

*Comprehensive Annual Financial Report*

*Fiscal Year Ended*

*June 30, 2005*



*Prepared By:*

*Finance Department  
City of Franklin, Virginia*

*Goodman*  
& COMPANY

Certified Public Accountants  
Financial Planning  
Specialized Services

*City of Franklin, Virginia*

**Official Directory**

June 30, 2005

*Mayor*

James P. Councill, III

*Vice Mayor*

E. Kent Pope

*Council Members*

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

Raystine D. Johnson  
Charles A. Wrenn

*Constitutional Officer*

Brenda B. Rickman

Commissioner of Revenue

*Franklin City Public Schools*

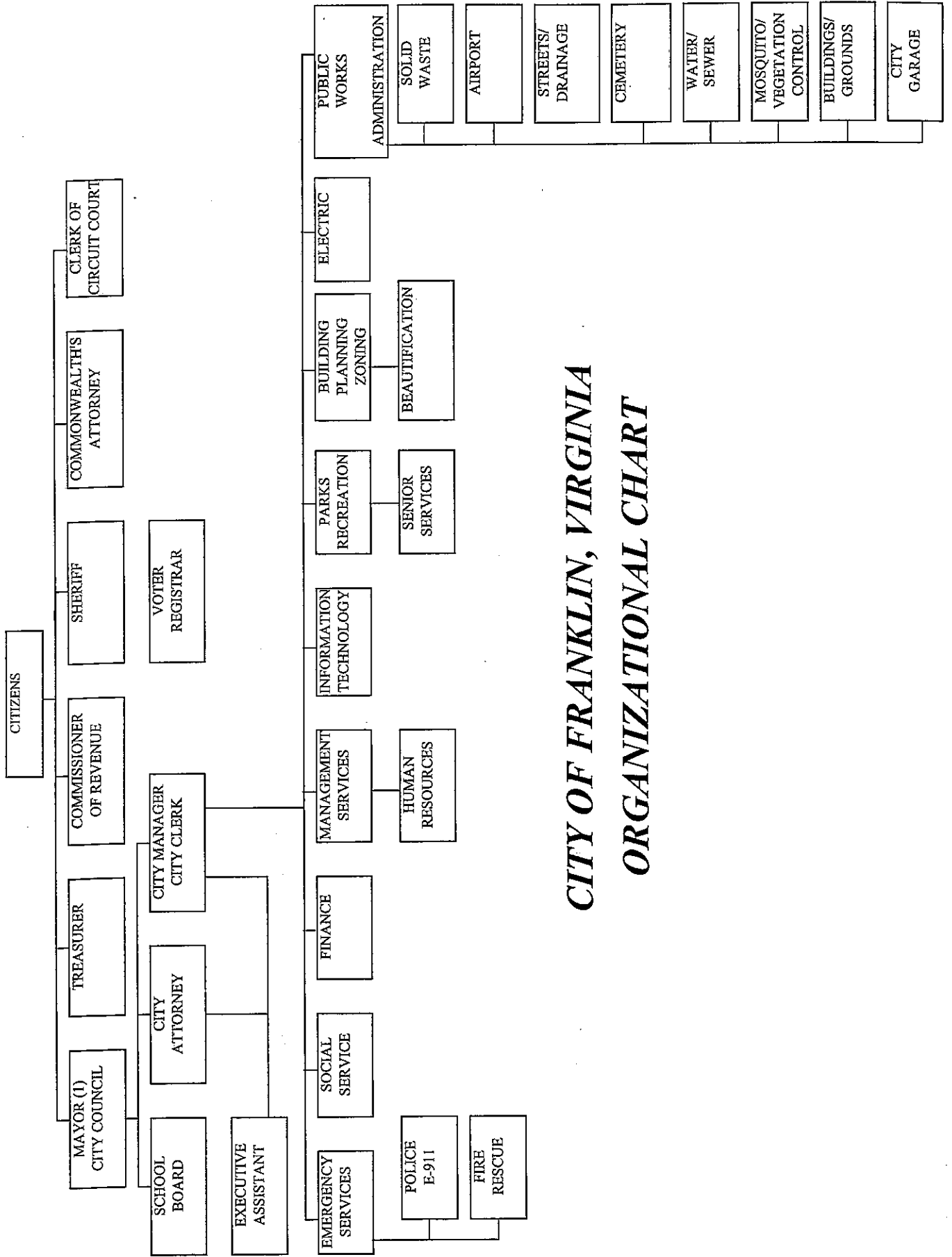
John Loving, Jr.  
Alline B. Farmer, Ed. D.  
Eileen T. Ritter

Chairman of School Board  
Division Superintendent  
Director of Finance

*City Administration*

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

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



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

**City of Franklin, Virginia**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2005**

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**City of Franklin, Virginia**

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December 9, 2005

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

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Franklin (the "City") for the fiscal year ended June 30, 2005. 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 City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Franklin's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Franklin's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and the component units of the City of Franklin.

The City of Franklin's financial statements have been audited by Goodman & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Franklin for the fiscal year ended June 30, 2005, 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, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented on pages 1 and 2 of this report.

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

internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Commonwealth of Virginia also has audit requirements on compliance with specific Commonwealth of Virginia laws, regulations, contracts, and grants. The compliance section of the report starts on page 82.

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

### **Profile of the City of Franklin**

Franklin, which had been a part of Southampton County for many years, became an incorporated town in 1876 and an independent city on December 22<sup>nd</sup>, 1961. Subsequent annexations in 1986 and 1996 increased the population and land area of the City. The population today is approximately 8,400 and the land area is 8.75 square miles.

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

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

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

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

The City of Franklin provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City owns and operates a municipal electric company which provides electrical services to all of the City of Franklin and some surrounding jurisdictions. The City also owns and operates water and sewage facilities; picks up trash, recycling,

landscaping and bulky items; owns and operates a City pool; and manages various paid recreational activities. Franklin has and maintains a municipal airport located one mile east of Franklin in Isle of Wight County. In addition to general governing activities, the governing body has significant financial influence over the Schools and the Industrial Development Authority (IDA); both of which are reported separately within the City of Franklin's financial statements. Additional information on these two legally separate entities can be found in Note 1 in the notes to basic financial statements starting on page 23.

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

### **Factors Affecting Financial Condition**

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

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

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

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

The City's largest source of revenue comes from the real estate taxes. The City's tax rate of \$0.90 per \$100 of assessed value will be increased to \$0.95 for the fiscal year starting July 1, 2005, but the City has had increases in real estate tax revenue primarily due to increased assessments, growth of new buildings in the City and change in the hospital status from non-profit exempt to private. In the past 5 years assessments on taxable housing and commercial property increased by 19.2%.



**Long-Term Financial Planning.** The City Council and City Management continue in their commitment to planning for future growth of the City of Franklin. A business incubator building was opened in the spring of 2005. Through a grant and other sources, an old warehouse was renovated into space to house start-up businesses. In the upcoming year, the City has committed to jointly support with Southampton County and local foundations, a joint economic development authority.

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

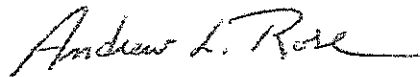
**Cash Management Policies and Practices.** The City uses a pooled cash concept to allow greater investment flexibility and, consequently, a better investment return. Cash from all funds, except that restricted for specific purposes or managed by fiscal agents, is pooled for investment purposes. All of the City's cash is deposited with the Director of Finance, who is responsible for investing all City funds. City cash is invested primarily in overnight repurchase agreements and certificates of deposit in Virginia banks which are permissible under the Virginia Public Investment Act. The amount of interest earned during the year by the general fund was \$55 compared to \$5 for the previous year. Decreased cash and cash on hand have limited general fund investment. The City also has restricted cash and investments that are monitored by the Finance Department and used for the payment of bond projects. At June 30, 2005, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$2,929,877 for the City, \$763,656 for the Schools, and \$13,840 for the Industrial Development Authority.

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

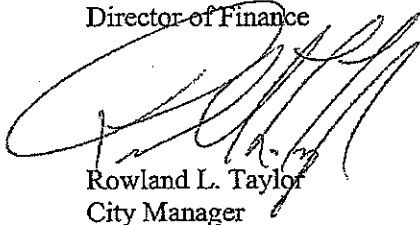
#### **Acknowledgements**

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

Respectfully submitted,



Andrew L. Rose, CPA  
Director of Finance



Rowland L. Taylor  
City Manager



## ***Report of Independent Auditors***

Certified Public Accountants  
Specialized Services  
Business Solutions

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Franklin, Virginia*** as of and for the year ended June 30, 2005, which collectively comprise the ***City of Franklin, Virginia's*** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Franklin, Virginia's*** management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the School Cafeteria, School Textbook and School Agency Funds, which represent 13.17% and 8.48%, respectively, of the assets and revenues of the Component Unit – School Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the School Cafeteria, School Agency and School Textbook Funds is based solely on the report of other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Franklin, Virginia*** as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the ***City of Franklin, Virginia's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Fountain Plaza One, 701 Town Center Drive, Suite 700  
Newport News, VA 23606-4295  
ph: 757.873.1033  
fax: 757.873.1106  
[www.goodmanco.com](http://www.goodmanco.com)

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

Management's Discussion and Analysis on pages 3 through 11 and the other required supplementary information included at pages 51 through 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Franklin, Virginia's* basic financial statements. The information listed as other supplementary information and compliance section in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*Goodman & Company, L.L.P.*

Newport News, Virginia  
December 9, 2005

## *Management's Discussion and Analysis* *Fiscal Year July 1, 2004 – June 30, 2005*

Management's Discussion and Analysis of the City of Franklin's (the City's) financial performance provides an overall review of the City's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2005**

- The assets of the City of Franklin, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2005 by \$28,573,013. Of this amount, \$6,293,934 represents unrestricted net assets of the governmental and business-type activities, which may be used to meet the City's ongoing obligations, and \$371,875 restricted to capital projects and inventories.
- The City's total net assets increased by \$4,076,253 from the prior year. Of this \$1,896,784 was a prior period adjustment correcting the IDA debt assumed by the City. The balance of \$2,179,469 represents an 8.9 % increase from the previous fiscal year. A significant portion of this increase is attributable to current capital outlays exceeding depreciation.
- The General Fund, on a current financial resources basis, reported an overage of revenues and other financing sources over expenditures and other financing uses of \$396,329, primarily due to unspent funds.
- The City's total outstanding general obligation debt at June 30, 2005 was \$23,479,028. This includes \$6,597,451 in business-activity debt, \$6,087,197 School related debt and \$10,794,380 of general government debt.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

#### ***Government-wide financial statements***

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

The *Statement of Net Assets* presents information on all City assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information identifying how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, some items of revenue and expenses are reported in this statement that will result in cash flows in future periods.

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

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

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

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

## **Fund Financial Statements**

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

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

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

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

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

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

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statement can be found following the Basic Financial Statements section of this report.

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

**Other Supplementary Information** - This section contains combining and individual fund statement information and schedules of the City's non major funds and of the School Board.

### Required Components of Franklin's Financial Statements

Prior to fiscal year 2002, the primary focus of local government financial statements had been summarized fund type information on a current financial resources basis. However, with the implementation of Statement No. 34 of the Governmental Accounting Standards Board (GASB Statement No. 34) adopted for the year ended June 30, 2003, the new focus is on both the City as a whole (government-wide) and the fund financial statements. Each view provides a different snapshot of the City's finances. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year-to-year or government-to-government), and enhance the City's accountability.

### Government-Wide Financial Statements Analysis

#### Statement of Net Assets June 30, 2005

	Governmental Activities		Business-type Activities		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Current and other assets	\$12,590,535	\$8,110,066	\$5,175,214	\$5,218,925	\$17,765,749	\$13,328,991
Capital assets	26,417,650	28,056,596	13,602,770	14,412,526	40,020,420	42,469,122
<b>Total assets</b>	<b>39,008,185</b>	<b>36,166,662</b>	<b>18,777,984</b>	<b>19,631,451</b>	<b>57,786,169</b>	<b>55,798,113</b>
Current and Other liabilities	\$6,263,182	\$6,157,139	\$2,116,187	\$2,559,863	\$8,379,369	\$8,717,002
Long-term liabilities	14,697,807	16,090,606	6,135,980	6,493,745	20,833,787	22,584,351
<b>Total liabilities</b>	<b>20,960,989</b>	<b>22,247,745</b>	<b>8,252,167</b>	<b>9,053,608</b>	<b>29,213,156</b>	<b>31,301,353</b>
Net Assets:						
Invested in capital assets - net of related debt	\$14,767,515	\$9,150,107	\$7,139,689	\$7,312,938	\$21,907,204	\$16,463,045
Restricted net assets	371,875	2,520,446	-	-	371,875	2,520,446
Unrestricted net assets	2,907,806	2,248,364	3,386,128	3,264,905	6,293,934	5,513,269
<b>Total net assets</b>	<b>\$18,047,196</b>	<b>\$13,918,917</b>	<b>\$10,525,817</b>	<b>\$10,577,843</b>	<b>\$28,573,013</b>	<b>\$24,496,760</b>

The largest portion of the City's net assets (\$21,907,204) represents its investment in capital assets (e.g. land, buildings and improvements, machinery and equipment), less any related debt used to acquire or construct those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

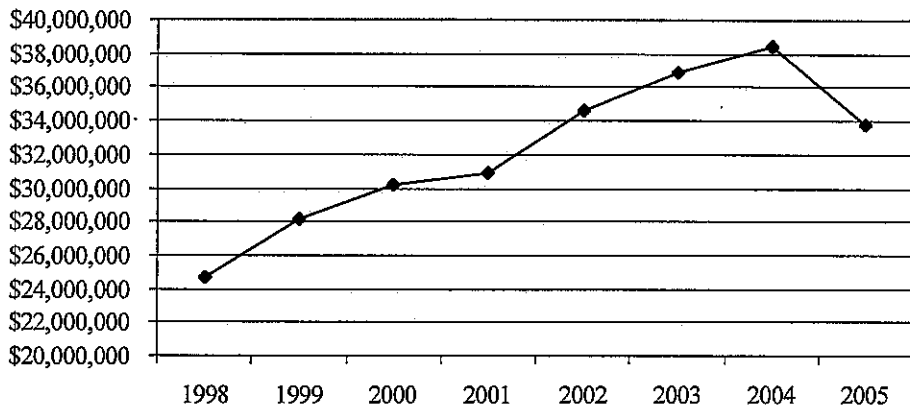
An additional portion of the City's net assets (\$371,875) represents resources that are subject to external restrictions on how they may be used. The remaining net assets (\$6,293,934) represent unrestricted net assets, which may be used to meet the City's ongoing obligations.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City's assets exceeded its liabilities by \$28,573,013.

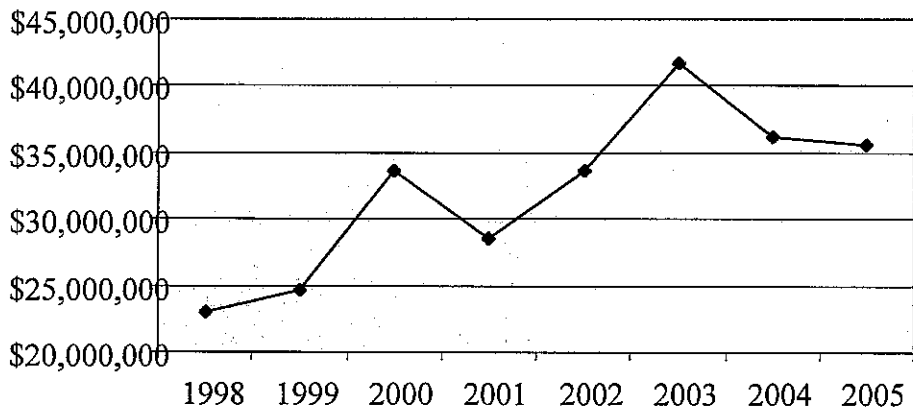
### **Government Activities**

The following is a summary of general government revenues and expenditures over an 8 year period. Amounts include the City's General, Debt Service, Grant and Capital Projects Funds, and the School's General and Special Revenue Funds. Expenditures fluctuations shown are mainly due to Hurricane Floyd expenses and subsequent Capital Expenditures.

### General Government Revenues



### General Government Expenditures





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

**Changes in Net Assets  
For the Fiscal Year Ended June 30, 2005**

	Governmental Activities		Business-type Activities		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
<b>Revenues</b>						
Program revenues:						
Charges for services	\$1,906,083	\$2,005,545	\$14,322,019	\$13,641,789	\$16,228,102	\$15,647,334
Operating grants and contributions	3,645,508	7,482,463	-	-	3,645,508	7,482,463
Capital grants and contributions	2,168,480	1,266,990	-	-	2,168,480	1,266,990
General revenues:						
Real estate and property taxes	5,812,087	5,605,260	-	-	5,812,087	5,605,260
Other taxes	5,170,817	4,872,223	-	-	5,170,817	4,872,223
Revenue sharing from counties	1,103,685	1,094,768	-	-	1,103,685	1,094,768
Unrestricted investment earnings	9,025	64,895	2,087	-	11,112	64,895
Other				19,660	-	19,660
Miscellaneous	374,154	287,280	-	289,358	374,154	576,638
<b>Total revenues</b>	<b>20,189,839</b>	<b>22,679,424</b>	<b>14,324,106</b>	<b>13,950,807</b>	<b>34,513,945</b>	<b>36,630,231</b>
<b>Expenses</b>						
General government	2,154,840	2,136,656	-	-	2,154,840	2,136,656
Judicial	227,962	107,674	-	-	227,962	107,674
Public safety	4,385,901	4,172,103	-	-	4,385,901	4,172,103
Public works	4,452,836	3,711,353	-	-	4,452,836	3,711,353
Health and welfare	2,138,779	2,148,536	-	-	2,138,779	2,148,536
Education	4,155,196	7,271,975	-	-	4,155,196	7,271,975
Parks, recreation, cultural	993,109	869,713	-	-	993,109	869,713
Community development	213,146	4,464,002	-	-	213,146	4,464,002
Interest on long-term debt	734,457	715,071	-	-	734,457	715,071
Bond costs	3,544	36,068	-	-	3,544	36,068
Nondepartmental	577,465	546,196	-	-	577,465	546,196
Water and sewer	-	-	2,794,462	2,714,447	2,794,462	2,714,447
Electric	-	-	8,887,833	8,645,465	8,887,833	8,645,465
Airport	-	-	614,946	620,913	614,946	620,913
<b>Total expenses</b>	<b>20,037,235</b>	<b>26,179,347</b>	<b>12,297,241</b>	<b>11,980,825</b>	<b>32,334,476</b>	<b>38,160,172</b>
Excess of revenue over expenses	152,604	(3,499,923)	2,026,865	\$1,969,982	2,179,469	(1,529,941)
Transfers	2,113,017	2,040,156	(2,113,017)	(2,040,156)		
<b>Increase in net assets</b>	<b>2,265,621</b>	<b>(1,459,767)</b>	<b>(86,152)</b>	<b>(70,174)</b>	<b>2,179,469</b>	<b>(1,529,941)</b>
Net assets - beginning of year	13,918,917	15,378,684	10,577,843	10,648,017	24,496,760	26,026,701
Prior period adjustment	1,862,658	-	34,126	-	1,896,784	-
<b>Net assets - end of year</b>	<b>\$18,047,196</b>	<b>\$13,918,917</b>	<b>\$10,525,817</b>	<b>\$10,577,843</b>	<b>\$28,573,013</b>	<b>\$24,496,760</b>

Real estate taxes, the City's largest revenue source, and personal property tax revenue, was \$5,812,087. The City's assessed value of real estate increased by 11.4% for the current fiscal year.

The current City real estate rate was \$0.90 per \$100 of assessed value. The last general increase was in July of 1997. Personal property was taxed \$4.50 per \$100 of assessed value.

Other local tax revenues totaling \$5,170,817 consisted of the 1% local sales tax, consumer utility taxes, franchise license tax, motor vehicle licenses, meals tax, and other local taxes.

Revenues from other Counties of \$1,103,685 represent revenue sharing payments received from Isle of Wight and Southampton counties as part of annexation and service providing agreements.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,774,550.

**General Fund.** The general fund is the chief operating fund of the City. At the end of the current fiscal year, its unreserved fund balance was \$2,414,750, all of which represents undesignated fund balance of the general fund. As a measure of the general fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures.

**Capital Projects Fund.** The capital projects fund accounts for all construction projects of general public improvements, excluding capital projects related to business-type activities, which are accounted for elsewhere. At the end of the current fiscal year, the fund balance was \$312,438 all of which was encumbered for contracts in process.

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

**Emergency Disaster Fund.** The emergency disaster fund accounts for the revenues and expenditures related to recovery efforts from Hurricane Isabel and had a fund balance of \$85.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. The City's proprietary funds account for its water and sewer operations and municipal electric operations, as well as the City's airport operations. Unrestricted net assets of the major proprietary fund, the municipal electric fund, were \$4,105,894 at the end of the current fiscal year. Total net assets of the proprietary funds at the end of the current fiscal year were \$10,525,817.

## 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 and Sewer Fund, Electric Fund, Airport Fund and several Special Revenue Funds. However, the Consolidated Grants Fund, Fiduciary Funds, and the Capital Projects Fund are excluded from the annual operating budget.

Differences between the general fund original budget and the final amended budget resulted in a \$523,622 increase in appropriations. \$64,024 was added to charges for services to recognize revenue not originally budgeted. \$225,069 of the increase was due to State and Federal grants awards added to departmental budgets. \$204,311 of general fund balances for projects or grants that were approved in previous years but not spent were also included in amendments. Other general fund amendments totaled \$30,218 for numerous small items.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounted to \$45,237,042, net of accumulated depreciation. This investment in capital assets includes land and easements, buildings, improvements other than buildings, infrastructure, machinery and equipment and construction in progress. This is a 6.5% increase due primarily to the construction of the incubator building and other enterprise additions.

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

- Incubator building construction finished in spring 2005.
- Bleachers installed at Armory Field
- Visitor's Center – TEA 21 – planning stages
- Boat Landing – planning stages

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-type Activities		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Land	\$ 4,082,909	\$ 4,082,909	\$ -	\$ -	\$ 4,082,909	\$ 4,082,909
Construction in progress	994,784	2,003,078	-	-	994,784	2,003,078
Buildings	13,885,173	10,849,852	770,888	852,187	14,56,061	11,702,039
Improvements other than buildings	1,777,957	1,880,740	12,153,808	12,941,075	13,931,765	14,821,815
Machinery and equipment	2,925,518	2,847,960	769,334	619,264	3,694,852	3,467,224
Infrastructure	2,962,382	3,190,047	-	-	2,962,382	3,190,047
Allocations of component units	4,914,289	3,202,010	-	-	4,914,289	3,202,010
<b>Total</b>	<b>\$ 31,543,012</b>	<b>\$ 28,056,596</b>	<b>\$ 13,694,030</b>	<b>\$ 14,412,526</b>	<b>\$ 45,237,042</b>	<b>\$ 42,469,122</b>

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

**Debt Administration.** The City's total outstanding general obligation debt at June 30, 2005 was \$23,479,028. This includes \$6,087,197 School related debt and \$10,663,052 of general government debt. This \$16,750,249 is considered to be net direct tax supported debt. \$6,728,779 of the total is water and sewer, electric and airport fund debt which is supported by revenues from operations in these business-type activities.

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

Summary of Debt	FY 2004	FY 2005
<b>General Government Activities:</b>		
Bonds payable – general	\$10,835,483	\$10,794,380
School related bonds and notes	6,511,124	6,087,197
Total tax supported debt	17,346,607	16,881,577
<b>Business-type activities</b>	<b>7,099,588</b>	<b>6,597,451</b>
Total long-term debt	\$24,446,195	\$23,479,028
Per capita tax supported	\$2,078	\$1,994
Total debt per capita	\$2,929	\$2,795

During the current fiscal year, the City issued the following General Obligation Bonds:  
 \$310,000 General Obligation Note – SunTrust Bank – For Armory Field Bleachers

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The average unemployment rate for the City of Franklin was 4.5%, compared to the state's average unemployment rate of 3.7% and the average national rate of 5.5%.

Real Estate Tax Rates increased to \$0.95 per hundred with the year starting July 1, 2005. The additional \$0.05 increase will be earmarked for School Capital Projects.

**REQUEST FOR INFORMATION**

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

*Basic Financial Statements*

## City of Franklin, Virginia

## Statement of Net Assets

June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 2,094,590	\$ 775,850	\$ 2,870,440	\$ 255,748
Restricted assets - cash and investments	59,437	-	59,437	521,748
Property taxes receivable-net	538,925	-	538,925	-
Receivables - net	530,073	1,452,740	1,982,813	-
Due from primary government	-	2,786,644	2,786,644	149,296
Due from component units	340,347	-	340,347	-
Due from other governments	2,931,070	-	2,931,070	472,230
Due from proprietary funds	970,731	-	970,731	-
Inventories	-	23,175	23,175	17,507
Prepaid items	-	-	-	239,991
Deposits	-	12,633	12,633	-
Deferred charges	-	32,912	32,912	-
Capital assets not depreciated	5,125,362	91,260	5,216,622	-
Other capital assets - net	26,417,650	13,602,770	40,020,420	8,827,513
<b>Total assets</b>	<b>\$ 39,008,185</b>	<b>\$ 18,777,984</b>	<b>\$ 57,786,169</b>	<b>\$ 10,484,033</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 403,767	\$ 11,238	\$ 415,005	\$ 308,390
Accrued payroll	-	200,426	200,426	940,236
Due to business type funds	2,786,644	-	2,786,644	-
Due to primary government	-	970,731	970,731	340,347
Due to component units	149,296	-	149,296	-
Deposits	55,250	340,993	396,243	-
Noncurrent liabilities:				
Due within one year	2,868,225	592,799	3,461,024	-
Due in more than one year	14,697,807	6,135,980	20,833,787	237,562
<b>Total liabilities</b>	<b>20,960,989</b>	<b>8,252,167</b>	<b>29,213,156</b>	<b>1,826,535</b>
<b>Net Assets</b>				
Invested in capital assets - net of related debt	14,767,515	7,139,689	21,907,204	8,827,513
Restricted:				
Capital projects and inventories	371,875	-	371,875	585,772
Unrestricted	2,907,806	3,386,128	6,293,934	(755,787)
<b>Total net assets</b>	<b>18,047,196</b>	<b>10,525,817</b>	<b>28,573,013</b>	<b>8,657,498</b>
<b>Total liabilities and net assets</b>	<b>\$ 39,008,185</b>	<b>\$ 18,777,984</b>	<b>\$ 57,786,169</b>	<b>\$ 10,484,033</b>

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

City of Franklin, Virginia  
Statement of Activities

Exhibit B

Year Ended June 30, 2005

Functions/Programs	Program Revenues					Net (Expenses) Revenues and Changes in Net Assets			Component Units
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Primary Government		Total	
						Governmental Activities	Business-Type Activities		
<b>Primary Government</b>									
General government activities:									
Judicial	\$ 2,154,840	\$ 1,483,726	\$ 157,804	\$ -	\$ (513,310)	\$ -	\$ (513,310)	\$ -	
Public safety	227,962	59,776	-	-	(168,186)	-	(168,186)	-	
Public works	4,385,901	293,261	560,802	197,807	(3,334,031)	-	(3,334,031)	-	
Health and welfare	4,452,836	-	1,161,873	-	(3,290,963)	-	(3,290,963)	-	
Education	2,138,779	15,525	1,527,540	-	(595,714)	-	(595,714)	-	
Parks, recreation, cultural	4,155,196	-	-	-	(4,155,196)	-	(4,155,196)	-	
Community development	993,109	53,795	5,000	-	(934,314)	-	(934,314)	-	
Interest and fees on long-term debt	213,146	-	232,489	1,970,673	1,990,016	-	1,990,016	-	
Bond service costs	734,457	-	-	-	(734,457)	-	(734,457)	-	
Nondepartmental	3,544	-	-	-	(3,544)	-	(3,544)	-	
Total governmental activities	577,465	-	-	-	(577,465)	-	(577,465)	-	
Business-type activities:									
Water and sewer	20,037,235	1,906,083	3,645,508	2,168,480	(12,317,164)	-	(12,317,164)	-	
Electric	2,794,462	2,979,414	-	-	-	184,952	184,952	-	
Airport	8,887,833	10,958,120	-	-	-	2,070,287	2,070,287	-	
Total business-type activities	614,946	384,485	-	-	-	(230,461)	(230,461)	-	
Total primary government	12,297,241	14,322,019	-	-	-	2,024,778	2,024,778	-	
Total component units	32,334,476	16,228,102	3,645,508	2,168,480	(12,317,164)	2,024,778	(10,292,386)	-	
<b>Component Units</b>									
Franklin Public Schools	14,981,061	154,456	657,074	-	-	-	-	(14,169,531)	
Industrial Development Authority	20	-	-	-	-	-	-	(20)	
Total component units	\$ 14,981,081	\$ 154,456	\$ 657,074	\$ -	\$ -	\$ -	\$ -	\$ (14,169,551)	
<b>General Revenues</b>									
Real estate and personal property taxes									
Other local taxes									
Payments from City of Franklin Commonwealth of Virginia									
Shared intergovernmental revenues									
Revenue sharing from counties									
Revenues from use of money and property									
Recovery of costs									
Universal services									
Miscellaneous									
Transfers									
Total general revenues, transfers and miscellaneous									
Change in net assets									
Net assets - July 1, 2004									
Prior period adjustment									
Net assets - June 30, 2005									
	\$ 18,047,196	\$ 10,525,817	\$ 34,126	\$ 1,896,784	\$ 1,862,658	\$ 10,525,817	\$ 28,573,013	\$ 8,657,498	

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

## City of Franklin, Virginia

## Balance Sheet - Governmental Funds

June 30, 2005

Assets	Capital		Debt	Emergency	Nonmajor	Total
	General	Projects				
					Funds	Funds
<b>Cash and investments:</b>						
Unrestricted	\$ 1,110,642	\$ -	\$ -	\$ -	\$ 983,948	\$ 2,094,590
Restricted	-	59,437	-	-	-	59,437
Property taxes receivable-net	538,925	-	-	-	-	538,925
Other receivables	148,861	375,609	-	-	5,603	530,073
Due from other funds	2,180,856	-	-	-	-	2,180,856
Due from component units	340,347	-	-	-	-	340,347
Due from other governments	1,665,965	-	-	778,414	486,691	2,931,070
<b>Total assets</b>	<b>\$ 5,985,596</b>	<b>\$ 435,046</b>	<b>\$ -</b>	<b>\$ 778,414</b>	<b>\$ 1,476,242</b>	<b>\$ 8,675,298</b>
<b>Liabilities</b>						
Vouchers and accounts payable	\$ 330,030	\$ 24,408	\$ -	\$ -	\$ 49,329	\$ 403,767
Deposits	9,210	-	-	-	-	9,210
Tenant escrow accounts	-	-	-	-	46,040	46,040
Due to component units	149,296	-	-	-	-	149,296
Due to other funds	2,786,644	98,200	-	778,329	333,596	3,996,769
Deferred revenue	295,666	-	-	-	-	295,666
<b>Total liabilities</b>	<b>3,570,846</b>	<b>122,608</b>	<b>-</b>	<b>778,329</b>	<b>428,965</b>	<b>4,900,748</b>
<b>Fund Balances</b>						
Reserved:						
Capital projects	-	312,438	-	-	-	312,438
Unreserved:						
Specific programs	-	-	-	-	130,768	130,768
Unreserved and undesignated	2,414,750	-	-	85	916,509	3,331,344
<b>Total fund balances</b>	<b>2,414,750</b>	<b>312,438</b>	<b>-</b>	<b>85</b>	<b>1,047,277</b>	<b>3,774,550</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,985,596</b>	<b>\$ 435,046</b>	<b>\$ -</b>	<b>\$ 778,414</b>	<b>\$ 1,476,242</b>	<b>\$ 8,675,298</b>

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

<b>Total fund balances - governmental funds</b>	\$ 3,774,550
Amount reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	31,543,012
Other long-term assets not available to pay for current period expenditures and therefore are deferred in the funds.	295,666
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	(17,566,032)
<b>Total net assets - governmental activities</b>	<b>\$ 18,047,196</b>

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



## City of Franklin, Virginia

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

Year Ended June 30, 2005						
	General	Capital Projects	Debt Service Fund	Emergency Disaster	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Real estate and personal property taxes	\$ 5,782,264	\$ -	\$ -	\$ -	\$ -	\$ 5,782,264
Other local taxes	5,037,186	-	-	-	-	5,037,186
Permits, fees and licenses	69,920	-	-	-	-	69,920
Fines and forfeitures	51,248	-	-	-	-	51,248
Revenue from use of money and property	236,062	6,321	890	-	182,775	426,048
Intergovernmental	2,169,750	777,440	232,489	20,845	2,539,190	5,739,714
Charges for services	1,618,827	-	-	-	-	1,618,827
Recovered costs	29,354	-	-	-	-	29,354
Revenue sharing from counties	1,103,685	-	-	-	-	1,103,685
Donations and gifts	2,960	-	-	-	21,774	24,734
Miscellaneous	119,077	-	-	-	157,958	277,035
<b>Total revenues</b>	<b>16,220,333</b>	<b>783,761</b>	<b>233,379</b>	<b>20,845</b>	<b>2,901,697</b>	<b>20,160,015</b>
<b>Expenditures</b>						
Current:						
General government	1,916,668	-	-	-	-	1,916,668
Judicial	227,962	-	-	-	-	227,962
Public safety	4,196,670	-	-	-	167,161	4,363,831
Public works	4,031,172	-	-	-	-	4,031,172
Health and welfare	224,807	-	-	-	1,843,350	2,068,157
Parks, recreation, and cultural	877,769	-	-	-	32,747	910,516
Community development	149,660	-	-	20,760	783,172	953,592
Education	4,057,434	-	-	-	-	4,057,434
Nondepartmental	573,726	-	-	-	5,237	578,963
Debt service:						
Principal retirement	-	-	1,008,779	-	-	1,008,779
Interest and fiscal charges	-	-	734,455	-	-	734,455
Bond issuance costs	-	-	3,544	-	-	3,544
Capital outlays	-	1,569,281	-	-	-	1,569,281
<b>Total expenditures</b>	<b>16,255,868</b>	<b>1,569,281</b>	<b>1,746,778</b>	<b>20,760</b>	<b>2,831,667</b>	<b>22,424,354</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(35,535)</b>	<b>(785,520)</b>	<b>(1,513,399)</b>	<b>85</b>	<b>70,030</b>	<b>(2,264,339)</b>
<b>Other financing sources (uses)</b>						
Proceeds from bonds issued	310,000	-	-	-	-	310,000
Transfers in	2,179,299	-	1,513,399	-	602,754	4,295,452
Transfers out	(2,057,435)	-	-	-	(125,000)	(2,182,435)
<b>Total other financing sources</b>	<b>431,864</b>	<b>-</b>	<b>1,513,399</b>	<b>-</b>	<b>477,754</b>	<b>2,423,017</b>
<b>Net change in fund balances</b>	<b>396,329</b>	<b>(785,520)</b>	<b>-</b>	<b>85</b>	<b>547,784</b>	<b>158,678</b>
<b>Fund balances - July 1, 2004</b>	<b>2,018,421</b>	<b>1,097,958</b>	<b>-</b>	<b>-</b>	<b>499,493</b>	<b>3,615,872</b>
<b>Fund balances - June 30, 2005</b>	<b>\$ 2,414,750</b>	<b>\$ 312,438</b>	<b>\$ -</b>	<b>\$ 85</b>	<b>\$ 1,047,277</b>	<b>\$ 3,774,550</b>

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

*City of Franklin, Virginia*

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

**Year Ended June 30, 2005**

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

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 158,678</b>
<p>Amount reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.</p>	
Capital outlays	3,126,119
Depreciation expense	(1,466,053)
<p>Proceeds from bond issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.</p>	
Bond issuance	(310,000)
Capital leases	(233,747)
Repayment of bond principal	1,008,779
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
	(29,823)
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	
	<u>11,668</u>
 <b>Change in net assets of governmental activities</b>	 <b><u>\$ 2,265,621</u></b>

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

## City of Franklin, Virginia

## Statement of Net Assets - Proprietary Funds

June 30, 2005

Assets	Proprietary Fund			Totals
	Water and Sewer Fund	Electric Fund	Airport Fund	
<b>Current assets</b>				
Cash and investments	\$ 33,613	\$ 742,037	\$ 200	\$ 775,850
Receivables - net	296,540	1,140,521	15,679	1,452,740
Due from general fund	-	2,786,644	-	2,786,644
Inventory	-	-	23,175	23,175
Deferred charges-bond issue costs - current portion	-	1,945	490	2,435
<b>Total current assets</b>	<b>330,153</b>	<b>4,671,147</b>	<b>39,544</b>	<b>5,040,844</b>
<b>Noncurrent assets</b>				
Deposits	-	-	12,633	12,633
Deferred charges-bond issue costs - less current portion	-	29,660	817	30,477
Capital assets:				
Buildings	-	-	1,245,101	1,245,101
Construction in progress	-	-	91,260	91,260
Infrastructure	12,496,875	13,009,819	2,622,818	28,129,512
Equipment	398,763	1,206,256	251,013	1,856,032
Less - accumulated depreciation	(7,509,414)	(8,214,309)	(1,904,152)	(17,627,875)
<b>Total noncurrent assets</b>	<b>5,386,224</b>	<b>6,031,426</b>	<b>2,319,490</b>	<b>13,737,140</b>
<b>Total assets</b>	<b>\$ 5,716,377</b>	<b>\$ 10,702,573</b>	<b>\$ 2,359,034</b>	<b>\$ 18,777,984</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Vouchers and accounts payable	\$ 1,746	\$ 6,946	\$ 2,546	\$ 11,238
Accrued payroll	64,196	135,576	654	200,426
Current portion of long-term liabilities	409,620	158,257	24,922	592,799
<b>Total current liabilities</b>	<b>475,562</b>	<b>300,779</b>	<b>28,122</b>	<b>804,463</b>
<b>Noncurrent liabilities</b>				
Deposits	-	340,993	-	340,993
Accrued compensated absences	43,538	81,738	6,052	131,328
Due to other funds	9,222	-	961,509	970,731
Long-term liabilities - less current portion	4,459,230	1,491,180	54,242	6,004,652
<b>Total noncurrent liabilities</b>	<b>4,511,990</b>	<b>1,913,911</b>	<b>1,021,803</b>	<b>7,447,704</b>
<b>Total liabilities</b>	<b>4,987,552</b>	<b>2,214,690</b>	<b>1,049,925</b>	<b>8,252,167</b>
<b>Net Assets</b>				
Invested in capital assets - net of related debt	517,374	4,381,989	2,240,326	7,139,689
Unrestricted	211,451	4,105,894	(931,217)	3,386,128
<b>Total net assets</b>	<b>728,825</b>	<b>8,487,883</b>	<b>1,309,109</b>	<b>10,525,817</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,716,377</b>	<b>\$ 10,702,573</b>	<b>\$ 2,359,034</b>	<b>\$ 18,777,984</b>

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

## City of Franklin, Virginia

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

Year Ended June 30, 2005

	Proprietary Fund			Totals
	Water and Sewer Fund	Electric Fund	Airport Fund	
<b>Operating revenues</b>				
Charges for services	\$ 2,754,357	\$ 10,766,809	\$ 273,277	\$ 13,794,443
Reimbursement from other agencies	-	-	104,335	104,335
Miscellaneous	733	11,034	6,873	18,640
<b>Total operating revenues</b>	<b>2,755,090</b>	<b>10,777,843</b>	<b>384,485</b>	<b>13,917,418</b>
<b>Operating expenses</b>				
Personnel	663,566	1,057,053	96,286	1,816,905
Purchased services-for resale	-	6,531,174	186,450	6,717,624
Contractual services	122,637	145,978	16,041	284,656
Supplies	75,300	77,250	3,180	155,730
Utilities	152,960	24,084	10,330	187,374
Insurance and bonds	41,832	25,162	18,026	85,020
Repairs and maintenance	250,992	-	-	250,992
Taxes	6,612	1,318	-	7,930
Travel and training	8,902	26,436	-	35,338
Depreciation and amortization	925,201	586,405	266,191	1,777,797
Payment to general fund for services and taxes	304,000	301,557	1,850	607,407
Other charges	24,219	35,785	12,231	72,235
<b>Total operating expenses</b>	<b>2,576,221</b>	<b>8,812,202</b>	<b>610,585</b>	<b>11,999,008</b>
<b>Operating income (loss)</b>	<b>178,869</b>	<b>1,965,641</b>	<b>(226,100)</b>	<b>1,918,410</b>
<b>Nonoperating revenues (expenses)</b>				
Connection fees	224,324	62,133	-	286,457
Interest income	2,087	-	-	2,087
Cut-off fees and penalties	-	118,144	-	118,144
Interest expense	(218,241)	(75,631)	(4,361)	(298,233)
<b>Total nonoperating revenues (expenses)</b>	<b>8,170</b>	<b>104,646</b>	<b>(4,361)</b>	<b>108,455</b>
<b>Income (loss) before transfers</b>	<b>187,039</b>	<b>2,070,287</b>	<b>(230,461)</b>	<b>2,026,865</b>
<b>Transfers</b>				
Transfers in	-	-	66,282	66,282
Transfers out	-	(2,179,299)	-	(2,179,299)
<b>Net transfers</b>	<b>-</b>	<b>(2,179,299)</b>	<b>66,282</b>	<b>(2,113,017)</b>
<b>Change in net assets</b>	<b>187,039</b>	<b>(109,012)</b>	<b>(164,179)</b>	<b>(86,152)</b>
<b>Total net assets - July 1, 2004</b>	<b>507,660</b>	<b>8,596,895</b>	<b>1,473,288</b>	<b>10,577,843</b>
<b>Prior period adjustment</b>	<b>34,126</b>	<b>-</b>	<b>-</b>	<b>34,126</b>
<b>Total net assets - June 30, 2005</b>	<b>\$ 728,825</b>	<b>\$ 8,487,883</b>	<b>\$ 1,309,109</b>	<b>\$ 10,525,817</b>

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

## City of Franklin, Virginia

## Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2005

	Proprietary Fund				Component
	Water and Sewer Fund	Electric Fund	Airport Fund	Totals	Unit Industrial Development Authority
<b>Cash flows from operating activities</b>					
Received from customers and users	\$ 2,731,212	\$ 10,647,615	\$ 378,879	\$ 13,757,706	\$ -
Payments to suppliers for goods and services	(1,477,560)	(7,145,306)	(217,132)	(8,839,998)	(20)
Payments to employees	(596,366)	(1,004,143)	(97,451)	(1,697,960)	-
<b>Net cash from operating activities</b>	<b>657,286</b>	<b>2,498,166</b>	<b>64,296</b>	<b>3,219,748</b>	<b>(20)</b>
<b>Cash flows from noncapital financing activities</b>					
Transfers from other funds	-	-	66,282	66,282	-
Transfers to other funds	-	(2,179,299)	-	(2,179,299)	-
<b>Net cash from noncapital financing activities</b>	<b>-</b>	<b>(2,179,299)</b>	<b>66,282</b>	<b>(2,113,017)</b>	<b>-</b>
<b>Cash flows from capital and related financing activities</b>					
Proceeds from capital debt	-	-	-	-	-
Principal paid on capital debt	(395,700)	(82,980)	(23,456)	(502,136)	-
Interest paid on capital debt	(218,241)	(75,631)	(4,361)	(298,233)	-
Acquisition and construction of capital assets	(460,356)	(324,913)	(102,761)	(888,030)	-
Connection and cutoff fees	224,324	62,133	-	286,457	-
<b>Net cash from capital and related financing activities</b>	<b>(849,973)</b>	<b>(421,391)</b>	<b>(130,578)</b>	<b>(1,401,942)</b>	<b>-</b>
<b>Cash flows from investing activities</b>					
Interest received	2,087	-	-	2,087	30
<b>Net increase (decrease) in cash and investments</b>	<b>(190,600)</b>	<b>(102,524)</b>	<b>-</b>	<b>(293,124)</b>	<b>10</b>
<b>Cash and investments - beginning of year</b>	<b>224,213</b>	<b>844,561</b>	<b>200</b>	<b>1,068,974</b>	<b>13,830</b>
<b>Cash and investments - end of year</b>	<b>\$ 33,613</b>	<b>\$ 742,037</b>	<b>\$ 200</b>	<b>\$ 775,850</b>	<b>\$ 13,840</b>
<b>Reconciliation of operating income (loss) to net cash from operating activities</b>					
Operating income (loss)	\$ 178,869	\$ 1,965,641	\$ (226,100)	\$ 1,918,410	\$ (20)
Adjustments:					
Depreciation and amortization	925,201	586,405	266,191	1,777,797	-
Changes in assets and liabilities:					
Receivables - net	(23,878)	(130,228)	(5,606)	(159,712)	-
Inventory	-	-	(17,446)	(17,446)	-
Vouchers and accounts payable	(101,027)	23,438	2,042	(75,547)	-
Accrued payroll	64,198	41,950	(1,926)	104,222	-
Accrued compensated absences	3,004	10,960	761	14,725	-
Due to other governments	(389,081)	-	46,380	(342,701)	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 657,286</b>	<b>\$ 2,498,166</b>	<b>\$ 64,296</b>	<b>\$ 3,219,748</b>	<b>\$ (20)</b>

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

*City of Franklin, Virginia*

*Statement of Fiduciary Net Assets*

June 30, 2005

Assets	Agency Funds			
	Special Welfare	Special Welfare - SSI	Franklin-Southampton Economic Development Commission	Flexible Benefits
Cash and investments	\$ -	\$ -	\$ 120,126	\$ 5,939
Restricted cash	14,240	14,165	-	-
<b>Total assets</b>	<b>\$ 14,240</b>	<b>\$ 14,165</b>	<b>\$ 120,126</b>	<b>\$ 5,939</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Amounts held for others	\$ 14,240	\$ 14,165	\$ 120,126	\$ 5,939
<b>Total liabilities</b>	<b>14,240</b>	<b>14,165</b>	<b>120,126</b>	<b>5,939</b>
<b>Total liabilities and fund balances</b>	<b>\$ 14,240</b>	<b>\$ 14,165</b>	<b>\$ 120,126</b>	<b>\$ 5,939</b>

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

## City of Franklin, Virginia

## Statement of Net Assets - Component Units

June 30, 2005

	Franklin Public Schools	Industrial Development Authority	Total
<b>Assets</b>			
Cash and investments	\$ 242,798	\$ 12,950	\$ 255,748
Restricted cash and investments	520,858	890	521,748
Receivables	472,230	-	472,230
Due from primary government	149,296	-	149,296
Inventories	17,507	-	17,507
Prepaid items	239,991	-	239,991
Capital assets - net	8,827,513	-	8,827,513
<b>Total assets</b>	<b>\$ 10,470,193</b>	<b>\$ 13,840</b>	<b>\$ 10,484,033</b>
<b>Liabilities</b>			
Vouchers and accounts payable	\$ 308,390	\$ -	\$ 308,390
Accrued payroll	940,236	-	940,236
Accrued compensated absences	237,562	-	237,562
Due to primary government	-	340,347	340,347
<b>Total liabilities</b>	<b>1,486,188</b>	<b>340,347</b>	<b>1,826,535</b>
<b>Net Assets</b>			
Invested in capital assets	8,827,513	-	8,827,513
Restricted for capital projects and inventories	585,772	-	585,772
Unrestricted	(429,280)	(326,507)	(755,787)
<b>Total net assets</b>	<b>8,984,005</b>	<b>(326,507)</b>	<b>8,657,498</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,470,193</b>	<b>\$ 13,840</b>	<b>\$ 10,484,033</b>

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

City of Franklin, Virginia

Statement of Activities - Component Units

Year Ended June 30, 2005	Program Revenues			Net (Expense) Revenues and Changes in Net Assets				
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Franklin Public Schools		Industrial Development Authority	Totals
					Public Schools	Authority		
Franklin Public Schools Education	\$ 14,981,061	\$ 154,456	\$ 657,074	\$ -	\$ (14,169,531)	\$ -	\$ (14,169,531)	
Industrial Development Authority Economic Development	20	-	-	-	(20)	(20)	(20)	
<b>Total component units</b>	<b>\$ 14,981,081</b>	<b>\$ 154,456</b>	<b>\$ 657,074</b>	<b>\$ -</b>	<b>\$ (14,169,531)</b>	<b>\$ (20)</b>	<b>\$ (14,169,551)</b>	
<b>General revenues</b>								
			Payments from the City of Franklin Commonwealth of Virginia		\$ 4,057,434	\$ -	\$ 4,057,434	
			Shared intergovernmental revenues		7,726,340	-	7,726,340	
			Revenues from use of property and money		1,955,508	-	1,955,508	
			Recovery of costs		30,126	30	30,156	
			Universal services		101,267	-	101,267	
			Miscellaneous		47,560	-	47,560	
			<b>Total general revenues</b>		<b>13,918,291</b>	<b>30</b>	<b>13,918,321</b>	
			<b>Change in net assets</b>		<b>(251,240)</b>	<b>10</b>	<b>(251,230)</b>	
			<b>Net assets - July 1, 2004</b>		<b>9,235,245</b>	<b>1,536,141</b>	<b>10,771,386</b>	
			Prior period adjustment		-	(1,862,658)	(1,862,658)	
			<b>Net assets - June 30, 2005</b>		<b>\$ 8,984,005</b>	<b>\$ (326,507)</b>	<b>\$ 8,657,498</b>	

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



*Notes to Basic Financial Statements*

# *City of Franklin, Virginia*

## *Notes to Basic Financial Statements*

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June 30, 2005

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### 1. **Summary of Significant Accounting Policies**

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

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

#### **Financial Reporting Model**

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

#### **Management's Discussion and Analysis**

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

#### **Government-Wide Financial Statements**

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

## **Statement of Net Assets**

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

## **Statement of Activities**

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

## **Budgetary Comparison Schedules**

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

## **Government-Wide and Fund Accounting Financial Statements**

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

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

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

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

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

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

### **Fund Classification**

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

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

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

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

## Governmental Funds

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

### ■ General Fund

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

### ■ Special Revenue Fund

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

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

- ***Cobbtown Grant Fund*** - accounts for revenues and expenditures related to development and rehabilitation of the Cobbtown area of the City. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.
- ***Emergency Disaster Fund*** - accounts for revenues and expenditures related to the reconstruction of the City area caused by the devastation of Hurricane Isabel. Revenues are derived from aid received from the Commonwealth of Virginia and the federal government. This fund is considered a major fund.
- ***Fire and Rescue Volunteers*** – accounts for revenues and expenditures related to the activities of the fire and rescue volunteers.
- ***Economic Development Fund*** - The Economic Development Fund accounts for revenue and expenditures related to economic development efforts of the City including rental of the building in Pretflow Industrial Park and operation of the incubator building.
- ***Camp Homestead Fund*** - The Camp Homestead Fund accounts for revenue and expenditures related to the maintenance and upkeep of the Camp family home on Homestead Lane.

■ **Debt Service Fund**

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

■ **Capital Projects Fund**

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

■ **Permanent Funds**

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs. Previously presented as expendable Trust Funds, the City's Permanent Funds are used to account for perpetual care and endowed care of certain City-owned cemeteries. Permanent Fund balances are included in governmental activities for both the government-wide and fund financial statements. The Charles Smith Cemetery Trust, Cemetery Perpetual Care Trust, Employee Emergency Trust, and Southview Cemetery Trust funds are accounted for as Permanent funds.

**Proprietary Funds**

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

## Enterprise Funds

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

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

## Fiduciary Funds

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

### ▪ Trust and Agency Funds

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

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

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

## Discretely Presented Component Units

### ▪ City of Franklin Public Schools

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

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

### ▪ Industrial Development Authority

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

## Basis of Presentation

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

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

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



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

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

#### **Allowance for Uncollectible Accounts**

The City calculates its allowances for uncollectible property and other taxes and utility service charges using historical collection data. At June 30, 2005, the allowance was \$715,105 for the governmental funds and \$554,679 for the enterprise funds.

#### **Cash and Investments**

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

#### **Inventories**

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

#### **Capital Assets**

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

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

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

The estimated useful lives of capital assets are as follows:

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

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

### **Cash and Investments**

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

### **Compensated Absences**

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

### **Deferred Revenue**

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

### **Statement of Cash Flows**

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

### **Estimates**

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

### **Credit Risk**

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 15.58% and 6.68% of the City's real estate and personal property tax base, respectively. Concentration of credit risk with respect to receivables is limited due to the large number of citizens comprising the City's taxpayer base.

## 2. Deposits and Investments

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

### Deposits

- **Primary Government**

At June 30, 2005, the carrying value of the City's deposits with banks and savings and loan institutions was \$2,929,877 and the bank balance was \$3,481,677.

- **Component Units**

At June 30, 2005, the carrying value of deposits for the Franklin Public Schools, a discretely presented component unit, was \$763,656 and the bank balance was also \$763,656.

The carrying value and bank balances of the IDA, a discretely presented component unit, were both \$13,840 at June 30, 2005.

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

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

However, all qualified banks' public deposits are considered 100% "insured" (per GASB 3, paragraph 11) because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2005, no balances of the primary government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

### Investments

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

## Investment Policy

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

## Credit Risk

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

## Interest Rate Risk

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

## Custodial Risk

For an investment, custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the City or held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be a counterparty to the investment transaction. As of June 30, 2005, with the exception of the Virginia LGIP, all of the City's investments are held in a bank's trust department in the City's name.

As of June 30, 2005, the carrying values of the City's investments, all of which are considered cash and cash equivalents, were as follows:

<u>Investment Type</u>	
State Non-Arbitrage Program	\$ 59,437
Reconciliation to total cash and investments	
Add:	
Cash on hand and in banks	<u>2,870,440</u>
	<u>\$ 2,929,877</u>

### 3. Receivables

Receivables in the fund statements at June 30, 2005, are as follows:

#### Primary Government

	General	Capital Projects	Nonmajor Governmental Funds	Business- type Activities	Total
Real estate taxes	\$ 305,481	\$ -	\$ -	\$ -	\$ 305,481
Personal property taxes	180,219	-	-	-	180,219
Other taxes	628,508	-	-	-	628,508
Accounts receivable	288,683	375,609	5,603	2,007,419	2,677,314
	1,402,891	375,609	5,603	2,007,419	3,791,522
Less - allowance for uncollectible accounts	(715,105)	-	-	(554,679)	(1,269,784)
Receivables - net	\$ 687,786	\$ 375,609	\$ 5,603	\$ 1,452,740	\$ 2,521,738

### 4. Due From Other Governments

Due from other governments consists of the following at June 30, 2005:

#### Primary Government

	General	Emergency Disaster Fund	Nonmajor Governmental Funds	Total
<b>Commonwealth of Virginia</b>				
Sales tax	\$ 113,971	\$ -	\$ -	\$ 113,971
Street and highway maintenance	289,375	-	-	289,375
Rolling stock tax	4,886	-	-	4,886
Recordation tax	2,906	-	-	2,906
Compensation Board	12,164	-	-	12,164
Comprehensive Services Act	-	-	52,710	52,710
Department of Social Services	-	-	85,136	85,136
Economic Development and Housing	-	-	348,845	348,845
Public Assistance Grant	-	778,414	-	778,414
CDBG Planning Grant	25,000	-	-	25,000
Department of Social Services	73,415	-	-	73,415
Homeland Security Grant	46,331	-	-	46,331
EMS Grant	8,298	-	-	8,298
<b>Total due from the Commonwealth of Virginia</b>	<b>\$ 576,346</b>	<b>\$ 778,414</b>	<b>\$ 486,691</b>	<b>\$ 1,841,451</b>

#### Local Governments

Isle of Wight County - revenue sharing	1,021,308	-	-	1,021,308
Southampton County - various taxes	68,311	-	-	68,311
<b>Total due from local governments</b>	<b>1,089,619</b>	<b>-</b>	<b>-</b>	<b>1,089,619</b>
<b>Total due from other governments</b>	<b>\$ 1,665,965</b>	<b>\$ 778,414</b>	<b>\$ 486,691</b>	<b>\$ 2,931,070</b>

**Component Units**

Franklin  
Public  
Schools

**Commonwealth of Virginia**

State sales taxes

\$ 95,458

Various grants

376,772

**Total due from other governments**

\$ 472,230

Details of the receivables and payables between the primary government and component units at June 30, 2005, are as follows:

<u>Component Unit Receivable Fund</u>	<u>Primary Government Payable</u>	<u>Amount</u>
School General Fund	City General Fund	\$ 149,296
<u>Primary Government Receivable Fund</u>	<u>Component Unit Payable</u>	
City General Fund	Industrial Development Authority	\$ 340,347

5. **Capital Assets**

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

<u>Governmental activities</u>	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
<b>Capital assets not being depreciated</b>				
Land	\$ 4,082,909	\$ 47,670	\$ -	\$ 4,130,579
Construction in progress	2,003,078	2,225,044	3,233,339	994,783
<b>Total capital assets not being depreciated</b>	<u>6,085,987</u>	<u>2,272,714</u>	<u>3,233,339</u>	<u>5,125,362</u>
<b>Other capital assets</b>				
Buildings	12,584,087	5,447,414	23,388	18,008,113
Improvements other than buildings	2,497,432	13,295	-	2,510,727
Machinery and equipment	5,713,480	627,617	157,645	6,183,452
Infrastructure	10,452,393	114,057	-	10,566,450
<b>Total other capital assets</b>	<u>31,247,392</u>	<u>6,202,383</u>	<u>181,033</u>	<u>37,268,742</u>
<b>Less - accumulated depreciation</b>				
Buildings	(1,734,235)	(649,711)	23,388	(2,360,558)
Improvements other than buildings	(616,692)	(116,079)	-	(732,771)
Machinery and equipment	(2,865,520)	(550,068)	157,645	(3,257,943)
Infrastructure	(7,262,346)	(341,722)	-	(7,604,068)
<b>Total accumulated depreciation</b>	<u>(12,478,793)</u>	<u>(1,657,580)</u>	<u>181,033</u>	<u>(13,955,340)</u>
<b>Other capital assets - net</b>	<u>18,768,599</u>	<u>4,544,803</u>	<u>-</u>	<u>23,313,402</u>
	<u>24,854,586</u>	<u>6,817,517</u>	<u>3,233,339</u>	<u>28,438,764</u>
<b>Allocation of School Board</b>				
Buildings	4,888,086	-	-	4,888,086
<b>Less - accumulated depreciation</b>				
Buildings	(1,686,076)	(97,762)	-	(1,783,838)
<b>Total allocated to City</b>	<u>3,202,010</u>	<u>(97,762)</u>	<u>-</u>	<u>3,104,248</u>
<b>Total</b>	<u>\$ 28,056,596</u>	<u>\$ 6,719,755</u>	<u>\$ 3,233,339</u>	<u>\$ 31,543,012</u>

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

General Governmental Administration	\$ 260,967
Public Safety	416,770
Public Works	485,510
Health and Welfare	70,622
Parks, Recreation, and Cultural	81,814
Community Development	52,608
Education	97,762
	<u>\$ 1,466,053</u>

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

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2004</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2005</b>
<b>Other Capital Assets</b>				
Buildings	\$ 1,245,101	\$ -	\$ -	\$ 1,245,101
Other improvements	30,056,577	817,527	2,653,332	28,220,772
Machinery and equipment	1,648,008	208,024	-	1,856,032
	<u>32,949,686</u>	<u>1,025,551</u>	<u>2,653,332</u>	<u>31,321,905</u>
<b>Less - accumulated depreciation</b>				
Buildings	(411,558)	(62,655)	-	(474,213)
Other improvements	(17,173,009)	(1,562,031)	2,668,076	(16,066,964)
Machinery and equipment	(952,593)	(134,105)	-	(1,086,698)
	<u>(18,537,160)</u>	<u>(1,758,791)</u>	<u>2,668,076</u>	<u>(17,627,875)</u>
<b>Total</b>	<u>\$ 14,412,526</u>	<u>\$ (733,240)</u>	<u>\$ 5,321,408</u>	<u>\$ 13,694,030</u>

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

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2004</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2005</b>
<b>Other Capital Assets</b>				
Land improvements	\$ 80,041	\$ -	\$ -	\$ 80,041
Buildings	11,242,550	1,147,555	-	12,390,105
Infrastructure	1,537,181	815,187	-	2,352,368
Machinery and equipment	3,039,138	164,335	72,485	3,130,988
	<u>15,898,910</u>	<u>2,127,077</u>	<u>72,485</u>	<u>17,953,502</u>
<b>Less - accumulated depreciation</b>				
Land improvements	(63,826)	(821)	-	(64,647)
Buildings	(3,862,860)	(223,137)	-	(4,085,997)
Infrastructure	(25,844)	(32,874)	-	(58,718)
Machinery and equipment	(1,591,542)	(280,012)	59,175	(1,812,379)
	<u>(5,544,072)</u>	<u>(536,844)</u>	<u>59,175</u>	<u>(6,021,741)</u>
<b>Other capital assets - net</b>	<u>10,354,838</u>	<u>1,590,233</u>	<u>13,310</u>	<u>11,931,761</u>
<b>Allocation to City</b>				
Buildings	(4,888,086)	-	-	(4,888,086)
<b>Less - accumulated depreciation</b>				
Buildings	1,686,076	97,762	-	1,783,838
<b>Total allocated to City</b>	<u>(3,202,010)</u>	<u>97,762</u>	<u>-</u>	<u>(3,104,248)</u>
<b>Total</b>	<u>\$ 7,152,828</u>	<u>\$ 1,687,995</u>	<u>\$ 13,310</u>	<u>\$ 8,827,513</u>



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

	<b>Balance July 1, 2004</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2005</b>
<b>Capital asset not being depreciated</b>				
Land	\$ 47,670	\$ -	47,670	\$ -
<b>Other capital assets</b>				
Building	2,104,277	-	2,104,277	-
	<u>2,151,947</u>	<u>-</u>	<u>2,151,947</u>	<u>-</u>
<b>Less - accumulated depreciation</b>				
Buildings	(289,289)	(52,607)	341,896	-
	<u>\$ 1,862,658</u>	<u>\$ (52,607)</u>	<u>\$1,810,051</u>	<u>\$ -</u>

6. **Noncurrent Liabilities**

Following is a summary of the changes in long-term liabilities for governmental activities and its Component Unit-School Board, respectively, for the year ended June 30, 2005.

	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2005</b>	<b>Due within one year</b>
General obligation debt	\$ 15,982,023	\$ 310,000	\$ 661,309	\$ 15,630,714	\$ 2,496,350
Loans payable	1,135,000	-	245,000	890,000	245,000
Capital lease obligations	229,584	207,912	76,633	360,863	126,875
Compensated absences	672,787	11,668	-	684,455	-
	<u>\$ 18,019,394</u>	<u>\$ 529,580</u>	<u>\$ 982,942</u>	<u>\$ 17,566,032</u>	<u>\$ 2,868,225</u>
Component Unit - School Board					
Accrued compensated absences	<u>\$ 233,118</u>	<u>\$ 4,444</u>	<u>\$ -</u>	<u>\$ 237,562</u>	<u>\$ -</u>

General obligation debt of the governmental activities at June 30, 2005, is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate %	Authorized and Issued	Outstanding June 30, 2005
General obligation bonds -					
Public Improvement and					
Refunding Series 1998A	03/05/98	01/15/12	3.60-4.60	\$ 1,679,916	\$ 1,396,461
Public Improvement Series 1998B	03/05/98	01/15/18	3.60-4.87	458,382	80,082
Public Improvement Series 2001B	10/01/01	01/15/24	3.00-5.00	3,105,000	2,960,000
Public Improvement Series 2001C	10/01/01	01/15/22	6.00	685,000	630,000
Public Improvement Series 2002	10/02/02	09/01/42	4.625	2,500,000	2,460,273
Public Improvement Series 2003	06/24/03	10/01/08	4.875	1,880,000	1,740,000
Public Improvement Series 1999A	05/28/99	07/15/19	3.970	2,041,330	1,225,020
Public Improvement Series 2003A	12/04/03	01/15/06	1.930	1,500,000	1,500,000
Public Improvement Series 2003B	12/04/03	01/15/24	3.640	966,258	966,258
Public Improvement Series 2003B	12/04/03	01/15/24	3.640	256,983	256,983
Public Improvement Series 2003C	12/04/03	01/15/27	5.550	565,000	565,000
Public Improvement Series 2004	12/01/04	12/01/14	3.640	310,000	310,000
City of Franklin, Virginia School					
Bond Series 1992	11/01/92	07/15/12	4.90-6.35	285,325	135,434
Virginia Public School Authority					
Series 1995A	12/21/95	01/15/16	5.10-6.10	567,942	349,318
Virginia General Obligation Qualified					
Zone Academy Bond, Series 2003	12/31/03	12/31/17	-	1,000,000	949,805
Southampton County					
debt assumed *	01/01/96	06/30/14	N/A	N/A	106,080
<b>Total bonds payable</b>					<b>15,630,714</b>
Loans payable:					
Literary Fund loan-Elementary	04/01/87	04/01/07	3.000	2,000,000	200,000
Literary Fund loan-Middle School	03/15/91	03/15/11	2.000	2,000,000	600,000
Literary Fund loan-High School	06/01/87	06/01/07	3.000	879,413	90,000
<b>Total loans payable</b>					<b>890,000</b>
<b>Total general obligation debt</b>					<b>\$ 16,520,714</b>

\* 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.

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

Fiscal Year Ending June 30,	Principal	Interest
2006	\$ 2,741,350	\$ 612,252
2007	958,783	518,048
2008	2,165,848	558,732
2009	719,318	452,577
2010	735,035	421,732
2011-2015	2,854,167	1,748,178
2016-2020	2,496,794	1,081,914
2021-2025	2,168,901	583,870
2026-2030	389,201	383,583
2031-2035	443,347	274,475
2036-2040	558,445	205,725
2041-2045	289,525	91,084
	<u>\$ 16,520,714</u>	<u>\$ 6,932,170</u>

Following is a schedule of capital lease obligations:

	Issue Date	Final Maturity	Interest Rate %	Authorized and Issued	Outstanding June 30, 2005
Street sweeper	02/01/02	02/01/06	4.79	\$ 103,861	\$ 21,720
Police recorder	05/01/03	05/01/07	8.00	25,578	12,005
Caterpillar tractor	01/06/03	01/06/08	4.50	81,650	31,129
Caterpillar trailer	01/06/03	01/06/08	4.50	11,517	4,391
E-911 Equipment	09/05/02	10/05/07	5.90	92,424	45,044
E-911 Equipment	09/05/02	09/05/07	8.90	46,336	23,408
Electric Truck	04/12/05	04/12/10	9.00	139,779	16,268
Modular classrooms	04/01/03	10/01/07	2.81	117,331	71,367
Garbage truck	04/12/05	04/12/10	3.77	139,779	135,531
					<u>\$ 360,863</u>

Future minimum lease payments under capital leases with the present value (outstanding principal) of the net minimum lease payments as of June 30, 2005, are as follows:

Fiscal Year Ending June 30,	
2006	\$ 142,966
2007	120,206
2008	69,416
2009	34,489
2010	25,599
	<u>392,676</u>
Less-amount representing interest	(31,813)
Present value of net minimum lease payments	<u>\$ 360,863</u>

## General Obligation Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property as the amount of general obligation borrowing which may be issued by the City. As of June 30, 2005, the City's aggregate general obligation indebtedness is approximately \$17.5 million less than the Commonwealth's limit as summarized in the following table:

<b>Total assessed value of taxed real property</b>		
Assessed value of real estate		<u>\$ 422,101,407</u>
<b>Debt limit - 10% of total assessed value</b>		\$ 42,210,141
<b>Amount of debt applicable to debt limit</b>		
General obligation debt:		
Primary government	\$ 15,524,634	
Business-type	5,681,097	
Capital leases	464,570	
Virginia Resources Authority line of credit	812,647	
State Literary Fund loans - Component Unit - School Board	890,000	
Debt assumed - Southampton County - primary government	<u>106,080</u>	<u>23,479,028</u>
<b>Legal debt margin</b>		<u>\$ 18,731,113</u>

**Note:** The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2005.

## Long-Term Liabilities – Business-Type Activities

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

	<b>Balance July 1, 2004</b>	Additions	Reductions	<b>Balance June 30, 2005</b>	Due within one year
Deposits	\$ 319,486	\$ 123,370	\$ 101,863	\$ 340,993	\$ -
Bonds payable	6,240,845	-	559,748	5,681,097	572,861
Capital lease obligation	-	106,958	3,251	103,707	19,938
Line of credit	858,743	-	46,096	812,647	-
	<u>7,419,074</u>	<u>230,328</u>	<u>710,958</u>	<u>6,938,444</u>	<u>592,799</u>
Compensated absences	116,603	361,882	347,157	131,328	-
	<u>\$ 7,535,677</u>	<u>\$ 592,210</u>	<u>\$ 1,058,115</u>	<u>\$ 7,069,772</u>	<u>\$ 592,799</u>

Noncurrent liabilities other than the capital lease of the business-type activities at June 30, 2005, are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate %	Authorized and issued	Outstanding June 30, 2005
<b>General Obligation Bonds-</b>					
<b>Public Improvement and Refunding</b>					
Series 1998A	03/05/98	01/15/12	3.60-4.60	\$2,265,084	\$ 1,924,918
Public Improvement Series 1998B	03/05/98	01/15/08	3.60-4.87	2,876,618	1,783,536
Public Improvement Series 2001B	10/01/01	01/15/22	3.00-5.00	1,540,000	1,375,000
Public Improvement Series 2003B	12/03/03	01/15/24	3.64	616,760	597,643
<b>Total bonds payable</b>					<b>5,681,097</b>
Virginia Resources Authority -					
line of credit	04/30/99	07/01/19	3.00	1,050,000	812,647
<b>Total bonds payable and line of credit</b>					<b>\$ 6,493,744</b>

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

Fiscal Year Ending June 30,	Principal	Interest
2006	\$ 572,861	\$ 262,202
2007	601,307	239,003
2008	531,444	216,426
2009	484,362	195,301
2010	501,876	175,124
2011-2015	2,000,698	582,439
2016-2020	1,414,666	210,553
2021-2025	386,530	20,712
	<b>\$ 6,493,744</b>	<b>\$ 1,901,760</b>

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

Description	Issue Date	Final Maturity	Interest Rate %	Authorized and issued	Outstanding June 30, 2005
Electric truck	04/12/05	04/12/10	9.00	\$ 106,958	\$ 103,707

Fiscal year Ending June 30,	
2006	\$ 23,505
2007	23,505
2008	23,505
2009	23,505
2010	19,585
	<u>113,605</u>
Less - amount representing interest	<u>(9,898)</u>
	<u>\$ 103,707</u>

### **Defeased Debt**

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

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

### **7. Compensated Absences**

City employees earn annual leave at the rate of 17 to 29 days per year depending on length of service. A maximum of 34 to 58 days of annual leave, depending on length of service, may be carried over to succeeding years and may be paid if not used prior to termination. The governmental and business-type activities have outstanding accrued vacation totaling \$589,192 and \$113,388, respectively, as of June 30, 2005.

City employees no longer earn sick leave. A new policy was adopted on January 1, 2002, in which all compensated absences are classified as annual leave. Any unused sick leave accrued as of January 1, 2002, was placed in a "sick leave bank" which can be used in the event of illness or injury in lieu of using paid time off days. Up to 3 days of banked sick leave may also be used annually for the sickness of an immediate family member. Employees who leave employment after 5 years or more of continuous service are paid for 25% of their sick leave balance (earned prior to January 1, 2002) based on their final rate of pay; however, the total amount of sick leave compensation may not exceed \$2,500. At June 30, 2005, accumulated unpaid sick leave for the governmental and business-type activities amounted to \$95,263 and \$17,940, respectively.

Twelve-month employees of the City of Franklin Public Schools earn annual vacation leave as follows:

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

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

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

## 8. Retirement Plan

### A. Plan Description

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

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

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

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

**B. Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the system. This 5% member contribution has been assumed by the City and School Board. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and School Board's contribution rates for fiscal years ended 2005, 2004 and 2003 were 10.25%, 10.25% and 8.50% and 5.00%, 3.00% and 3.00%, respectively, of annual covered payroll. The School Board's required employer contributions to the teacher cost-sharing pool for all professional employees for the fiscal years ended 2005, 2004 and 2003 were \$802,593, \$597,466 and \$564,390, respectively.

**C. Annual Pension Cost**

For fiscal year 2005, the City and School Board's annual pension costs of \$721,457 and \$42,668, respectively, were equal to the City and School Board's required and actual contributions. The required contribution was determined as part of the 2000 experience study using the entry age normal actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return, (b) projected salary increases of 4.25% to 6.10% and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City and School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City and School Board's unfunded actuarial accrued liability is being amortized as a level percentage of payrolls on an open basis over a period of 20 years.

The Schedules of Funding Progress and Employer Contributions are presented as required supplementary information. The information presented in the Schedules of Funding Progress and Employer Contributions was determined as part of the actuarial valuation on June 30, 2004. Actuarial assumptions used include an investment rate of return of 8%.

**9. Notes to Schedules of Funding Progress and Employer Contributions**

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

Valuation date	June 30, 2004
Actuarial cost method	Entry age Normal
Amortization method	Level percent, open
Payroll growth rate	3%
Remaining amortization period	17 years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	
1) Non-LEO	4.25% to 6.10%
2) LEO employees	4.50% to 5.75%
Cost-of-living adjustments	3.00%

\* Includes inflation at 3%



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

**Interfund Receivables and Payables**

	<u>Due To</u>	<u>Due From</u>
General	\$ 970,731	\$ 2,786,644
Water and Sewer	-	9,222
Airport	-	961,509
Electric	2,786,644	-
	<u>\$ 3,757,375</u>	<u>\$ 3,757,375</u>

**Purpose:**

**Due to General Fund:**

\$ 9,222 Water and Sewer Fund: Advances for prior year projects.

\$ 961,509 Airport Fund: Advances for prior year projects.

**Due to Electric Fund:**

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

Receivable and payable balances between the primary government and component units at June 30, 2005, are as follows:

	<u>Due To</u>	<u>Due From</u>
Primary government	\$ 340,347	\$ 149,296
Component units:		
School Board	149,296	-
Industrial Development Authority	-	340,347
	<u>\$ 489,643</u>	<u>\$ 489,643</u>

**Interfund Transfers**

**Transfers to:**

**Transfers from:**

	<u>General</u>	<u>Electric</u>	<u>Total</u>
General Fund	\$ -	\$ 2,179,299	\$ 2,179,299
Virginia Public Assistance	392,478	-	392,478
Comprehensive Services	85,276	-	85,276
Airport	66,282	-	66,282
Debt Service	1,513,399	-	1,513,399
	<u>\$ 2,057,435</u>	<u>\$ 2,179,299</u>	<u>\$ 4,236,734</u>

**Purpose:**

**Transfers from General Fund:**

\$ 392,478 Virginia Public Assistance Fund: Funding for operational support of existing programs  
\$ 85,276 Comprehensive Services Fund: Funding for operational support of existing programs.  
\$ 66,282 Airport Fund: Funding for operational support of existing programs.  
\$ 1,513,399 Debt Service Fund: Funding debt service.

**Transfers from Electric Fund:**

\$ 2,179,299 General Fund: Funding for operational support of existing programs.

**11. Joint Ventures and Related Organizations**

**Blackwater Regional Library**

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

**Franklin-Southampton Economic Development Commission**

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

**Western Tidewater Regional Jail Authority**

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

**Western Tidewater Community Services Board**

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

**12. Contingent Liabilities**

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

General obligation bonds of \$5,681,097 have been recorded in the Enterprise Funds from which repayment is anticipated. The General Fund has a contingent liability for repayment of the aforementioned amounts should the Enterprise Funds be unable to pay.

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

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

### **13. Post Employment Benefits**

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

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

During fiscal year 2003, retirees' health insurance was provided through a combination of a health maintenance organization (HMO) and indemnity coverage with the retiree selecting the type of coverage. The City paid for a major portion or all of the total health insurance cost for retirees depending on the coverage elected. The City paid for approximately 50% of the cost of coverage for dependents and surviving spouses eligible to participate in the group plan. The remainder of the premium was paid by the retirees for their dependents or by the surviving spouses for themselves. Expenditures for post employment health care are recognized as claims or premiums are paid. During the fiscal year ended June 30, 2005, the cost for health care benefits for retirees, dependents, and surviving spouses was \$42,244.

### **14. Landfill Postclosure Care Costs**

State and federal laws and regulations require that the City perform certain maintenance and monitoring functions subsequent to closure of the City's landfill site. The City ceased accepting solid waste at the landfill in 1984 and completed initial closure measures in 1987. In letters dated January 13, 1995, and February 1, 1995, the Virginia Department of Environmental Quality informed the City the ten-year postclosure period would begin in 1995 and the landfill closure had been completed in accordance to the Virginia Solid Waste Management Regulations, respectively. The original estimated total cost of the postclosure care of approximately \$132,608 was based on the expected costs for all equipment, facilities, and services required to monitor and maintain the landfill's postclosure care. However, the actual cost of postclosure care is higher due to inflation, changes in technology, and changes in applicable laws and regulations. Through June 30, 2005, the City had expended \$227,439 in postclosure costs.

**15. Personal Property Tax Relief Act of 1998**

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

**16. Surety Bonds**

Surety bonds of the City of Franklin are as follows:

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

**17. Annexations**

**Southampton County**

The City entered into an annexation agreement with Southampton County (County) that provided for annexation in two phases. Annexation of the Phase I area, 3.93 square miles with 3.1% of the County's population per the 1980 census, was effective December 31, 1985. Annexation of the Phase II area, 0.73 square miles with 1.96% of the County's population, was effective December 31, 1995. As part of Phase I, the City agreed to pay to the County 3.798% of all the County's future obligations on general obligation debt existing at December 31, 1985. As part of Phase II, the City agreed to pay the County 2.04% of all the County's future obligations on general obligation debt existing at December 31, 1996. In addition, the City compensated the County for estimated loss of tax revenue through fiscal year 2005. The amount for 2004 was \$520,000, and the amount for 2005 was \$525,000. The City further agreed not to institute, participate in or support, directly or indirectly, any further annexation of Southampton County prior to December 31, 2010.

The City adopted a Revenue-Sharing Agreement with the County in January 1997. County residents approved this agreement in November 1997. The agreement was reviewed and recommended for Court approval by the Commission on Local Government of the Commonwealth of Virginia in January 1999. The Revenue Sharing Agreement covers approximately 17.1 square miles in Southampton County immediately contiguous to the City of Franklin. The agreement provides that the County will pay to the City on October 15<sup>th</sup> 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, 2005, the City received \$82,377 in tax revenue from the County under this agreement.

**County of Isle of Wight**

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

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

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

The local revenues are payable to the City by the County of Isle of Wight on August 1, following the end of the fiscal year. During the year ended June 30, 2005, the City received \$1,021,308 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2004. For the year ending June 30, 2005, the City will receive approximately \$1,000,000 related to County of Isle of Wight tax revenues for the year ended June 30, 2005 which is included in intergovernmental receivables.

**18. Prior Period Adjustment**

At June 30, 2004, capital assets for the business-type activities were understated by \$34,126. The understatement of capital assets was due to excess depreciation taken on one asset.

At June 30, 2004, capital assets for the Industrial Development Authority were overstated by \$1,862,658. The overstatement of capital assets was due to the failure to transfer capital assets to the City's general fund as a result of the extinguishment of debt and subsequent reissuance of debt by the City.

\* \* \* \* \*

*Required Supplementary Information*

## City of Franklin, Virginia

General Fund  
Budgetary Comparison Schedule

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues and other financing sources</b>				
Property taxes				
Real estate	\$ 3,626,168	\$ 3,626,168	\$ 3,674,928	\$ 48,760
Personal property	2,159,022	2,159,022	1,930,934	(228,088)
Machinery and tools	20,000	20,000	15,138	(4,862)
Public service corporations	86,700	86,700	77,406	(9,294)
Penalties and interest on taxes	115,000	115,000	83,858	(31,142)
<b>Total property taxes</b>	<b>6,006,890</b>	<b>6,006,890</b>	<b>5,782,264</b>	<b>(224,626)</b>
Local taxes				
Local sales and use	1,491,723	1,491,723	1,377,290	(114,433)
Consumer's utility	755,000	755,000	808,304	53,304
Cellular utility	160,000	160,000	120,674	(39,326)
Electric consumption	35,000	35,000	32,969	(2,031)
Business licenses	665,000	665,000	760,383	95,383
Franchise licenses	67,500	67,500	69,451	1,951
Motor vehicle licenses	147,000	147,000	150,156	3,156
Bank stock	79,000	79,000	61,470	(17,530)
Right of way use	34,000	34,000	24,386	(9,614)
Recordation	30,000	30,000	59,713	29,713
Restaurant meals	760,000	760,000	902,417	142,417
Lodging	203,400	203,400	175,870	(27,530)
E-911 emergency telephone	168,000	168,000	164,338	(3,662)
Consumer Tax	-	-	45,499	45,499
Tobacco tax	328,565	328,565	284,266	(44,299)
<b>Total other local taxes</b>	<b>4,924,188</b>	<b>4,924,188</b>	<b>5,037,186</b>	<b>112,998</b>
Permits, fees and licenses				
Animal licenses	3,000	3,000	2,531	(469)
Permits and other licenses	57,890	57,890	67,389	9,499
<b>Total permits, fees and licenses</b>	<b>60,890</b>	<b>60,890</b>	<b>69,920</b>	<b>9,030</b>
Fines and forfeitures	76,900	76,900	51,248	(25,652)
Use of money and property				
Interest on investments	10,000	10,000	55	(9,945)
General property rental	254,008	254,008	236,007	(18,001)
<b>Total use of money and property</b>	<b>264,008</b>	<b>264,008</b>	<b>236,062</b>	<b>(27,946)</b>
Charges for services				
Armory operation and maintenance	14,000	14,000	13,482	(518)
Law library fees	4,200	4,250	4,479	229
Fire and emergency services - counties	47,000	104,304	98,918	(5,386)
Ambulance and fire services	170,000	170,000	190,910	20,910
Alarm service	5,100	5,100	1,320	(3,780)
Police services	-	2,113	2,113	-
Administration - water and sewer	280,000	280,000	280,000	-
Administration - electric	255,990	255,990	255,990	-
Administration - airport	1,850	1,850	1,850	-
Waste collection and disposal	748,700	748,700	712,545	(36,155)
Recreational fees and admissions	24,000	28,607	22,705	(5,902)
Dog boarding fees	350	350	120	(230)
Weed cutting charges	-	10,000	13,954	3,954
Utility tax collection fees	2,000	2,000	2,218	218
Demolition and debris removal	-	-	137	137
Miscellaneous	33,664	23,614	18,086	(5,528)
<b>Total charges for services</b>	<b>1,586,854</b>	<b>1,650,878</b>	<b>1,618,827</b>	<b>(32,051)</b>

## City of Franklin, Virginia

General Fund  
Budgetary Comparison Schedule

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Miscellaneous</b>				
Payment in lieu of taxes - from enterprise activities	68,900	68,900	68,900	-
Annexation payments - County of Isle of Wight	1,175,000	1,175,000	1,021,308	(153,692)
Revenue sharing - Southampton County	90,140	90,140	82,377	(7,763)
Payment in lieu of taxes	18,000	18,000	8,643	(9,357)
Sale of equipment	-	3,100	6,908	3,808
Sale of supplies and publications	1,200	1,200	1,511	311
Sale of fire and rescue books	-	1,042	1,042	-
Sale of garbage cans	5,000	5,000	303	(4,697)
Other donations	-	2,760	2,960	200
Sale of cemetery lots	25,000	25,000	19,520	(5,480)
Miscellaneous other revenue	-	-	12,250	12,250
<b>Total miscellaneous revenue</b>	<b>1,383,240</b>	<b>1,390,142</b>	<b>1,225,722</b>	<b>(164,420)</b>
<b>Recovered costs</b>				
Insurance recovery - liability	3,000	12,880	9,880	(3,000)
Insurance recovery - workers' compensation	10,000	10,000	-	(10,000)
Personal property seizure	-	-	1,514	1,514
Miscellaneous recoveries	-	13,436	17,960	4,524
<b>Total recovered costs</b>	<b>13,000</b>	<b>36,316</b>	<b>29,354</b>	<b>(6,962)</b>
<b>Intergovernmental</b>				
<b>Revenue from the Commonwealth</b>				
<b>Noncategorical aid</b>				
ABC profits	4,893	4,893	4,893	-
Wine tax	5,129	5,129	5,129	-
Railroad rolling stock tax	5,000	5,000	4,886	(114)
Auto rental tax	35,000	35,000	34,767	(233)
<b>Total noncategorical aid</b>	<b>50,022</b>	<b>50,022</b>	<b>49,675</b>	<b>(347)</b>
<b>Categorical aid</b>	<b>1,686,900</b>	<b>1,861,038</b>	<b>1,922,269</b>	<b>61,231</b>
<b>Total revenue from the Commonwealth of Virginia</b>	<b>1,736,922</b>	<b>1,911,060</b>	<b>1,971,944</b>	<b>60,884</b>
<b>Revenue from the federal government</b>				
Police grants	-	4,600	4,600	-
Fire INS	12,000	12,000	16,437	4,437
Other federal grants	-	-	84,109	84,109
Homeland Security grant	-	46,331	92,661	46,330
<b>Total revenue from the federal government</b>	<b>12,000</b>	<b>62,931</b>	<b>197,807</b>	<b>134,876</b>
<b>Other financing sources</b>				
Transfer from Electric Fund	2,179,299	2,179,299	2,179,299	-
Bond proceeds	350,000	350,000	310,000	(40,000)
Carryover from prior year budget	-	204,311	-	(204,311)
<b>Total other financing sources</b>	<b>2,529,299</b>	<b>2,733,610</b>	<b>2,489,299</b>	<b>(244,311)</b>
<b>Total revenue and other financing sources</b>	<b>\$ 18,594,191</b>	<b>\$ 19,117,813</b>	<b>\$ 18,709,633</b>	<b>\$ (408,180)</b>



## City of Franklin, Virginia

General Fund  
Budgetary Comparison Schedule

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Expenditures and other financing uses</b>				
General government administrative				
Legislative:				
City Council	\$ 267,252	\$ 267,252	\$ 222,367	\$ 44,885
General and financial administration:				
City Manager	219,104	224,158	208,084	16,074
City Attorney	120,698	120,698	119,683	1,015
LAN operations	155,287	222,237	97,756	124,481
Insurance	98,000	98,000	101,659	(3,659)
Commissioner of the Revenue	204,154	207,154	196,970	10,184
City Assessor	33,070	33,070	30,370	2,700
City Treasurer	239,171	133,759	125,151	8,608
State Treasurer	-	35,356	24,803	10,553
Finance	262,861	262,861	253,324	9,537
Collections	-	70,056	50,242	19,814
Utility Collections	182,092	182,092	174,632	7,460
Management Services	169,254	169,254	150,644	18,610
Purchasing	66,162	66,162	61,772	4,390
Computer Equipment	-	-	1,915	(1,915)
Board of elections:				
Registrar	127,844	131,136	97,291	33,845
<b>Total general government administration</b>	<b>2,144,949</b>	<b>2,223,245</b>	<b>1,916,663</b>	<b>306,582</b>
Judicial administration				
Courts:				
Clerk of Circuit Court	35,131	35,131	35,131	-
Sheriff - courts	38,571	38,571	38,571	-
Other courts	95,867	100,062	109,681	(9,619)
Commonwealth's Attorney	42,579	44,579	44,579	-
<b>Total judicial administration</b>	<b>212,148</b>	<b>218,343</b>	<b>227,962</b>	<b>(9,619)</b>
Public safety				
Police	2,138,696	2,245,230	2,202,838	42,392
Communications	467,865	499,249	526,489	(27,240)
Fire	797,688	869,133	960,104	(90,971)
Bureau of Inspections	315,767	417,795	352,500	65,295
Other protection	144,061	153,096	154,739	(1,643)
<b>Total public safety</b>	<b>3,864,077</b>	<b>4,184,503</b>	<b>4,196,670</b>	<b>(12,167)</b>
Health and welfare				
Health department	166,069	179,069	171,714	7,355
Mental health and retardation	53,094	53,094	53,094	-
<b>Total health and welfare</b>	<b>219,163</b>	<b>232,163</b>	<b>224,808</b>	<b>7,355</b>
Parks, recreation and cultural				
Parks and recreation	634,134	653,609	625,014	28,595
Public libraries	257,320	248,773	252,753	(3,980)
<b>Total parks, recreation and cultural</b>	<b>891,454</b>	<b>902,382</b>	<b>877,767</b>	<b>24,615</b>
Community development				
Planning and community development	235,628	173,606	149,660	23,946

## City of Franklin, Virginia

General Fund  
Budgetary Comparison Schedule

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Expenditures and other financing uses (Continued)</b>				
Public works				
Highways, streets, bridges and sidewalks	1,922,145	2,059,294	1,784,192	275,102
Snow removal	20,000	20,000	18,932	1,068
Engineering	216,631	216,631	211,394	5,237
Refuse collection	775,301	775,301	753,769	21,532
Maintenance building and grounds	1,270,185	1,285,943	1,262,892	23,051
<b>Total public works</b>	<b>4,204,262</b>	<b>4,357,169</b>	<b>4,031,179</b>	<b>325,990</b>
Nondepartmental				
Industrial corridor revenue sharing	525,000	525,000	525,000	-
Miscellaneous	260,918	232,993	48,726	184,267
<b>Total nondepartmental</b>	<b>785,918</b>	<b>757,993</b>	<b>573,726</b>	<b>184,267</b>
Other financing uses				
Transfer to Virginia Public Assistance Fund	392,478	392,478	392,478	-
Transfer to Comprehensive Services Act Fund	51,940	83,757	85,276	(1,519)
Transfer to Airport Fund	66,282	66,282	66,282	-
Transfer to Debt Service Fund	1,468,458	1,043,299	1,119,513	(76,214)
Transfers to component units	4,057,434	4,482,593	4,451,320	31,273
<b>Total other financing uses</b>	<b>6,036,592</b>	<b>6,068,409</b>	<b>6,114,869</b>	<b>(46,460)</b>
<b>Total expenditures and other financing uses</b>	<b>\$ 18,594,191</b>	<b>\$ 19,117,813</b>	<b>\$ 18,313,304</b>	<b>\$ 804,509</b>

City of Franklin, Virginia

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

Year Ended June 30, 2005

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability	Over (Under) Funded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
6/30/2004	\$ 16,892,347	\$ 20,161,444	\$ (3,269,097)	83.79%	\$ 5,937,906	(55.05%)
6/30/2003	\$ 16,404,003	\$ 18,781,255	\$ (2,377,252)	87.34%	\$ 5,816,390	(40.87%)
6/30/2002	\$ 16,095,805	\$ 16,969,480	\$ (873,675)	94.85%	\$ 5,420,724	(16.12%)
6/30/2001	\$ 15,536,727	\$ 15,646,776	\$ (110,049)	99.30%	\$ 5,157,172	(16.12%)
6/30/2004	\$ 935,101	\$ 979,963	\$ (44,862)	95.42%	\$ 384,697	(11.66%)
6/30/2003	\$ 902,948	\$ 868,889	\$ 34,059	103.92%	\$ 393,700	8.65%
6/30/2002	\$ 873,948	\$ 798,816	\$ 75,132	109.41%	\$ 362,345	20.73%
6/30/2001	\$ 850,334	\$ 755,015	\$ 95,319	112.62%	\$ 366,218	26.03%

School Board

Non-professional Employees

Schedule of Employer Contributions

Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
6/30/2005	\$ 763,157	100.00%	\$ -
6/30/2004	\$ 736,033	100.00%	\$ -
6/30/2003	\$ 721,457	100.00%	\$ -
6/30/2002	\$ 724,607	100.00%	\$ -
6/30/2005	\$ 42,668	100.00%	\$ -
6/30/2004	\$ 33,475	100.00%	\$ -
6/30/2003	\$ 31,641	100.00%	\$ -
6/30/2002	\$ 24,302	100.00%	\$ -

School Board

Non-professional Employees

*Notes to Required Supplementary Information*

*Notes to Required Supplementary Information*

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June 30, 2005

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**1. Budgets and Budgetary Accounting**

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

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

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

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

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*Other Supplementary Information*

City of Franklin, Virginia

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2005

	Special Revenue					
	Virginia Public Assistance	Comprehensive Services Act	Regional Fire Training Grounds	Foundation Grants	Community Development Grant	Community Development Grant
<b>Assets</b>						
Cash and investments	\$ 231,820	\$ -	\$ 13,389	\$ 193,646	\$ 88,217	\$ 21,280
Accounts receivable	-	-	-	-	-	1,328
Due from other governments	85,136	52,710	-	-	-	138,127
<b>Total assets</b>	<b>\$ 316,956</b>	<b>\$ 52,710</b>	<b>\$ 13,389</b>	<b>\$ 193,646</b>	<b>\$ 88,217</b>	<b>\$ 160,735</b>
<b>Liabilities</b>						
Vouchers and accounts payable	\$ 4,184	\$ 28,051	\$ -	\$ 3,724	\$ -	\$ -
Tenants escrow accounts	-	-	-	-	-	20,240
Due to other funds	-	24,659	-	-	-	130,462
<b>Total liabilities</b>	<b>4,184</b>	<b>52,710</b>	<b>-</b>	<b>3,724</b>	<b>-</b>	<b>150,702</b>
<b>Fund Balances</b>						
Designated:						
Specific programs	-	-	-	-	-	-
Undesignated:	312,772	-	13,389	189,922	88,217	10,033
<b>Total fund balances</b>	<b>312,772</b>	<b>-</b>	<b>13,389</b>	<b>189,922</b>	<b>88,217</b>	<b>10,033</b>
<b>Total liabilities and fund balances</b>	<b>\$ 316,956</b>	<b>\$ 52,710</b>	<b>\$ 13,389</b>	<b>\$ 193,646</b>	<b>\$ 88,217</b>	<b>\$ 160,735</b>



City of Franklin, Virginia

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue							
	Western Tidewater Home Consortium	Cobbtown Grant	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development	
Cash and investments	\$ -	\$ -	\$ 745	\$ 3,924	\$ 1,581	\$ 143,311	\$ 82,473	
Loans receivable	-	-	-	-	-	-	-	
Due from other governments	69,488	141,230	-	-	-	-	-	
<b>Total assets</b>	<b>\$ 69,488</b>	<b>\$ 141,230</b>	<b>\$ 745</b>	<b>\$ 3,924</b>	<b>\$ 1,581</b>	<b>\$ 143,311</b>	<b>\$ 82,473</b>	
<b>Liabilities</b>								
Vouchers and accounts payable	\$ 847	\$ 5,596	\$ -	\$ -	\$ -	\$ -	\$ 6,927	
Tenants escrow accounts	-	25,800	-	-	-	-	-	
Due to other funds	68,641	109,834	-	-	-	-	-	
<b>Total liabilities</b>	<b>69,488</b>	<b>141,230</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,927</b>	
<b>Fund Balances</b>								
Designated:								
Specific programs	-	-	-	-	-	-	-	
Undesignated:	-	-	745	3,924	1,581	143,311	75,546	
<b>Total fund balances</b>	<b>-</b>	<b>-</b>	<b>745</b>	<b>3,924</b>	<b>1,581</b>	<b>143,311</b>	<b>75,546</b>	
<b>Total liabilities and fund balances</b>	<b>\$ 69,488</b>	<b>\$ 141,230</b>	<b>\$ 745</b>	<b>\$ 3,924</b>	<b>\$ 1,581</b>	<b>\$ 143,311</b>	<b>\$ 82,473</b>	

City of Franklin, Virginia

Combining Balance Sheet - Nonmajor Governmental Funds

	Special Revenue			Permanent Funds					Total Nonmajor Governmental Funds
	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund			
<b>Assets</b>									
Cash and investments	\$ 54,158	\$ 22,911	\$ 4,022	\$ 9,866	\$ 100,488	\$ 12,117	\$ 983,948		
Accounts receivable	-	-	-	4,275	-	-	5,603		
Due from other governments	-	-	-	-	-	-	486,691		
<b>Total assets</b>	\$ 54,158	\$ 22,911	\$ 4,022	\$ 14,141	\$ 100,488	\$ 12,117	\$ 1,476,242		
<b>Liabilities</b>									
Vouchers and accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,329		
Tenants escrow accounts	-	-	-	-	-	-	46,040		
Due to other funds	-	-	-	-	-	-	333,596		
<b>Total liabilities</b>	-	-	-	-	-	-	428,965		
<b>Fund Balances</b>									
Designated:									
Specific programs	-	-	4,022	14,141	100,488	12,117	130,768		
Undesignated:	54,158	22,911	-	-	-	-	916,509		
<b>Total fund balances</b>	54,158	22,911	4,022	14,141	100,488	12,117	1,047,277		
<b>Total liabilities and fund balances</b>	\$ 54,158	\$ 22,911	\$ 4,022	\$ 14,141	\$ 100,488	\$ 12,117	\$ 1,476,242		

City of Franklin, Virginia

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

Year Ended June 30, 2005

	Special Revenue						
	Virginia Public Assistance	Comprehensive Services Act	Regional Fire Training Grounds	Foundation Grants	Community Development Grant	Community Development Grant	Community Development Grant
<b>Revenues</b>							
Intergovernmental	\$ 1,415,251	\$ 106,406	-	\$ 489,725	\$ -	\$ -	\$ 12,816
Use of money and property	-	-	-	-	7,407	-	-
Donations and gifts	-	-	-	-	-	-	-
Miscellaneous	5,883	-	-	132,100	-	-	-
<b>Total revenues</b>	<b>1,421,134</b>	<b>106,406</b>	<b>-</b>	<b>621,825</b>	<b>7,407</b>	<b>-</b>	<b>12,816</b>
<b>Expenditures</b>							
Current:							
Public safety	-	-	6,087	151,377	-	-	-
Health and welfare	1,651,668	191,682	-	-	-	-	-
Parks, recreation, cultural	-	-	-	15,283	-	-	-
Community development	-	-	-	249,469	20	-	9,783
Nondepartmental	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>1,651,668</b>	<b>191,682</b>	<b>6,087</b>	<b>416,129</b>	<b>20</b>	<b>20</b>	<b>9,783</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(230,534)</b>	<b>(85,276)</b>	<b>(6,087)</b>	<b>205,696</b>	<b>7,387</b>	<b>-</b>	<b>3,033</b>
<b>Other financing sources (uses)</b>							
Transfers in	392,478	85,276	-	-	-	-	-
Transfers out	-	-	-	(125,000)	-	-	-
<b>Total other financing sources (uses)</b>	<b>392,478</b>	<b>85,276</b>	<b>-</b>	<b>(125,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>161,944</b>	<b>-</b>	<b>(6,087)</b>	<b>80,696</b>	<b>7,387</b>	<b>-</b>	<b>3,033</b>
<b>Fund balances - beginning of year</b>	<b>150,828</b>	<b>-</b>	<b>19,476</b>	<b>109,226</b>	<b>80,830</b>	<b>-</b>	<b>7,000</b>
<b>Fund balances - end of year</b>	<b>\$ 312,772</b>	<b>\$ -</b>	<b>\$ 13,389</b>	<b>\$ 189,922</b>	<b>\$ 88,217</b>	<b>\$ -</b>	<b>\$ 10,033</b>

City of Franklin, Virginia

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

Year Ended June 30, 2005

	Special Revenue						
	Western Tidewater Home Consortium	Cobbtown Grant	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development
<b>Revenues</b>							
Intergovernmental	\$ 106,220	\$ 406,527	\$ -	\$ 2,245	\$ -	\$ -	\$ -
Use of money and property	-	-	1	3	-	-	173,609
Donations and gifts	-	-	-	-	-	17,275	-
Miscellaneous	-	-	-	100	735	18,500	-
<b>Total revenues</b>	<b>106,220</b>	<b>406,527</b>	<b>1</b>	<b>2,348</b>	<b>735</b>	<b>35,775</b>	<b>173,609</b>
<b>Expenditures</b>							
Current:							
Public safety	-	-	9	158	903	-	-
Health and welfare	-	-	-	-	-	-	-
Parks, recreation, cultural	-	-	-	-	-	17,464	-
Community development	106,220	319,617	-	-	-	-	98,063
Nondepartmental	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>106,220</b>	<b>319,617</b>	<b>9</b>	<b>158</b>	<b>903</b>	<b>17,464</b>	<b>98,063</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>-</b>	<b>86,910</b>	<b>(8)</b>	<b>2,190</b>	<b>(168)</b>	<b>18,311</b>	<b>75,546</b>
<b>Other financing sources (uses)</b>							
Transfers in	-	-	-	-	-	125,000	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>125,000</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>86,910</b>	<b>(8)</b>	<b>2,190</b>	<b>(168)</b>	<b>143,311</b>	<b>75,546</b>
<b>Fund balances - beginning of year</b>	<b>-</b>	<b>(86,910)</b>	<b>753</b>	<b>1,734</b>	<b>1,749</b>	<b>-</b>	<b>-</b>
<b>Fund balances - end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 745</b>	<b>\$ 3,924</b>	<b>\$ 1,581</b>	<b>\$ 143,311</b>	<b>\$ 75,546</b>

City of Franklin, Virginia

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

Year Ended June 30, 2005

	Special Revenue			Permanent Funds				Total Nonmajor Governmental Funds
	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund		
<b>Revenues</b>								
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,539,190
Use of money and property	645	23	-	206	580	301	182,775	
Donations and gifts	-	4,499	-	-	-	-	21,774	
Miscellaneous	-	640	-	-	-	-	157,958	
<b>Total revenues</b>	<b>645</b>	<b>5,162</b>	<b>-</b>	<b>206</b>	<b>580</b>	<b>301</b>	<b>2,901,697</b>	
<b>Expenditures</b>								
Current:								
Public safety	-	8,627	-	-	-	-	167,161	
Health and welfare	-	-	-	-	-	-	1,843,350	
Parks, recreation, cultural	-	-	-	-	-	-	32,747	
Community development	-	-	-	-	-	-	783,172	
Nondepartmental	2,904	-	329	2,004	-	-	5,237	
<b>Total expenditures</b>	<b>2,904</b>	<b>8,627</b>	<b>329</b>	<b>2,004</b>	<b>-</b>	<b>-</b>	<b>2,831,667</b>	
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(2,259)</b>	<b>(3,465)</b>	<b>(329)</b>	<b>(1,798)</b>	<b>580</b>	<b>301</b>	<b>70,030</b>	
<b>Other financing sources (uses)</b>								
Transfers in	-	-	-	-	-	-	602,754	
Transfers out	-	-	-	-	-	-	(125,000)	
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>477,754</b>	
<b>Net change in fund balances</b>	<b>(2,259)</b>	<b>(3,465)</b>	<b>(329)</b>	<b>(1,798)</b>	<b>580</b>	<b>301</b>	<b>547,784</b>	
<b>Fund balances - beginning of year</b>	<b>56,417</b>	<b>26,376</b>	<b>4,351</b>	<b>15,939</b>	<b>99,908</b>	<b>11,816</b>	<b>499,493</b>	
<b>Fund balances - end year</b>	<b>\$ 54,158</b>	<b>\$ 22,911</b>	<b>\$ 4,022</b>	<b>\$ 14,141</b>	<b>\$ 100,488</b>	<b>\$ 12,117</b>	<b>\$ 1,047,277</b>	

## City of Franklin, Virginia

## Statement of Changes in Assets and Liabilities - Agency Funds

Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b>Special Welfare</b>				
Assets:				
Cash and investments	\$ 16,330	\$ 10,964	\$ 13,054	\$ 14,240
Liabilities:				
Amounts held for other	\$ 16,330	\$ 10,964	\$ 13,054	\$ 14,240
<b>Total liabilities</b>	<b>\$ 16,330</b>	<b>\$ 10,964</b>	<b>\$ 13,054</b>	<b>\$ 14,240</b>
<b>Special Welfare - SSI</b>				
Assets:				
Cash and investments	\$ 100	\$ 15,054	\$ 989	\$ 14,165
Liabilities:				
Amounts held for other	\$ 100	\$ 15,054	\$ 989	\$ 14,165
<b>Total liabilities</b>	<b>\$ 100</b>	<b>\$ 15,054</b>	<b>\$ 989</b>	<b>\$ 14,165</b>
<b>Franklin - Southampton</b>				
<b>Economic Development Commission</b>				
Assets:				
Cash and investments	\$ 100,126	\$ 40,000	\$ 20,000	\$ 120,126
Liabilities:				
Amounts held for other	\$ 140,126	\$ -	\$ 20,000	\$ 120,126
<b>Total liabilities</b>	<b>\$ 140,126</b>	<b>\$ -</b>	<b>\$ 20,000</b>	<b>\$ 120,126</b>
<b>Flexible Benefits</b>				
Assets:				
Cash and investments	\$ 4,644	\$ 10,467	\$ 9,172	\$ 5,939
Liabilities:				
Amounts held for other	\$ 4,644	\$ 10,467	\$ 9,172	\$ 5,939
<b>Total liabilities</b>	<b>\$ 4,644</b>	<b>\$ 10,467</b>	<b>\$ 9,172</b>	<b>\$ 5,939</b>

## City of Franklin, Virginia

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

June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
<b>Assets</b>			
Cash and temporary investments	\$ -	\$ 242,798	\$ 242,798
Restricted cash and investments	-	520,858	520,858
Due from other governments	428,446	43,784	472,230
Due from primary government	149,296	-	149,296
Inventories	-	17,507	17,507
Prepaid expenses	239,991	-	239,991
<b>Total assets</b>	<b>\$ 817,733</b>	<b>\$ 824,947</b>	<b>\$ 1,642,680</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Vouchers and accounts payable	\$ 69,215	\$ 239,175	\$ 308,390
Accrued payroll	940,236	-	940,236
<b>Total liabilities</b>	<b>1,009,451</b>	<b>239,175</b>	<b>1,248,626</b>
<b>Fund Balances</b>			
Designated			
Inventories	-	136,864	136,864
Capital projects	-	448,908	448,908
Undesignated	(191,718)	-	(191,718)
<b>Total fund balances</b>	<b>(191,718)</b>	<b>585,772</b>	<b>394,054</b>
<b>Total liabilities and fund balances</b>	<b>\$ 817,733</b>	<b>\$ 824,947</b>	<b>\$ 1,642,680</b>

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

<b>Total fund balances - component unit</b>	\$ 394,054
Amount reported for component unit activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	8,827,513
Noncurrent liabilities such as compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(237,562)
<b>Total net assets - component unit - School Board</b>	<b>\$ 8,984,005</b>

## City of Franklin, Virginia

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

Year Ended June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$ 9,681,848	\$ 541,469	\$ 10,223,317
Revenues from use of money and property	-	30,126	30,126
Revenue from the primary government	4,057,434	87,105	4,144,539
Recovery of costs	92,979	8,288	101,267
Charges for services	6,705	147,751	154,456
Donations and gifts	28,500	-	28,500
Universal services	47,560	-	47,560
Miscellaneous	-	56	56
<b>Total revenues</b>	<b>13,915,026</b>	<b>814,795</b>	<b>14,729,821</b>
<b>Expenditures</b>			
Education:			
Instruction	10,570,679	63,382	10,634,061
Administration, attendance and health services	851,857	-	851,857
Pupil transportation	544,657	-	544,657
Operations and maintenance	1,313,557	-	1,313,557
Technology	568,246	-	568,246
<b>Total education</b>	<b>13,848,996</b>	<b>63,382</b>	<b>13,912,378</b>
Food services	-	686,946	686,946
Capital outlay	-	2,051,978	2,051,978
<b>Total expenditures</b>	<b>13,848,996</b>	<b>2,802,306</b>	<b>16,651,302</b>
<b>Net changes in fund balances</b>	<b>66,030</b>	<b>(1,987,511)</b>	<b>(1,921,481)</b>
<b>Fund balances - beginning of year</b>	<b>(257,748)</b>	<b>2,573,283</b>	<b>2,315,535</b>
<b>Fund balances - end of year</b>	<b>\$ (191,718)</b>	<b>\$ 585,772</b>	<b>\$ 394,054</b>

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

<b>Net change in fund balances - total governmental funds</b>	<b>\$ (1,921,481)</b>
Amount reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.	1,674,685
In the statement of activities, certain operating expenses are measured by the amounts incurred during the year. In governmental funds, expenditures for those items are measured by the amount of financial resources used.	(4,444)
<b>Change in net assets of governmental activities</b>	<b>\$ (251,240)</b>



## City of Franklin, Virginia

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

June 30, 2005

	Textbook	Cafeteria	Capital Projects	Total Other Governmental Funds
<b>Assets</b>				
Cash and temporary investments	\$ 117,000	\$ 85,756	\$ 40,042	\$ 242,798
Restricted cash and investments	-	-	520,858	520,858
Due from other governments	162	43,622	-	43,784
Inventory	-	17,507	-	17,507
<b>Total assets</b>	<b>\$ 117,162</b>	<b>\$ 146,885</b>	<b>\$ 560,900</b>	<b>\$ 824,947</b>
<b>Liabilities</b>				
Vouchers and accounts payable	\$ -	\$ 127,183	\$ 111,992	\$ 239,175
<b>Total liabilities</b>	<b>-</b>	<b>127,183</b>	<b>111,992</b>	<b>239,175</b>
<b>Fund Balances</b>				
Unreserved:				
Designated:				
Inventories	117,162	19,702	-	136,864
Capital projects	-	-	448,908	448,908
Undesignated:	-	-	-	-
<b>Total fund balances</b>	<b>117,162</b>	<b>19,702</b>	<b>448,908</b>	<b>585,772</b>
<b>Total liabilities and fund balances</b>	<b>\$ 117,162</b>	<b>\$ 146,885</b>	<b>\$ 560,900</b>	<b>\$ 824,947</b>

## City of Franklin, Virginia

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

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Year Ended June 30, 2005

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	Textbook	Cafeteria	Capital Projects	Total Other Governmental Funds
<b>Revenues</b>				
Intergovernmental	\$ -	\$ 541,469	\$ -	\$ 541,469
Revenues from use of money and property	88	-	30,038	30,126
Revenue from the primary government	87,105	-	-	87,105
Recovery of costs	8,288	-	-	8,288
Charges for services	-	147,751	-	147,751
Miscellaneous	-	56	-	56
<b>Total revenues</b>	<b>95,481</b>	<b>689,276</b>	<b>30,038</b>	<b>814,795</b>
<b>Expenditures</b>				
Education				
Instruction	63,382	-	-	63,382
<b>Total education</b>	<b>63,382</b>	<b>-</b>	<b>-</b>	<b>63,382</b>
Food services	-	686,946	-	686,946
Capital outlay	-	-	2,051,978	2,051,978
<b>Total expenditures</b>	<b>63,382</b>	<b>686,946</b>	<b>2,051,978</b>	<b>2,802,306</b>
<b>Net changes in fund balance</b>	<b>32,099</b>	<b>2,330</b>	<b>(2,021,940)</b>	<b>(1,987,511)</b>
<b>Fund balances - beginning of year</b>	<b>85,063</b>	<b>17,372</b>	<b>2,470,848</b>	<b>2,573,283</b>
<b>Fund balances - end of year</b>	<b>\$ 117,162</b>	<b>\$ 19,702</b>	<b>\$ 448,908</b>	<b>\$ 585,772</b>

## City of Franklin, Virginia

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

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Year Ended June 30, 2005

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	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Budget As Amended	Actual	
<b>Revenue</b>				
Intergovernmental:				
City of Franklin	\$ 4,057,434	\$ 4,852,449	\$ 4,057,434	\$ (795,015)
Commonwealth of Virginia	7,956,494	7,989,578	7,726,340	(263,238)
Federal government	5,000	2,157,041	1,955,508	(201,533)
Recovery of costs	75,000	95,510	92,979	(2,531)
Universal services	50,000	47,560	47,560	-
Charges for services	15,500	6,705	6,705	-
Revenues from use of property	2,200	970	-	(970)
Donations and gifts	-	25,000	28,500	3,500
<b>Total revenue</b>	<b>\$ 12,161,628</b>	<b>\$ 15,174,813</b>	<b>\$ 13,915,026</b>	<b>\$ (1,259,787)</b>
<b>Expenditures</b>				
Current:				
Instruction	\$ 9,710,916	\$ 12,025,532	\$ 10,570,679	\$ 1,454,853
Administration, attendance and health	830,554	850,821	851,857	(1,036)
Transportation	416,207	544,657	544,657	-
Operations and maintenance	1,203,951	1,313,557	1,313,557	-
Technology	-	440,246	568,246	(128,000)
<b>Total expenditures</b>	<b>\$ 12,161,628</b>	<b>\$ 15,174,813</b>	<b>\$ 13,848,996</b>	<b>\$ 1,325,817</b>

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

June 30, 2005

<b>Assets</b>	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2005</b>
Restricted cash	\$ 89,309	\$ 463,642	\$ 437,907	\$ 115,044
<b>Total assets</b>	<b>\$ 89,309</b>	<b>\$ 463,642</b>	<b>\$ 437,907</b>	<b>\$ 115,044</b>
<b>Liabilities</b>				
Cash held for others	\$ 89,309	\$ 463,642	\$ 437,907	\$ 115,044
<b>Total liabilities</b>	<b>\$ 89,309</b>	<b>\$ 463,642</b>	<b>\$ 437,907</b>	<b>\$ 115,044</b>

*Statistical Schedules*

*City of Franklin, Virginia*

*Government-Wide Revenues*

Year Ended June 30,	Program Revenues				General Revenues					Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue Sharing from Counties	Taxes	Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous		
2005	\$ 16,228,102	\$ 3,645,508	\$ 2,168,480	\$ 1,103,685	\$ 10,982,904	\$ -	\$ 9,025	\$ 374,154	\$ 34,511,858	
2004	\$ 15,647,334	\$ 7,482,463	\$ 1,266,990	\$ 1,094,768	\$ 10,477,483	\$ -	\$ 64,895	\$ 287,280	\$ 36,321,213	
2003	\$ 13,778,672	\$ 3,751,675	\$ 2,245,681	\$ 1,273,965	\$ 9,940,796	\$ -	\$ 61,152	\$ 203,068	\$ 31,255,009	

City of Franklin, Virginia

Government-Wide Expenditures by Function

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
2005	\$2,154,840	\$ 227,962	\$4,385,901	\$4,452,836	\$2,138,779	\$4,155,196	\$ 993,109	\$ 213,146	\$ 577,465	\$ 734,457	\$2,794,462	\$8,887,833	\$ 614,946	\$32,330,932
2004	\$2,136,656	\$ 107,674	\$4,172,103	\$3,711,353	\$2,148,536	\$7,271,975	\$ 869,713	\$4,464,002	\$ 546,196	\$ 751,139	\$2,714,447	\$8,645,465	\$ 620,913	\$38,160,172
2003	\$1,975,927	\$ 267,988	\$3,940,130	\$3,996,765	\$1,807,915	\$4,264,145	\$ 871,299	\$3,477,458	\$ 536,786	\$ 613,353	\$2,603,237	\$7,926,959	\$ 570,952	\$32,852,914

## City of Franklin, Virginia

## General Governmental Revenues by Source

Last Ten Fiscal Years Ended June 30,	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
General property taxes	\$ 5,782,264	\$ 5,523,583	\$ 5,509,757	\$ 5,306,578	\$ 5,191,290	\$ 4,865,250	\$ 4,928,999	\$ 4,781,708	\$ 4,665,219	\$ 4,065,383
Other local taxes	5,037,186	4,801,060	4,366,505	4,250,437	3,804,429	3,775,567	3,846,160	3,442,774	2,913,325	2,693,342
Permits, fees and licenses	69,920	72,184	43,889	39,303	50,365	53,836	98,658	51,799	42,988	62,223
Fines and forfeitures	51,248	62,331	49,407	57,330	79,354	59,381	75,383	83,683	83,063	71,054
Use of money and property	456,174	385,383	249,722	376,718	362,681	199,522	137,237	214,618	189,029	176,198
Charges for services	1,773,283	1,572,875	1,469,736	1,393,338	1,205,154	1,098,471	1,154,149	1,277,089	1,214,081	1,136,046
Miscellaneous and donations	1,481,570	1,368,093	1,582,999	1,981,749	1,725,897	1,761,408	2,078,866	1,355,673	1,453,829	1,361,851
Recovered costs	130,621	154,223	92,106	156,802	174,407	579,373	133,123	60,442	65,546	108,887
Intergovernmental	20,107,570	21,443,712	19,708,670	13,732,213	16,474,100	13,850,616	10,638,182	9,717,046	9,507,710	8,507,095
Totals	\$ 34,889,836	\$35,383,444	\$33,072,791	\$27,294,468	\$29,067,677	\$26,243,424	\$23,090,757	\$20,984,832	\$20,134,790	\$18,182,079

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



City of Franklin, Virginia

General Governmental Expenditures by Function

Last Ten Fiscal Years Ended June 30,										
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
General government administration	\$ 1,916,668	\$ 1,898,128	\$ 1,921,302	\$ 1,859,894	\$ 1,905,069	\$ 1,871,245	\$ 1,626,325	\$ 1,405,959	\$ 1,279,758	\$ 1,396,696
Judicial administration	227,962	166,707	267,988	132,119	125,702	65,900	75,981	65,505	66,199	52,106
Public safety	4,363,831	3,986,257	4,242,378	3,454,288	3,364,673	3,374,754	3,081,393	2,809,891	2,454,035	2,253,029
Public works	4,031,172	4,048,957	4,159,512	4,060,813	3,404,675	3,340,481	3,869,386	3,437,317	2,842,812	2,956,135
Health and welfare	2,068,157	2,097,930	1,794,405	1,815,008	1,543,135	1,542,786	1,500,570	1,295,600	1,106,130	1,031,549
Education	15,767,293	12,777,477	13,906,854	13,067,817	12,322,151	14,287,541	11,756,385	11,088,959	10,719,943	10,225,362
Parks, recreation and cultural	910,516	839,088	831,648	724,478	766,057	803,071	669,776	660,786	607,739	506,210
Community development	953,592	4,464,002	2,272,636	1,613,500	2,626,464	6,695,831	886,427	287,085	349,843	150,008
Nondepartmental	578,963	551,561	535,925	522,669	531,476	451,868	637,915	723,687	672,952	322,534
Capital projects	1,569,281	1,453,738	4,055,653	5,265,185	786,255	88,018	78,021	194,000	-	-
Debt service:										
Bond service and miscellaneous	3,544	36,068	4,044	4,425	2,925	32,559	900	1,900	1,125	1,750
Principal retirement	1,008,779	715,570	3,446,839	739,387	721,464	633,245	286,921	450,782	585,209	1,596,523
Interest and fiscal charges	734,455	679,110	609,309	369,963	317,942	295,555	157,789	181,786	320,067	315,557
Totals	\$34,134,213	\$33,714,593	\$38,048,493	\$33,629,546	\$28,417,988	\$33,482,854	\$24,627,789	\$22,603,257	\$21,005,812	\$20,807,459

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

Capital projects included beginning in 1998.

## City of Franklin, Virginia

## Property Tax Levies and Collections

Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1) (2)	Total Tax Collections	Percent of		Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
						Total Tax Collections to Tax Levy	Delinquent Taxes		
2005	\$ 5,640,259	\$ 5,323,582	94.39%	\$ 290,026	\$ 5,613,608	\$ 485,700	99.53%	\$ 485,700	8.61%
2004	\$ 5,463,530	\$ 5,220,437	95.55%	\$ 286,425	\$ 5,506,862	\$ 459,049	100.79%	\$ 459,049	8.40%
2003	\$ 5,221,065	\$ 5,067,596	97.06%	\$ 329,579	\$ 5,397,175	\$ 498,463	103.37%	\$ 498,463	9.55%
2002	\$ 5,153,719	\$ 4,896,547	95.01%	\$ 230,318	\$ 5,126,865	\$ 452,614	99.48%	\$ 452,614	8.78%
2001	\$ 5,093,699	\$ 4,858,060	95.37%	\$ 250,038	\$ 5,108,098	\$ 528,145	100.00%	\$ 528,145	10.33%
2000	\$ 4,900,600	\$ 4,610,558	94.09%	\$ 265,457	\$ 4,876,015	\$ 610,911	99.50%	\$ 610,911	12.47%
1999	(3) \$ 5,002,971	\$ 4,625,962	92.46%	\$ 184,033	\$ 4,809,995	\$ 1,003,509	96.14%	\$ 1,003,509	20.06%
1998	\$ 4,671,297	\$ 4,445,954	95.18%	\$ 209,451	\$ 4,655,405	\$ 549,011	99.66%	\$ 549,011	11.75%
1997	\$ 4,466,799	\$ 4,328,582	96.91%	\$ 221,078	\$ 4,549,660	\$ 566,779	101.86%	\$ 566,779	12.69%
1996	\$ 4,118,440	\$ 3,689,632	89.60%	\$ 279,046	\$ 3,968,678	\$ 647,677	96.36%	\$ 647,677	15.73%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

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

*City of Franklin, Virginia*

*Assessed Value of Taxable Property*

Year	Last Ten Fiscal Years Ended June 30,				Public Service Corporations				Total
	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Real Estate	Personal Property	Real Estate	Personal Property	
2005	\$ 413,484,184	\$ 55,210,009	\$ -	\$ 757,167	\$ 8,617,223	\$ 39,123	\$ 8,617,223	\$ 39,123	\$ 478,107,706
2004	\$ 371,050,871	\$ 52,890,760	\$ -	\$ 1,134,874	\$ 9,097,960	\$ 57,587	\$ 9,097,960	\$ 57,587	\$ 434,232,052
2003	\$ 365,657,221	\$ 55,879,359	\$ 166,080	\$ 971,160	\$ 8,969,861	\$ 38,567	\$ 8,969,861	\$ 38,567	\$ 431,682,248
2002	\$ 339,435,343	\$ 53,684,686	\$ 259,368	\$ 764,613	\$ 11,150,501	\$ 12,254	\$ 11,150,501	\$ 12,254	\$ 405,306,765
2001	\$ 346,907,411	\$ 43,006,770	\$ 469,560	\$ 822,593	\$ 10,248,575	\$ 21,255	\$ 10,248,575	\$ 21,255	\$ 401,476,164
2000 (1)	\$ 336,027,995	\$ 47,915,578	\$ -	\$ 598,937	\$ 10,202,502	\$ 69,851	\$ 10,202,502	\$ 69,851	\$ 394,814,863
1999	\$ 298,000,000	\$ 42,014,422	\$ -	\$ 797,506	\$ 9,286,671	\$ 64,535	\$ 9,286,671	\$ 64,535	\$ 350,163,134
1998	\$ 297,441,044	\$ 41,573,378	\$ -	\$ 797,506	\$ 9,286,671	\$ 64,535	\$ 9,286,671	\$ 64,535	\$ 349,163,134
1997	\$ 291,895,700	\$ 40,808,266	\$ -	\$ 1,170,640	\$ 9,302,508	\$ 92,733	\$ 9,302,508	\$ 92,733	\$ 343,269,847
1996	\$ 278,663,920	\$ 36,982,248	\$ -	\$ 1,043,627	\$ 9,610,675	\$ 49,161	\$ 9,610,675	\$ 49,161	\$ 326,349,631

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

## City of Franklin, Virginia

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

Year	Last Ten Fiscal Years Ended June 30,				Public Service Corporation			
	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Real Estate *	Personal Property		
2005	\$ 0.90 / \$ 1.14***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50		
2004	\$ 0.90 / \$ 1.14***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50		
2003	\$ 0.90 / \$ 1.14***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50		
2002	\$ 0.90 / \$ 1.14***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50		
2001	\$ 0.90 / \$ 1.14***	\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50		
2000	\$ 0.90 / \$ 1.14***	\$ 4.50	-	\$ 2.00	\$ 0.90	\$ 4.50		
1999	\$ 0.90 / \$ 1.14***	\$ 4.50	-	\$ 2.00	\$ 0.90	\$ 4.50		
1998	\$ 0.90 / \$ 1.14***	\$ 4.50	-	\$ 2.00	\$ 0.90	\$ 4.50		
1997	\$ 0.85 / \$ 1.09**	\$ 4.50	-	\$ 2.00	\$ 0.85	\$ 4.50		
1996	\$ 0.85 / \$ 1.09**	\$ 4.50	-	\$ 2.00	\$ 0.85	\$ 4.50		

\* Public Service Corporation property was taxed at basic real estate rates regardless of location.

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

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

City of Franklin, Virginia

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

Year	Assessed Value (in Thousands)	Gross Bonded Debt (1)	Less:		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value
			Debt Service Monies Available	Debt Payable from Enterprise Revenues (2)		
2005	\$ 478,108	\$ 23,479,028	-	\$ 6,597,451	\$ 16,881,577	3.53%
2004	\$ 434,232	\$ 24,583,588	-	\$ 7,099,588	\$ 17,484,000	4.03%
2003	\$ 431,682	\$ 22,871,597	-	\$ 9,111,219	\$ 13,760,378	3.19%
2002	\$ 405,307	\$ 22,481,784	-	\$ 9,766,132	\$ 12,715,652	3.14%
2001	\$ 401,476	\$ 17,006,239	-	\$ 8,816,527	\$ 8,189,712	2.04%
2000	\$ 394,815	\$ 17,903,167	-	\$ 9,033,169	\$ 8,869,998	2.25%
1999	\$ 350,163	\$ 18,355,003	-	\$ 6,178,267	\$ 12,176,766	3.48%
1998	\$ 349,163	\$ 14,440,563	-	\$ 6,436,585	\$ 8,003,978	2.29%
1997	\$ 343,270	\$ 12,285,946	-	\$ 4,400,925	\$ 7,885,021	2.30%
1996	\$ 326,350	\$ 12,896,713	-	\$ 4,861,321	\$ 8,035,392	2.46%

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

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

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

June 30, 2005

Taxpayer	Type of Business	2005 Assessed Valuation	Percent of Total Assessed Valuation of Real Estate
Franklin Hospital Corporation	Hospital	\$ 15,493,900	3.67%
James L. Rifkin Estate	Shopping Center	8,277,300	1.96%
Southampton Center, Joint Venture	Shopping Center	6,504,900	1.54%
The Village at Woods Edge	Retirement Home	5,960,400	1.41%
Meadowridge Association	Apartments	4,308,100	1.02%
Wood Properties LLP	Shopping Center	3,744,450	0.89%
F.P. Associates	Apartments	3,718,800	0.88%
Dorchester Associates	Apartments	3,664,089	0.87%
FPA LLC	Apartments	3,378,700	0.80%
Adjacent Properties	Apartments	3,351,400	0.79%
		<u>\$ 58,402,039</u>	<u>13.83%</u>

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

June 30, 2005

Taxpayer	Type of Business	2005 Assessed Valuation	Percent of Total Assessed Personal Property
Franklin Hospital Corporation	Hospital	\$ 847,920	1.53%
Wal-Mart Stores Inc.	Retail - Variety	714,148	1.29%
Charter Communications, Inc.	Cable	435,630	0.79%
Winn Dixie Raleigh, Inc.	Retail - Grocery	369,966	0.67%
Butler Paper Recycling, Inc.	Retail	261,734	0.47%
Food Lion, Inc. LLC	Retail - Grocery	248,458	0.45%
S W Rawls, Inc.	Retail - Variety	231,149	0.42%
CIT Financial USA, Inc.	Retail - Variety	187,863	0.34%
HVT, Inc.	Retail - Finance	138,112	0.25%
Eckerd Drug	Retail - Variety	136,259	0.25%
		<u>\$ 3,571,239</u>	<u>6.46%</u>

## City of Franklin, Virginia

## Schedule of Defeased Debt

Year Ended June 30, 2005	Original Debt Defeased	New Debt Obtained	Deferred at June 30, 2005	Debt Repaid June 30, 2005	Balance June 30, 2005	Allocation of Net Bond Cost at June 30, 2005	Expended, Expensed at June 30, 2005	Net Bond Cost at June 30, 2005
General long-term obligations	\$ 1,496,308	\$ 1,679,916	\$ -	\$ 170,642	\$ 1,396,461	\$ -	\$ -	\$ -
Enterprise Funds:								
Water/Sewer	1,728,693	1,940,804	-	197,672	1,612,805	16,571	(16,571)	-
Electric	290,000	324,280	-	131,686	170,731	-	-	-
	\$ 3,515,001	\$ 3,945,000	\$ -	\$ 500,000	\$ 3,179,997	\$ 16,571	\$ (16,571)	\$ -



*Compliance Section*



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

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

We have audited the financial statements of the ***City of Franklin, Virginia***, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

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

***Compliance and Other Matters***

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

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

***Goodman & Company, L.L.P.***

Newport News, Virginia  
December 9, 2005

Fountain Plaza One, 701 Town Center Drive, Suite 700  
Newport News, VA 23606-4295  
ph: 757.873.1033  
fax: 757.873.1106  
[www.goodmanco.com](http://www.goodmanco.com)



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

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*City of Franklin, Virginia*

***Compliance***

We have audited the compliance of the *City of Franklin, Virginia* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The *City of Franklin, Virginia's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the *City of Franklin, Virginia's* management. Our responsibility is to express an opinion on the *City of Franklin, Virginia's* compliance based on our audit.

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

In our opinion, the *City of Franklin, Virginia* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as finding 2005-1.

***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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Fountain Plaza One, 701 Town Center Drive, Suite 700  
Newport News, VA 23606-4295  
ph: 757.873.1033  
fax: 757.873.1106  
[www.goodmanco.com](http://www.goodmanco.com)

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

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

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

*Goodman & Company, L. L. P.*

Newport News, Virginia  
December 9, 2005



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

Certified Public Accountants  
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Honorable Mayor and City Council  
*City of Franklin, Virginia*

We have audited the financial statements of the *City of Franklin, Virginia* as of and for the year ended June 30, 2005, and have issued our report thereon dated December 9, 2005.

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

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

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

Code of Virginia

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

State Agency Requirements

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

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Newport News, VA 23606-4295  
ph: 757.873.1033  
fax: 757.873.1106  
[www.goodmanco.com](http://www.goodmanco.com)

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

The results of our tests disclosed two instances of noncompliance with the provisions referred to in the preceding paragraph which are required to be reported in accordance with *Specifications for Audits of Counties, Cities and Towns*, and are described in the accompanying schedule of findings as state compliance findings 2005-1 and 2005-2. With respect to items not tested, nothing came to our attention that caused us to believe that the *City of Franklin, Virginia*, had not complied, in all material respects, with those provisions.

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

*Goodman & Company, L.L.P.*

Newport News, Virginia  
December 9, 2005

*City of Franklin, Virginia*

*Schedule of Expenditures of Federal Awards*

**Year Ended June 30, 2005**

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
<b>Department of Agriculture</b>		
Pass-Through Payments:		
Department of Education:		
School Breakfast Program	10.553	\$ 128,123
National School Lunch Program	10.555	348,894
Summer Feeding Program	10.559	64,946
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Administration	10.561	210,515
<b>Department of Housing and Urban Development</b>		
Pass-Through Payments:		
Department of Housing and Urban Development		
Community Development Block Grant/State's Program	* 14.228	510,227
<b>Department of Justice</b>		
Pass-Through Payments:		
Department of Justice:		
Financial Assistance for Administration	16.579	1,840
<b>Department of Transportation</b>		
Pass-Through Payments:		
National Highway Traffic Safety Administration	20.600	6,000

*City of Franklin, Virginia*

*Schedule of Expenditures of Federal Awards*

Year Ended June 30, 2005

	Federal Catalogue Number	Expenditures
<b>Federal Granting Agency/Recipient State Agency/ Grant Program</b>		
<b>Department of Education</b>		
Pass-Through Payments:		
Department of Education:		
Adult Literacy Services	84.002	7,198
Title I - Grants to Local Educational Agencies	84.010	580,586
Special Education - Grants to States	* 84.027	321,095
Vocational Education - Basic Grants to States	84.048	43,105
Special Education - Preschool Grants	* 84.173	17,794
Safe and Drug-Free Schools and Communities - State Grants	84.186	11,061
Title IVB	84.287	93,249
Innovative Education Program Strategies	84.298	8,284
Literacy Challenge Grant	84.318	14,635
Comprehensive School Reform Demonstration	84.332	5,942
Title II - Teacher Quality Enhancement Grant	84.336	9,989
School Renovation Grants	84.352	10,658
Reading First	84.357	150,217
Title VI-Rural Education	84.358	34,768
Title II - Improving Teacher Quality State Grants	* 84.367	373,802
State Assessments and Related Activities	84.369	4,947
<b>Department of Homeland Security</b>		
Pass-Through Payments:		
Department of Military Affairs		
Public Assistance Grant	97.036	149,002
Disaster Planning and Operation	97.039	10,527
Emergency Management Preparedness	97.042	10,298
<b>Department of Health and Human Services</b>		
Pass-Through Payments:		
Department of Social Services:		
Family Preservation and Support Services	93.556	12,255
Temporary Assistance to Needy Families (TANF)	93.558	171,767
Refugee and Entrant Assistance State Administered Plans	93.566	321
Low-Income Home Energy Assistance	93.568	11,383
Child Care and Development Block Grant	* 93.575	84,824
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	74,498
Foster Care -Title IV-E	* 93.658	166,649
Adoption Assistance	93.659	20,793
Social Services Block Grant	93.667	95,989
Chafee Foster Care Independent Living	93.674	1,063
Medicaid Assistance Program	93.778	174,760
<b>Total Federal Expenditures</b>		<b>\$ 3,942,004</b>

\* Represents a major program of the City of Franklin



*City of Franklin, Virginia*

*Notes to Schedule of Expenditures of Federal Awards*

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June 30, 2005

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1. **Basis of Presentation**

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

\* \* \* \* \*

*City of Franklin, Virginia*

*Schedule of Findings*

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June 30, 2005

---

**1. Summary of Auditors' Results**

- a) The auditor's report expresses an unqualified opinion on the basic financial statements of the City.
- b) There were no reportable conditions noted in internal control required to be disclosed.
- c) No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were noted during the audit.
- d) No reportable conditions requiring disclosure were noted during the audit of internal control over major federal programs.
- e) The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal award programs.
- f) The audit did not disclose any audit findings required to be reported.
- g) The major programs are:
  - i) Community Development Block Grant (CFDA No. 14.228)
  - ii) Special Education Cluster (CFDA No's 84.027, 84.173)
  - iii) Title II – Improving Teacher Quality (CFDA No. 84.367)
  - iv) Child Care and Development Block Grant (CFDA No. 93.575)
  - v) Foster Care – Title IV-E (CFDA No. 93.658)
- h) The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
- i) The auditee qualified as a low-risk auditee.

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

None

**3. Findings and Questioned Costs for Major Federal Awards Programs**

**Finding 2005-01:**

**Condition:**

We noted six disbursements totaling \$27,113 made for benefits and services on behalf of an ineligible child.

**Criteria:**

Foster Care – Title IV-E-CFDA No. 93.658 funds are to be used to provide safe, appropriate, 24-hour, substitute care for eligible children who are the jurisdiction of the municipality agency and need temporary placement and care outside their homes.

*Schedule of Findings*

---

June 30, 2005

---

**Effect:**

It was noted by the intake staff the child was ineligible, however the child's classification was not reviewed subsequently and the child received benefits.

**Recommendation:**

We recommend each child's file be monitored by a supervisor and reviewed to ensure only eligible children receive benefits.

**City Response:**

Each child entering into foster care will be staffed as soon as the Department of Social Services is awarded custody or assumes custody of the child. The child's eligibility will be screened at intake and reviewed periodically to ensure eligibility.

**4. Prior Year Federal Awards Findings**

None.

**5. State Compliance Findings**

**Finding 2005-1**

**Condition:**

Amounts received should be credited accurately and timely to the special welfare account or dedicated account of the appropriate individual.

**Criteria:**

Receipts are credited to the special welfare account or dedicated account, but several instances were noted in which receipts were not deposited timely.

**Effect:**

Untimely deposits limit funds available for the intended recipient's use.

**Recommendation:**

Funds received should be deposited by the next working day.

**City Response:**

A procedure of depositing checks within 24 hours is being put into effect immediately. All checks coming into the agency will be date stamped by the Director and forwarded to the Finance Department within 24 hours by the Office Manager.

*City of Franklin, Virginia*

*Schedule of Findings*

---

June 30, 2005

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**Finding 2005-2**

**Condition:**

Dedicated accounts and SSI dedicated accounts without recent transaction activity are not reviewed to determine if they should remain open.

**Criteria:**

One recipient was in the program for two months. At the time of our review, the account was still open, with a cash balance consisting of two deposits from the U. S. Treasury, but without any other activity since March 2005.

**Effect:**

Funds deposited into dedicated accounts on behalf of a recipient are not the assets of the locality; they are considered agency funds held for the children.

**Recommendation:**

Dedicated accounts and SSI dedicated accounts should be reviewed periodically to determine if the accounts should be closed.

**City Response:**

The dedicated and SSI dedicated bank accounts will be reviewed periodically to determine if the accounts should be closed.