,230	4,664,406	4,490,040	4,620,576	4,651,368	4,472,469	4,260,306	4,057,434	3,918,801	-
Parks, recreation and cultural	852,091	867,991	877,561	1,098,785	1,142,871	978,109	989,414	910,516	839,088	831,648
Community development	1,457,880	2,162,246	1,486,489	1,306,902	1,553,177	1,668,299	866,223	953,592	4,464,002	2,272,636
Nondepartmental	41,283	104,155	61,375	50,554	782,653	20,869	718,739	578,963	551,561	535,925
Capital projects	-	-	46,127	152,417	1,231,340	2,413,468	1,332,763	1,569,281	1,453,738	4,055,653
Debt service:										
Principal retirement	480,037	674,229	1,173,938	1,157,421	1,041,923	2,557,013	2,575,710	1,008,779	715,570	3,446,839
Interest and other fiscal charges	434,988	318,941	1,066,708	577,131	589,825	679,916	717,482	734,455	679,110	613,354
Bond issuance cost	-	-	-	-	-	-	44,394	3,544	36,068	-
Total expenditures	\$ 22,065,287	\$ 24,000,767	\$ 23,460,530	\$ 23,989,326	\$ 25,425,978	\$ 27,543,319	\$ 24,655,405	\$ 22,424,354	\$ 24,855,917	\$ 24,141,640
Excess (deficiency) of revenues over expenditures	\$ (231,943)	\$ (2,333,937)	\$ (1,462,568)	\$ (1,306,573)	\$ (1,905,125)	\$ (3,930,833)	\$ (4,528,099)	\$ (2,264,339)	\$ (2,277,831)	\$ (5,015,776)
Other Financing Sources (Uses)										
Proceeds from long-term debt	\$ -	\$ -	\$ 5,235,000	\$ -	\$ 400,000	\$ -	\$ 3,755,429	\$ 310,000	\$ 4,288,240	\$ 4,156,960
Payment to refunding bond escrow agent	-	-	(4,828,997)	-	-	-	-	-	-	-
Premium on issuance of bonds	-	-	84,500	-	-	-	-	-	-	-
Discount on sale of bonds	-	-	-	-	-	-	-	-	-	-
Transfers in	3,428,856	4,634,273	4,139,028	3,878,065	4,271,190	6,082,270	4,333,951	4,295,452	3,743,030	9,180,650
Transfers out	(1,599,773)	(2,625,576)	(2,648,863)	(2,258,174)	(2,504,983)	(4,155,363)	(2,233,079)	(2,182,435)	(5,273,794)	(13,174,670)
Issuance of capital leases	-	318,975	-	-	745,578	1,577,117	-	-	-	-
Total other financing sources (uses)	\$ 1,829,083	\$ 2,327,672	\$ 1,980,668	\$ 1,619,891	\$ 2,911,785	\$ 3,504,024	\$ 5,856,301	\$ 2,423,017	\$ 2,757,476	\$ 162,940
Net change in fund balances	\$ 1,597,140	\$ (6,265)	\$ 518,100	\$ 313,318	\$ 1,006,660	\$ (426,809)	\$ 1,328,202	\$ 158,678	\$ 479,645	\$ (4,852,836)
Debt service as a percentage of noncapital expenditures	4.15%	4.14%	9.57%	7.28%	6.74%	12.88%	14.31%	8.38%	6.11%	20.21%

CITY OF FRANKLIN, VIRGINIA
 Net Assets by Component
 June 30,

Table 7

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Governmental activities						
Invested in capital assets - net of related debt	\$ 15,514,000	\$ 16,568,294	\$ 17,477,560	\$ 17,319,997	\$ 16,777,541	\$ 15,949,140
Restricted: Debt Service	1,062,775	1,032,007	-	-	-	-
Unrestricted	<u>5,786,923</u>	<u>4,558,481</u>	<u>4,919,147</u>	<u>4,374,403</u>	<u>4,188,340</u>	<u>3,188,314</u>
Total governmental activities	\$ <u>22,363,698</u>	\$ <u>22,158,782</u>	\$ <u>22,396,707</u>	\$ <u>21,694,400</u>	\$ <u>20,965,881</u>	\$ <u>19,137,454</u>
Business-type activities						
Invested in capital assets - net of related debt	\$ 8,095,793	\$ 8,400,534	\$ 9,228,349	\$ 8,004,309	\$ 8,388,252	\$ 8,363,160
Unrestricted	<u>438,188</u>	<u>2,080,645</u>	<u>2,748,995</u>	<u>1,786,860</u>	<u>2,191,355</u>	<u>2,511,591</u>
Total business-type activities	\$ <u>8,533,981</u>	\$ <u>10,481,179</u>	\$ <u>11,977,344</u>	\$ <u>9,791,169</u>	\$ <u>10,579,607</u>	\$ <u>10,874,751</u>
Primary government						
Invested in capital assets - net of related debt	\$ 23,609,792	\$ 24,968,828	\$ 26,705,909	\$ 25,324,306	\$ 25,165,793	\$ 24,312,300
Restricted	1,062,775	1,032,007	-	-	-	-
Unrestricted	<u>6,225,111</u>	<u>6,639,126</u>	<u>7,668,142</u>	<u>6,161,263</u>	<u>6,379,695</u>	<u>5,699,905</u>
Total primary government	\$ <u>30,897,678</u>	\$ <u>32,639,961</u>	\$ <u>34,374,051</u>	\$ <u>31,485,569</u>	\$ <u>31,545,488</u>	\$ <u>30,012,205</u>

CITY OF FRANKLIN, VIRGINIA
Change in Net Assets
Ended June 30,

Table 8
Page 1 of 2

	2012	2011	2010	2009	2008	2007
Expenses						
Governmental activities:						
General government	\$ 2,797,507	\$ 2,451,215	\$ 2,301,552	\$ 2,570,721	\$ 2,648,658	\$ 2,418,619
Judicial	408,025	417,073	227,580	238,213	254,382	276,708
Public safety	6,331,863	6,638,673	5,799,871	6,175,136	5,244,287	5,199,732
Public works	4,702,151	4,123,252	4,497,628	4,328,943	4,360,802	4,049,898
Health and welfare	1,883,150	2,092,175	2,406,592	2,607,817	2,479,570	2,328,871
Education	4,373,992	4,762,168	4,633,929	4,866,262	5,005,226	5,877,702
Parks, recreation, and cultural	1,026,675	1,045,170	1,049,424	1,156,868	1,030,677	1,035,540
Community development	1,457,880	2,134,311	1,273,639	1,249,752	1,551,031	1,658,873
Interest on long-term debt	434,988	240,711	549,261	554,434	594,528	879,419
Nondepartmental	41,283	-	-	-	-	-
Total governmental activities	\$ 23,457,513	\$ 23,904,748	\$ 22,739,476	\$ 23,748,146	\$ 23,169,161	\$ 23,725,362
Business-type activities:						
Water and sewer	\$ 2,972,701	\$ 3,025,608	\$ 3,069,237	\$ 2,994,753	\$ 3,028,136	\$ 2,931,072
Electric	13,153,530	12,315,508	11,107,273	12,844,876	11,084,995	10,833,758
Airport	351,863	571,057	572,686	584,294	637,885	628,378
Total business-type activities	\$ 16,478,094	\$ 15,912,173	\$ 14,749,196	\$ 16,423,923	\$ 14,751,016	\$ 14,393,208
Total expenses	\$ 39,935,607	\$ 39,816,921	\$ 37,488,672	\$ 40,172,069	\$ 37,920,177	\$ 38,118,570
Program revenue						
Governmental activities:						
Charges for services:						
General government	\$ 630,502	\$ 613,208	\$ 662,101	\$ 615,929	\$ 607,034	\$ 613,334
Judicial	68,562	88,075	14,432	17,509	9,601	8,831
Public safety	441,386	529,385	510,261	464,978	384,793	493,587
Public works	1,517,698	1,535,386	1,469,356	1,207,847	1,101,485	877,464
Health and welfare	-	16,112	-	9,503	34,060	-
Parks, recreation, and cultural	13,783	17,327	14,418	20,197	22,216	19,185
Community development	12,070	12,392	7,564	9,655	32,003	-
Operating grants and contributions	3,790,723	4,638,338	4,077,928	4,056,878	2,520,711	4,096,205
Capital grants and contributions	-	-	49,197	656,776	2,532,197	1,207,312
Total governmental activities	\$ 6,474,724	\$ 7,450,223	\$ 6,805,257	\$ 7,059,272	\$ 7,244,100	\$ 7,315,918

CITY OF FRANKLIN, VIRGINIA
Change in Net Assets
Ended June 30,

Table 8
Page 2 of 2

Program revenue	2012	2011	2010	2009	2008	2007
Business-type activities:						
Charges for services:						
Water and sewer	\$ 3,043,329	\$ 3,035,547	\$ 3,276,636	\$ 3,283,366	\$ 3,396,655	\$ 3,330,432
Electric	13,093,877	13,871,929	12,142,738	13,687,790	12,493,995	12,007,869
Airport	200,768	178,994	188,257	174,456	231,698	251,026
Capital grants and contributions:						
Airport	22,006	109,004	2,040,691	102,004	5,453	400,143
Total business-type activities	\$ 16,359,980	\$ 17,195,474	\$ 17,648,322	\$ 17,247,616	\$ 16,127,801	\$ 15,989,470
Total program revenue	\$ 22,834,704	\$ 24,645,697	\$ 24,453,579	\$ 24,306,888	\$ 23,371,901	\$ 23,305,388
Governmental activities net expense	\$ (16,982,789)	\$ (16,454,525)	\$ (15,934,219)	\$ (16,688,874)	\$ (15,925,061)	\$ (16,409,444)
Business-type activities net expense	(118,114)	1,283,301	2,899,126	823,693	1,376,785	1,596,262
Total primary government net expense	\$ (17,100,903)	\$ (15,171,224)	\$ (13,035,093)	\$ (15,865,181)	\$ (14,548,276)	\$ (14,813,182)
General revenues and other changes in net assets						
Governmental activities:						
Taxes:						
Property taxes	\$ 6,531,186	\$ 6,499,693	\$ 6,668,337	\$ 6,974,226	\$ 6,376,419	\$ 6,052,770
Other taxes	5,221,541	4,931,497	4,911,007	5,508,466	5,612,005	5,683,002
Revenue sharing from counties	1,212,182	438,746	1,316,661	1,310,461	1,279,456	1,175,879
Revenue from use of money and property	367,899	341,820	354,881	362,362	380,114	460,631
Grants & Gifts non-restricted	1,666,230	1,663,699	1,673,064	1,108,120	1,323,968	1,132,497
Miscellaneous	359,583	249,154	305,705	533,867	1,015,319	1,154,938
Transfers	1,829,084	2,008,697	1,490,165	1,619,891	1,766,207	1,926,907
Total governmental activities	\$ 17,187,705	\$ 16,133,306	\$ 16,719,820	\$ 17,417,393	\$ 17,753,488	\$ 17,586,624
Business-type activities:						
Revenue from use of money and property	\$ -	\$ -	\$ 6,445	\$ 7,760	\$ 94,278	\$ 73,346
Transfers	(1,829,084)	(2,008,697)	(1,490,165)	(1,619,891)	(1,766,207)	(1,926,907)
Total business-type activities	(1,829,084)	(2,008,697)	(1,483,720)	(1,612,131)	(1,671,929)	(1,853,561)
Total general revenues and other changes in net assets	\$ 15,358,621	\$ 14,124,609	\$ 15,236,100	\$ 15,805,262	\$ 16,081,559	\$ 15,733,063
Change in Net Assets						
Governmental activities	\$ 204,916	\$ (321,219)	\$ 785,601	\$ 728,519	\$ 1,828,427	\$ 1,177,180
Business-type activities	(1,947,198)	(725,396)	1,415,406	(788,438)	(295,144)	(257,299)
Total primary government	\$ (1,742,282)	\$ (1,046,615)	\$ 2,201,007	\$ (59,919)	\$ 1,533,283	\$ 919,881

CITY OF FRANKLIN, VIRGINIA
 Property Tax Levies and Collections
 Last Ten Fiscal Years Ended June 30,

Table 9

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
2012	\$ 7,277,357	\$ 7,197,984	98.91%	\$ 183,306	\$ 7,381,290	101.43%	\$ 671,990	9.23%
2011	7,333,436	7,135,568	97.30%	304,318	7,439,886	101.45%	756,365	10.31%
2010	7,355,039	7,326,977	99.62%	125,647	7,452,624	101.33%	863,109	11.73%
2009	7,774,091	7,482,861	96.25%	182,767	7,665,628	98.60%	758,751	9.76%
2008	7,510,356	7,240,857	96.41%	232,401	7,473,258	99.51%	756,356	10.07%
2007	7,023,237	6,827,150	97.21%	179,681	7,006,831	99.77%	649,891	9.25%
2006	6,229,526	5,913,050	94.92%	279,881	6,192,931	99.41%	619,208	9.94%
2005	5,640,259	5,323,582	94.39%	290,026	5,613,608	99.53%	485,700	8.61%
2004	5,463,530	5,220,437	95.55%	286,425	5,506,862	100.79%	459,049	8.40%
2003	5,221,065	5,067,596	97.06%	329,579	5,397,175	103.37%	498,463	9.55%

Source: City of Franklin Commissioner of Revenue

⁽¹⁾Exclusive of penalties and interest.

⁽²⁾Does not include land redemptions.

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

CITY OF FRANKLIN, VIRGINIA
 Assessed Value of Taxable Property
 Last Ten Fiscal Years Ended June 30,

Table 10

Year						Public Service Corporations			Total Direct Tax Rate
	Real Estate	Personal Property	Mobile Home	Machinery and Tools		Real Estate	Personal Property	Total	
2012	\$ 550,495,439	\$ 55,575,941	\$ -	\$ 2,993,303	\$	6,927,392	\$ 13,914	\$ 616,005,989	1.22
2011	606,470,410	55,398,273	-	3,032,569		7,371,365	16,575	672,289,192	1.19
2010	629,410,310	57,061,332	-	3,018,957		7,761,879	42,224	697,294,702	1.19
2009	671,857,100	59,307,993	900	2,909,231		7,646,642	27,151	741,749,017	1.18
2008	561,634,400	57,716,863	-	573,729		8,480,797	39,340	628,445,129	1.34
2007	567,081,965	62,652,410	-	703,167		6,596,676	21,591	637,055,809	1.32
2006	418,087,841	59,659,923	-	738,901		8,611,442	39,123	487,137,230	1.49
2005	413,484,184	55,210,009	-	757,167		8,617,223	39,123	478,107,706	1.42
2004	371,050,871	52,890,760	-	1,134,874		9,097,960	57,587	434,232,052	1.44
2003	365,657,221	55,879,359	166,080	971,160		8,969,861	38,567	431,682,248	1.47

Source: City of Franklin Treasurer

CITY OF FRANKLIN, VIRGINIA

Table 11

Property Tax Rates

Tax Rates per Hundred Dollars of Assessed Value

Last Ten Fiscal Years Ended June 30,

Year	Real Estate		Personal Property	Mobile Home	Machinery and Tools	Public Service Corporation	
						Real Estate ⁽¹⁾	Personal Property
2012	\$ 0.77 / \$ 1.01	⁽⁵⁾	\$ 4.50	\$ 0.77	\$ 2.00	\$ 0.77	\$ 4.50
2011	\$ 0.77 / \$ 1.01	⁽⁵⁾	4.50	0.77	2.00	0.77	4.50
2010	\$ 0.77 / \$ 1.01	⁽⁵⁾	4.50	0.77	2.00	0.77	4.50
2009	\$ 0.77 / \$ 1.01	⁽⁵⁾	4.50	0.77	2.00	0.77	4.50
2008	\$ 0.90 / \$ 1.14	⁽³⁾	4.50	0.90	2.00	0.90	4.50
2007	\$ 0.85 / \$ 1.09	⁽²⁾	4.50	0.85	2.00	0.85	4.50
2006	\$ 0.95 / \$ 1.19	⁽⁴⁾	4.50	0.95	2.00	0.95	4.50
2005	\$ 0.90 / \$ 1.14	⁽³⁾	4.50	0.90	2.00	0.90	4.50
2004	\$ 0.90 / \$ 1.14	⁽³⁾	4.50	0.90	2.00	0.90	4.50
2003	\$ 0.90 / \$ 1.14	⁽³⁾	4.50	0.90	2.00	0.90	4.50

⁽¹⁾ Public Service Corporation property was taxed at basic real estate rates regardless of location.

⁽²⁾ Downtown district real estate tax rate was \$1.09 and remaining areas were taxed at \$0.85 for real estate.

⁽³⁾ Downtown district real estate tax rate was \$1.14 and remaining areas were taxed at \$ 0.90 for real estate.

⁽⁴⁾ Downtown district real estate tax rate was \$1.19 and remaining areas were taxed at \$ 0.95 for real estate.

⁽⁵⁾ Downtown district real estate tax rate was \$1.01 and remaining areas were taxed at \$ 0.77 for real estate.

Source: City of Franklin Commissioner of Revenue

Fiscal Year 2012			
Taxpayer	Type of Buisness	2011 Assesed Valuation	Percent of Total Assesed Valuation of Real Estate
Franklin Hospital Corporation	Hospital	\$ 25,620,800	4.02%
James L. Rifkin Estate	Shopping Center	12,949,600	2.03%
The Village at Woods Edge	Retirement Home	10,643,500	1.67%
Lowes Home Centers, Inc	Retail - Hardware	8,341,800	1.31%
Mag II Franklin LLC	Shopping Center	6,290,400	0.99%
Southhampton Shopping Center L.P.	Shopping Center	5,760,600	0.90%
ACJCS LLC	Direct Mail Advertising	5,497,100	0.86%
Hampton Roads Development LLC	Real Estate Development	5,161,800	0.81%
Meadowridge Associates L.P.	Apartments	5,101,400	0.80%
Dorchester Apartments L.P.	Apartments	4,474,100	0.70%
		<u>\$ 89,841,100</u>	<u>14.11%</u>
Fiscal Year2003			
Taxpayer	Type of Buisness	2003 Assesed Valuation	Percent of Total Assesed Valuation of Real Estate
Franklin Hospital Corporation	Hospital	\$ 8,308,500	2.22%
James L. Rifkin Estate	Shopping Center	8,164,700	2.18%
F.P. Associates	Apartments	7,016,500	1.87%
Southampton Center, Joint Venture	Shopping Center	6,326,400	1.69%
The Village at Woods Edge	Retirement Home	5,903,600	1.58%
Meadowridge Association	Apartments	4,274,700	1.14%
Dorchester Associates	Apartments	3,618,200	0.97%
Adjacent Properties	Apartments	3,316,100	0.89%
Holland Trace Limited Partnership	Apartments	3,313,500	0.88%
Franklin Plaza	Shopping Center	3,248,400	0.87%
		<u>\$ 53,490,600</u>	<u>14.28%</u>

Source: City of Franklin Treasurer

Fiscal Year 2012			
Taxpayer	Type of Business	2011 Assessed Valuation	Percent of Total Assessed Personal Property
Money Mailer LLC	Direct Mail Advertising	\$ 2,338,529	3.70%
Franklin Hospital Corporation	Hospital	2,188,030	3.46%
Charter Communications	Service - Telecommunications	763,153	1.21%
Wal-Mart Stores, Inc	Retail - Variety	668,076	1.06%
Lowe's Home Centers #2698	Retail - Hardware	636,071	1.01%
Richfood Procurement LLC	Retail - Grocery	620,886	0.98%
Butler Paper Recycling, Inc	Paper Recycling	391,310	0.62%
Alliance Healthcare Services	Services - Healthcare	285,524	0.45%
Birdsong Corporation	Peanut - Wholesale Industry	239,302	0.38%
The Village at Woods Edge	Retirement Home	237,809	0.38%
		<u>\$ 8,368,690</u>	<u>13.25%</u>
Fiscal Year 2003			
Taxpayer	Type of Business	2004 Assessed Valuation	Percent of Total Assessed Personal Property
Wal-Mart Stores, Inc.	Retail - Variety	\$ 663,772	1.24%
Franklin Hospital Corporation	Hospital	628,439	1.18%
Charter Communications, Inc.	Cable	435,630	0.82%
Winn Dixie Raleigh, Inc.	Retail - Grocery	409,604	0.77%
Alliance Imaging, Inc.	Retail - Variety	261,762	0.49%
Food Lion, Inc. LLC	Retail - Grocery	215,880	0.40%
CIT Financial USA, Inc.	Retail - Variety	184,455	0.35%
Belk Stores of Virginia	Retail - Department Store	142,927	0.27%
Shreeji Inc. - T/A Comfort Inn	Motel	100,908	0.19%
Holm Associates	Health Care	97,446	0.18%
		<u>\$ 3,140,823</u>	<u>5.89%</u>

Source: City of Franklin Treasurer

CITY OF FRANKLIN, VIRGINIA
 Taxable Sales by Category
 Last Ten Calendar Years Ended June 30,

Table 14

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Merchant Wholesaler, Durable Goods	\$ N/A	\$ 540,973	\$ 319,700	\$ 160,501	\$ 206,624	\$ 370,011	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Motor Vehicle & Parts Dealers	3,873,423	5,049,510	4,177,804	3,978,697	4,485,996	4,740,931	N/A	N/A	N/A	N/A
Furniture & Home Furnishings	3,057,434	3,367,524	3,415,004	3,766,476	3,460,241	3,768,080	N/A	N/A	N/A	N/A
Crop Production	N/A	67,636	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Building Materials, Farm & Garden Supplies	-	-	-	-	-	3,683,597	N/A	N/A	N/A	N/A
Food and Beverage Stores	18,485,435	17,562,519	18,543,874	20,153,777	14,117,933	11,325,087	N/A	N/A	N/A	N/A
Health and Personal Care	N/A	1,620,007	1,708,589	1,181,688	914,493	-	N/A	N/A	N/A	N/A
Gasoline Stations	6,386,331	5,728,484	5,064,456	5,484,253	4,347,208	2,841,936	N/A	N/A	N/A	N/A
Clothing & Clothing Accessories Stores	1,913,678	1,918,978	1,992,877	1,910,099	1,954,980	2,057,085	N/A	N/A	N/A	N/A
Sporting Goods, Hobby, Book & Music Stores	268,093	-	34,340	-	-	229,560	N/A	N/A	N/A	N/A
General Merchandise Stores	59,970,095	57,836,189	60,044,952	60,639,197	60,217,521	53,083,978	N/A	N/A	N/A	N/A
Miscellaneous Store Retailers	1,896,322	2,094,847	1,745,625	1,735,875	2,469,992	2,912,936	N/A	N/A	N/A	N/A
Nonstore Retailers	957,052	1,392,909	1,169,469	1,518,049	2,895,028	3,550,649	N/A	N/A	N/A	N/A
Rental & Lease Services	538,438	676,770	929,073	796,030	1,291,440	960,998	N/A	N/A	N/A	N/A
Professional, Scientific and Technical Services	1,621,123	1,765,592	1,605,670	634,005	177,766	-	N/A	N/A	N/A	N/A
Accommodation	N/A	816,451	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Food Services & Drinking Places	15,530,633	16,947,347	17,052,909	15,814,206	13,903,248	12,888,112	N/A	N/A	N/A	N/A
Repair & Maintenance	2,843,412	2,906,222	2,772,329	2,528,870	2,650,097	2,388,335	N/A	N/A	N/A	N/A
Personal & Laundry Services	1,323,188	1,115,148	905,405	1,309,468	1,252,258	922,640	N/A	N/A	N/A	N/A
All Other Businesses	2,530,722	1,155,848	213,205	318,129	1,352,993	5,437,841	N/A	N/A	N/A	N/A
Miscellaneous & Unidentifiable	27,833,602	25,414,636	27,559,023	28,788,615	24,690,382	22,719,304	N/A	N/A	N/A	N/A
Total	\$ <u>149,028,981</u>	\$ <u>147,977,590</u>	\$ <u>149,254,304</u>	\$ <u>150,717,935</u>	\$ <u>140,388,200</u>	\$ <u>133,881,080</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Source - City of Franklin Department of Taxation

CITY OF FRANKLIN, VIRGINIA

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

Table 15

Year	Bonded Debt Outstanding ⁽³⁾						Less:			Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita ⁽⁵⁾
	Assessed Value (in Thousands) ⁽⁴⁾	General Obligation Bonds	Literary Fund Loans	Revolving Loans	Other Notes	Gross Bonded Debt ⁽¹⁾	Debt Service Escrow	Debt Payable from Enterprise Revenues ⁽²⁾	Net Bonded Debt		
2012	\$ 557,423	\$ 16,295,239	\$ -	\$ 448,518	\$ -	\$ 16,743,757	\$ 1,230,196	\$ 3,883,518	\$ 11,630,043	2.09%	\$ 1,355
2011	613,842	16,605,270	-	505,296	-	17,110,566	1,032,007	3,940,296	12,138,263	1.98%	1,414
2010	637,172	16,891,141	100,000	560,409	160,000	17,711,550	834,736	3,995,409	12,881,405	2.02%	1,461
2009	679,504	17,589,353	200,000	613,905	280,000	18,683,258	644,623	4,303,770	13,734,865	2.02%	1,547
2008	570,115	18,836,884	300,000	665,832	400,000	20,202,716	460,698	4,788,132	14,953,886	2.62%	1,679
2007	573,679	19,715,413	400,000	716,235	520,000	21,351,648	279,236	5,319,576	15,752,836	2.75%	1,790
2006	426,699	N/A	N/A	N/A	N/A	24,486,173	-	5,920,883	18,565,290	4.35%	2,160
2005	422,101	N/A	N/A	N/A	N/A	23,479,028	-	6,597,451	16,881,577	3.53%	1,964
2004	380,149	N/A	N/A	N/A	N/A	24,583,588	-	7,099,588	17,484,000	4.03%	2,069
2003	374,627	N/A	N/A	N/A	N/A	22,871,597	-	9,111,219	13,760,378	3.19%	1,653

Note: ⁽¹⁾ Includes all long-term general obligation debt (excludes loss on net tax revenue obligation and capital lease)

⁽²⁾ Enterprise Debt includes Proprietary Fund Types and Component Unit - IDA.

⁽³⁾ Itemization of outstanding debt not applicable for fiscal years 2003 - 2006 due to changes in reporting.

⁽⁴⁾ See Table 10 for actual assessed values

⁽⁵⁾ See Table 19 for population

CITY OF FRANKLIN, VIRGINIA
 Legal Debt Margin Information
 Last Ten Fiscal Years Ended June 30,

Table 16

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 37,463	\$ 37,475	\$ 42,210	\$ 41,809	\$ 56,708	\$ 57,409	\$ 67,950	\$ 67,239	\$ 60,647	\$ 55,050
Total net debt applicable to limit	<u>20,802</u>	<u>24,446</u>	<u>23,479</u>	<u>24,707</u>	<u>21,540</u>	<u>20,955</u>	<u>19,339</u>	<u>18,130</u>	<u>17,111</u>	<u>16,744</u>
Legal debt margin	\$ <u>16,661</u>	\$ <u>13,029</u>	\$ <u>18,731</u>	\$ <u>17,102</u>	\$ <u>35,168</u>	\$ <u>36,454</u>	\$ <u>48,611</u>	\$ <u>49,109</u>	\$ <u>43,536</u>	\$ <u>38,306</u>
Total net debt applicable to the limit as a percentage of the debt limit	55.53%	65.23%	55.62%	59.09%	37.98%	36.50%	28.46%	26.96%	28.21%	30.42%

Note: The amounts reported above are presented in thousands.

Assessed value	\$ 550,495,439
Total assessed value	\$ <u>550,495,439</u>
Debt limit (10% of total assessed value)	\$ 55,049,544
Amount of debt applicable to debt limit	
General obligation debt:	
Primary Government	12,860,239
Business-Type	3,435,000
Virginia Resources Authority revolving loan	<u>448,518</u>
Net debt applicable to limit	<u>16,743,757</u>
Legal debt margin	\$ <u>38,305,787</u>

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

CITY OF FRANKLIN, VIRGINIA

Ratio of Annual Debt Service Expenditures to Total General Governmental Expenditures
 Last Ten Fiscal Years Ended June 30,

Table 17

<u>Fiscal Year</u>	<u>Expenditures - All Governmental Fund Types</u>	<u>Total Debt Service ⁽¹⁾</u>	<u>Percentage of Deft Service to Expenditures</u>
2012	\$ 33,469,749	\$ 915,024	2.73%
2011	34,963,558	993,170	2.84%
2010	35,160,001	2,240,646	6.37%
2009	35,614,014	1,734,552	4.87%
2008	37,034,688	1,631,748	4.41%
2007	38,719,533	3,236,929	8.36%
2006	34,659,475	3,337,586	9.63%
2005	34,134,213	1,746,778	5.12%
2004	33,714,593	1,430,748	4.24%
2003	38,048,493	4,060,192	10.67%

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

CITY OF FRANKLIN, VIRGINIA
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years Ended June 30,

Table 18

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Total Outstanding Debt as Percentage of Personal Income ⁽¹⁾	Total Outstanding Debt Per Capita ⁽¹⁾
	General Obligation Bonds	Literary Fund Loans	Other Notes	Capital Leases	General Obligations Bonds	Capital Leases	Revolving Loans				
2012	\$ 12,860,239	\$ -	\$ -	\$ 407,945	\$ 3,435,000	\$ -	\$ 448,518	\$ 17,151,702	2.03%	\$ 1,999	
2011	13,170,270	-	-	533,520	3,435,000	-	505,296	17,644,086	2.09%	2,056	
2010	13,456,141	100,000	160,000	418,883	3,435,000	-	560,409	18,130,433	2.20%	2,057	
2009	13,899,488	200,000	280,000	587,983	3,689,865	19,252	613,905	19,290,493	2.30%	2,173	
2008	14,714,584	300,000	400,000	710,308	4,122,300	41,573	665,832	20,954,597	2.41%	2,353	
2007	15,112,072	400,000	520,000	125,608	4,603,341	63,069	716,235	21,540,325	2.63%	2,448	
2006	17,179,900	645,000	640,000	236,395	5,156,427	83,771	765,159	24,706,652	3.21%	2,875	
2005	15,630,714	890,000	-	360,863	5,681,097	103,707	812,647	23,479,028	3.24%	2,732	
2004	15,982,023	1,135,000	-	229,584	6,240,845	-	858,743	24,446,195	3.49%	2,893	
2003	12,104,429	1,380,000	-	275,949	6,137,734	-	903,485	20,801,597	3.09%	2,499	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

⁽¹⁾ See the table of Demographic Statistics - Table 19.

<u>Fiscal Year</u>	<u>Population ⁽¹⁾</u>	<u>Total Personal Income ⁽²⁾ (In Thousands)</u>	<u>Per Capita Income ⁽²⁾</u>	<u>School Enrollment ⁽³⁾</u>	<u>Unemployment Rate ⁽⁴⁾</u>
2012	8,582 ⁽⁵⁾	\$ 845,339 ⁽⁵⁾	\$ 31,313 ⁽⁵⁾	1,271	10.4%
2011	8,582	845,339	31,313	1,283	10.9%
2010	8,814	823,835	30,287	1,303	12.8%
2009	8,877	839,040	30,965	1,299	11.0%
2008	8,906	869,281	31,907	1,362	5.9%
2007	8,800	820,350	30,180	1,394	4.4%
2006	8,594	770,261	29,048	1,324	5.0%
2005	8,594	724,939	27,788	1,383	5.3%
2004	8,450	700,971	27,262	1,380	6.0%
2003	8,324	672,424	26,347	1,434	5.7%

Source:

⁽¹⁾ United States Census Estimates

⁽²⁾ US Commerce - Bureau of Economic Analysis (Franklin & Southampton combined).

⁽³⁾ Virginia Department of Education (Fall Membership Data @ September 30th, 2012); School Enrollment at September 30th of each year

⁽⁴⁾ Bureau of Labor Statistics (not seasonally adjusted at June 30th)

⁽⁵⁾ Most recent data available

Fiscal Year 2012		
Employer	Employees ⁽¹⁾	Rank
Southampton Memorial Hospital	250 to 499 employees	1
Wal-Mart	250 to 499 employees	2
Franklin City Public Schools	250 to 499 employees	3
City of Franklin	100 to 249 employees	4
Paul D. Camp Community College	100 to 249 employees	5
Care Advantage	100 to 249 employees	6
Lowe's Home Centers, Inc.	100 to 249 employees	7
VDOT	100 to 249 employees	8
Farm Fresh	50 to 99 employees	9
Highground Services, Inc.	50 to 99 employees	10
Totals	N/A	

Fiscal Year 2003		
Employer	Employees ⁽¹⁾	Rank
Southampton Memorial Hospital	250 to 499	1
Franklin City Public Schools	250 to 499	2
Wal-Mart	250 to 499	3
City of Franklin	100 to 249	4
Paul D. Camp Community College	100 to 249	5
James L. Camp Jr. YMCA	50 to 99	6
Children's Center	50 to 99	7
Food Lion	50 to 99	8
Noodles & Company	50 to 99	9
Winn Dixie	50 to 99	10
Totals	N/A	

Source: Franklin Southampton Economic Development Inc. (2nd Quarter of Each Year)

⁽¹⁾ Exact number of employees per employer not available. Consequently employees per employer as a percentage of the City's total employment also not available.

CITY OF FRANKLIN, VIRGINIA

Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years Ended June 30,

Table 21

Function/Program	Full-Time Equivalent Employees as of June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL FUND										
General Government	26	23	24	24	26	26	26	25	25	26
Police & Communications	40	42	39	40	38	42	42	42	42	42
Animal Control	2	2	2	1	1	1	1	1	1	1
Fire & Rescue - EMS	21	15	15	15	15	15	12	12	12	10
Community Services	5	5	5	7	7	6	6	5	5	5
Public Works-Streets	14	15	14	14	18	23	23	23	24	25
Garage	3	4	4	4	4	4	4	4	4	4
Refuse collection	9	9	9	8	7	9	9	9	9	9
Public Works-Bldgs. & Grounds	15	10	10	10	12	9	9	9	8	7
Cemetery & Mosquito Control	-	-	-	-	-	-	-	-	1	1
Park and Recreation	5	5	5	4	4	8	8	8	8	8
Senior Program	2	2	3	3	2	2	2	2	2	2
Library	1	1	1	1	1	1	1	1	1	1
Economic Development	-	-	-	-	-	-	-	-	1	1
Downtown Development	1	1	1	1	1	1	1	1	1	1
Total General Fund	<u>142</u>	<u>132</u>	<u>129</u>	<u>130</u>	<u>134</u>	<u>146</u>	<u>143</u>	<u>141</u>	<u>142</u>	<u>142</u>
SOCIAL SERVICES FUND										
SOCIAL SERVICES FUND	20	19	19	20	18	19	19	19	20	20
ELECTRIC	13	14	14	16	15	20	20	20	20	20
WATER & SEWER	13	16	14	14	16	16	16	17	18	18
INCUBATOR	-	-	-	-	1	1	1	-	-	-
AIRPORT	2	2	2	2	2	2	2	2	2	2
EARLY CHILDHOOD	4	2	2	2	1	-	-	-	-	-
	<u>52</u>	<u>53</u>	<u>51</u>	<u>54</u>	<u>52</u>	<u>58</u>	<u>58</u>	<u>58</u>	<u>60</u>	<u>60</u>
Total	<u>194</u>	<u>185</u>	<u>180</u>	<u>184</u>	<u>186</u>	<u>204</u>	<u>201</u>	<u>199</u>	<u>202</u>	<u>202</u>

Source: Individual City departments

CITY OF FRANKLIN, VIRGINIA
 Operating Indicators by Function/Program
 Last Ten Fiscal Years Ended June 30,

Table 22

Function/Program	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Police										
Physical arrests	693	671	638	686	721	1,223	955	954	882	695
Parking violations	1,943	78	39	37	39	45	108	80	110	120
Traffic violations	106	1,845	1,792	1,406	1,172	1,370	1,955	1,069	1,022	1,220
Fire										
Emergency responses	1,971	2,111	2,390	2,324	2,422	2,304	2,170	2,072	1,886	1,827
Fires extinguished	83	31	68	202	96	98	108	95	89	89
Inspections	22	24	22	17	1,726	18	11	10	12	10
Building inspections(a)										
Inspections performed	3,495	1,647	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Permits issued	518	413	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Refuse collection										
Refuse collected (tons per	15	15	13	14	13	13	13	-	-	-
Recyclables collected (tons	1	1	1	1	1	1	1	N/A	N/A	N/A
Other public works										
Street resurfacing (tons)	2,315	10,542	2,728	3,576	1,503	215	2,750	-	-	-
Potholes repaired	138	152	178	207	234	250	200	-	-	-
Park and recreation										
Athletic field permits issued	307	355	285	275	250	56	N/A	-	-	-
Community center	54,825	44,486	30,214	29,634	33,026	25,956	25,956	26,605	N/A	N/A
Library										
Volumes in collection	32,000	32,600	37,000	47,000	53,000	50,000	50,000	N/A	-	-
Total volumes borrowed	109,00	121,000	121,000	116,000	106,000	97,000	107,672	102,455	-	-
Water										
New connections	3	1	5	11	24	25	40	42	36	11
Water mains breaks	51	42	50	54	75	68	20	-	-	-
Average daily consumption	943	1,067	1,082	1,037	1,100	1,072	1,169	-	-	-
Peak daily consumption	1,300	1,700	1,700	1,453	1,800	1,610	1,700	-	-	-
Wastewater										
Average daily sewage	1,656	1,100	1,780	1,090	1,090	903	980	-	-	-
Sewer connections - New	2	1	5	9	21	25	40	42	36	11
Transit										
Total route miles	None	None	None	None	None	None	None	None	None	None
Passengers	None	None	None	None	None	None	None	None	None	None

Source: Individual City departments

(a) data collection began in FY 2011

CITY OF FRANKLIN, VIRGINIA
 Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years Ended June 30,

Table 23

<u>Function/Program</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	16	16	16	16	28	27	27	27	27	27
Fire stations	2	2	2	2	2	2	2	2	2	2
Refuse collection										
Collection trucks	5	5	5	5	5	4	4	3	3	3
Other public works										
Street (miles)	35.50	35.50	35.50	35.50	35.50	35.50	35.50	-	-	-
Highways (miles)	15.09	15.09	15.09	15.09	15.09	15.09	15.09	-	-	-
Streetlights	945	945	945	937	945	953	953	-	-	-
Traffic signals	14	14	14	14	14	14	14	13	13	13
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	6	6
Soccer/football fields	2	2	2	2	2	2	2	2	2	2
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	67	67	67	67	67	67	66	-	-	-
Fire hydrants	336	336	336	336	336	333	333	-	-	-
Storage capacity (thousands of gallons)	1,300	1,300	1,300	1,300	1,300	1,300	1,300	-	-	-
Wastewater										
Sanitary sewers (miles)	43	43	43	43	43	43	43	-	-	-
Storm sewers (miles)	210	210	210	210	210	210	210	-	-	-
Treatment capacity (thousands of gallons)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	-	-	-

Source: Individual City departments

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

To the Honorable Governing Body
City of Franklin, Virginia

We have audited the accompanying financial statements of the City of Franklin, Virginia, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*; 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 opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

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

A material weakness is a reportable condition in which the design of 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.

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

Compliance and Other Matters

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

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

Davis & Associates

Alexandria, Virginia
November 4, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE, AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Governing Body
City of Franklin, Virginia

Compliance

We have audited the compliance of the City of Franklin, Virginia with the types of 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, 2012. The City of Franklin, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express an opinion on the City of Franklin, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Franklin, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on 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, 2012. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with *OMB Circular A-133*.

Internal Control over Compliance

The 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Franklin, Virginia's internal control over compliance.

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 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 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.

Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of the City of Franklin, Virginia, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 4, 2012. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin, Virginia's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, 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.

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

Davis & Associates

Alexandria, Virginia
November 4, 2012

CITY OF FRANKLIN, VIRGINIA
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title (Pass - Through Grantor's Number)	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	
Department of Health and Human Services:				
Pass Through Payments:				
Department of Social Services:				
Promoting safe and stable families	93.556	0950109/0950110	\$	14,046
Temporary assistance to needy families (TANF)	93.558	0400109/0400110		120,958
Refugee and entrant assistance - state administered programs	93.566	0500109/0500110		213
Low income home energy assistance	93.568	0600409/0600410		15,219
CCDF Cluster:				
Child care and development block grant	93.575	0770109/0770110		57,957
ARRA - Child care and development block grant	93.713	0740109/0780109		-
Child care mandatory and matching funds of the child care and development fund	93.596	0760109/0760110		36,438
Stephanie Tubbs Jones child welfare services program	93.645	0900109/0900110		377
Foster Care Cluster:				
Foster care - Title IV-E	93.658	1100109/1100110	\$	64,777
ARRA - Foster care - Title IV-E	93.658	1100109/1100110		-
Adoption assistance	93.659	1120109/1120110		4,883
Social services block grant	93.667	1000109/1000110		94,582
Chafee foster care independence program	93.674	9150108/9150109/9150110		2,181
Children's Health Insurance Program (CHIP)	93.767	0540109/0540110		6,265
Medical assistance program	93.778	1200109/1200110		122,554
Total Department of Health and Human Services:			\$	<u>540,450</u>
Department of Defense:				
Direct Payments:				
Junior ROTC program	12.000	N/A	\$	<u>53,222</u>
Department of Agriculture:				
Pass Through Payments:				
Department of Agriculture:				
Cooperative Forestry Assistance	10.664	50105-653	\$	-
Community Facility Loans and Grants	10.766	N/A		-
Rural Business Enterprise Grants	10.769	N/A		-
Child Nutrition Cluster:				
Food distribution - schools: school lunch program	10.555	10.555/2010/2009	\$	42,155
Department of Education:				
Child Nutrition Cluster:				
National school lunch program	10.555	10.555/2010/2009	<u>408,100</u>	450,255
National school breakfast program	10.553	10.553/2010/2009		161,664
Summer food service program	10.559	10.559/2010/2009		-
Department of Social Services:				
SNAP Cluster:				
State administrative grants for the supplemental nutrition assistance program	10.561	00101109/0040109/0040110	\$	205,432
ARRA - State administrative grants for the supplemental nutrition assistance program	10.561	00101109/0040109/0040110		<u>205,432</u>
Total Department of Agriculture			\$	<u>817,351</u>
Department of Labor:				
Direct payments:				
ARRA - WIA youth activities	17.259	N/A	\$	<u>-</u>

CITY OF FRANKLIN, VIRGINIA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2012

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title (Pass - Through Grantor's Number)	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Housing and Community Development:			
Pass Through Payments:			
Department of Housing and Community Development:			
Community development block grant	14.228	N/A	\$ <u>110,051</u>
Department of Transportation:			
Direct Payments:			
Airport improvement program	20.106	N/A	\$ 15,177
Highway planning and construction	20.205	N/A	-
Pass Through Payments:			
Department of Motor Vehicles:			
Alcohol open container requirements	20.607	154AL10504084031	<u>9,370</u>
Total Department of Transportation			\$ <u>24,547</u>
Department of Homeland Security:			
Direct Payments:			
Staffing for adequate fire and emergency response	97.083	N/A	\$ 9,315
Pass Through Payments:			
Department of Emergency Management:			
Emergency management performance grant	97.042	N/A	\$ 23,246
State Homeland Security Program	97.073	N/A	80,000
Law enforcement terrorism prevention grant	97.074	N/A	<u>19,238</u>
Total Department of Homeland Security			\$ <u>131,799</u>
Appalachian Regional Commission:			
Pass Through Payments Payments:			
Department of Housing and Community Development			
Appalachian regional development	23.001	N/A	\$ <u>28,107</u>
Department of Education:			
Pass Through Payments:			
Department of Education:			
ARRA - State fiscal stabilization fund (SFSF) - education state grants	84.394	S394A090047	\$ 323,575
Adult basic education	84.002	V002A080046	17,103
Title I, Part A Cluster:			
Title I: Grants to local educational agencies	84.010	S010A080046	843,657
ARRA - Title I: Grants to local educational agencies	84.389	S389A090046	117
School improvement grants	84.377	S377A080047	202,723
Special Education Cluster:			
Special education - grants to states	84.027	H027A080107	351,070
ARRA - Title VI-B: Special education - grants to states	84.391	H391A090107	16,503
Special education preschool grants	84.173	H173A080112	27,158
Career and technical education: basic grants to states	84.048	V048A090046	37,356
Safe and drug free schools and communities state grant	84.186	Q186A080048	-
Rural education	84.358	S358B090046	30,965
21st Century Community Learning Centers	84.287	N/A	377,723
Reading first state grants	84.357	S357A070048	-
Education technology Cluster:			
Education technology state grants	84.318	S318X080046	-
ARRA - Education technology state grants	84.386	S386A090046	-
Improving teacher quality state grants	84.367	S367A080044	<u>158,038</u>
Total Department of Education			\$ 2,385,988
Total Expenditures of Federal Awards			\$ <u><u>4,091,515</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF FRANKLIN, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal grant activity of the City of Franklin, Virginia under programs of the federal government for the year ended June 30, 2012. 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. Because the Schedule presents only a selected portion of the operations of the City of Franklin, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Franklin, Virginia.

Note 2 – Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles provided in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

Note 3 – Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:	
Primary government:	
General fund	\$ 141,169
Special revenue funds:	
Virginia public assistance fund	745,882
Neighborhood stabilization program fund	28,107
Community development block grant - incubator fund	110,051
Enterprise funds:	
Airport fund	<u>15,177</u>
Total primary government	\$ <u>1,040,386</u>
Component Unit - City of Franklin Public Schools	
School operating fund	\$ 2,439,210
School cafeteria fund	<u>611,919</u>
Total component unit public schools	\$ <u>3,051,129</u>
Total federal expenditures per basic financial statements	\$ <u>4,091,515</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>4,091,515</u></u>

CITY OF FRANKLIN, VIRGINIA
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness (es) identified? yes x no

Significant deficiency (ies) identified? yes x no

Noncompliance Material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness (es) identified? yes x no

Significant deficiency (ies) identified? yes x no

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes x no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.394	ARRA - State fiscal stabilization funds - education state grants Community Development Block Grant Special Education Cluster (IDEA)
14.228	
84.027 / 84.173 / 84.391	

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? x yes no

Section II – Financial Statement Findings

There are no financial statement findings to report.

Section III – Federal Award Findings and Questioned Costs

There are no federal award findings to report.

Section IV – Financial Statement Findings – Prior Year

There are no financial statement findings from the prior year.