



*Comprehensive Annual  
Financial Report*

*Fiscal Year Ended June 30, 2011*



**CITY OF FRANKLIN, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2011**



CITY OF FRANKLIN, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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CITY OF FRANKLIN, VIRGINIA  
DIRECTORY OF PRINCIPAL OFFICIALS  
JUNE 30, 2011

Mayor

James P. Councill, III

Vice Mayor

Raystine D. Johnson

Council Members

Donald T. Blythe  
Brenton D. Burgess  
Barry W. Cheatham

Mary E. Hilliard  
Gregory McLemore

Constitutional Officers

Dinah M. Babb  
Brenda B. Rickman

Treasurer  
Commissioner of Revenue

Franklin City Public Schools

Don Scarboro  
Michelle R. Belle  
Rachel Yates

Chairman of School Board  
Superintendent  
Director of Finance

City Administration

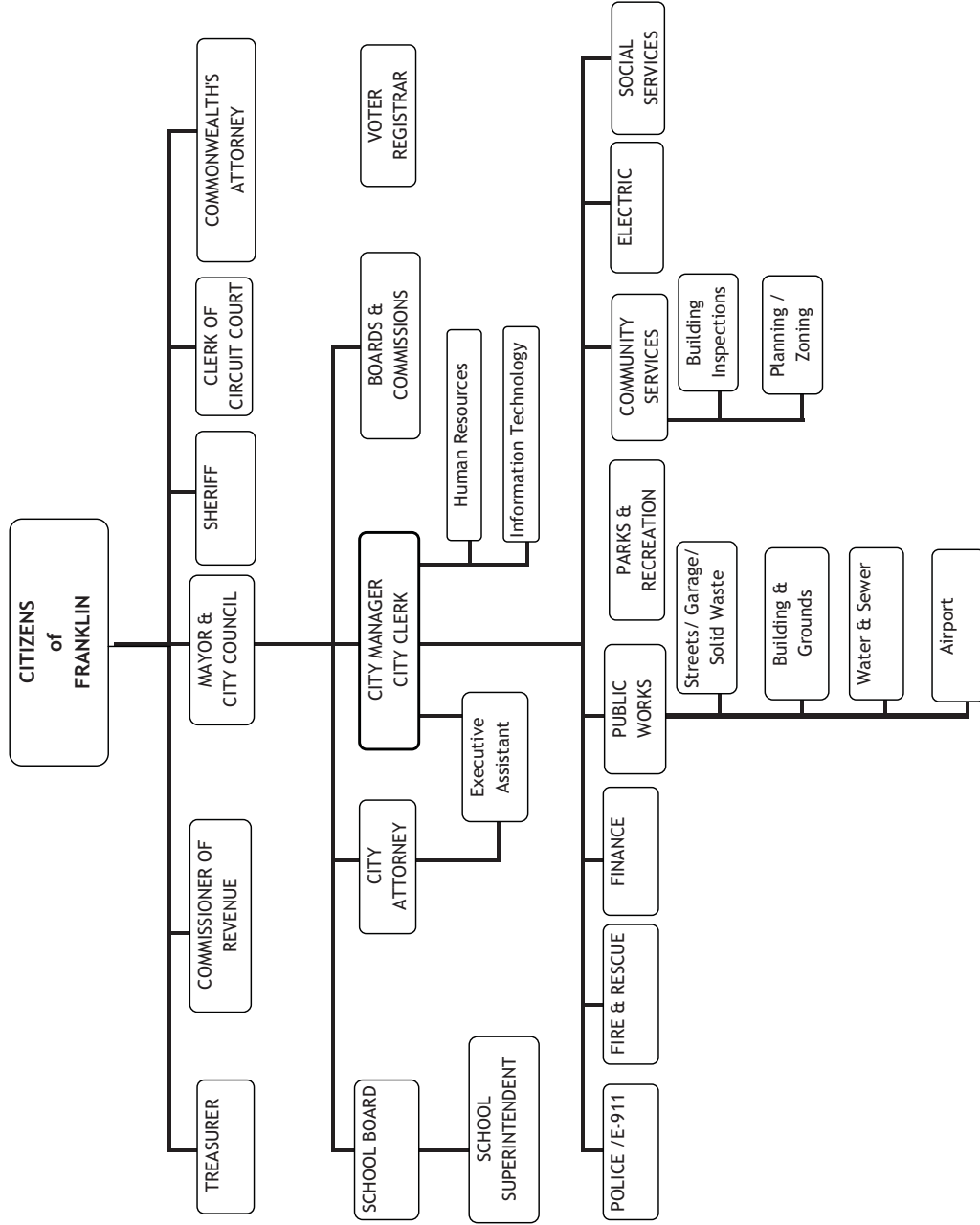
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June Fleming  
H. Taylor Williams, IV  
Sheila S. Minor  
Phillip M. Hardison  
Mark Bly  
Frank A. Davis  
Jennifer L. Maynard  
Vincent P. Holt  
Russell L. Pace  
Christopher A. Hogge  
Donald E. Goodwin

City Manager  
City Attorney  
Interim Director of Finance  
Chief of Police  
Director of Public Utilities  
Director of Recreation and Parks  
Registrar  
Chief of Emergency Services  
Director of Public Works  
Director of Social Services  
Director of Community Development



# CITY OF FRANKLIN, VIRGINIA ORGANIZATIONAL CHART







December 12, 2011

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Franklin (the “City”) for the fiscal year ended June 30, 2011. The report is required in accordance with Section 3.08 (c) of the Franklin City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia.

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

The City of Franklin’s financial statements have been audited by Robinson, Farmer, Cox Associates PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Franklin for the fiscal year ended June 30, 2011, 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, 2011, are fairly presented in conformity with GAAP. The independent auditor’s report is presented in the Financial Section of this report.

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

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

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

Franklin, which had been a part of Southampton County for many years, became an incorporated town in 1876 and an independent city on December 22, 1961. Subsequent annexations in 1986 and 1996 increased the population and land area of the City. The population today is approximately 8,900 and the land area is 8.75 square miles.

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

Franklin is organized under the Council - City Manager form of government. The Franklin City Council is comprised of seven members, which includes the Mayor. Six council members, each representing a precinct, are elected by the voters and serve four year staggered terms. The City Mayor is elected at large for a two year term. Persons elected to City Council take office on the first day of July following the election.

The City Council is the policy determining body of the City. Its responsibilities include: adoption of the annual City budget; creation, combination or elimination of City departments; approval of all tax levies; approval of amendments, supplements or repeals to ordinances and the City Code; and appointment of the City Manager, City Clerk, City Attorney and various local boards, commissions and committees. The City Manager acts as Chief Executive and Administrative Officer of the City. The Manager serves at the pleasure of Council, carries out its policies, and directs the business and administrative affairs of the City, which includes supervision of employees.

Virginia state statutes place 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 a significant amount of 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,

## Profile of the City of Franklin: (Continued)

community development activities, and cultural events. The City owns and operates a municipal electric company which provides electrical services to City residents and certain geographical locations within surrounding jurisdictions. The City also owns and operates water and sewage facilities; provides curb-side trash disposal and recycling services; owns and operates a City pool; and manages various paid recreational activities. Franklin owns and maintains a municipal airport located one mile east of Franklin in Isle of Wight County. 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 the Notes to the Financial Statements and in Exhibits 23 through 28.

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 presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget by no later than June 30<sup>th</sup>. The appropriated budget is prepared by fund and department. The City Manager, subject to a \$10,000 limit, may make transfers of appropriations within a department. New sources of funding and transfers exceeding the \$10,000 limit require the approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. Budget-to-actual comparisons for the General Fund are provided on exhibit 12 and schedule 2 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's current economic environment, consistent with the national economic environment, is changing. The closing of International Paper and the resulting fiscal impact (approximate loss of 1,100 jobs and \$1.2 million in revenue sharing payments) was reported in the FY2010 Audit. In the Spring of 2011 (FY2011), International Paper announced that the plant will repurpose a portion of the closed mill to produce fluff pulp (material used in absorbent products) in mid 2012. With an investment of \$83 million in the repurposing, approximately 200 jobs will be created.

In an effort to attract new business to the community, the City of Franklin has established enterprise zones. These zones entitle new businesses to various state and local incentives to promote further economic development.

Established industries include Butler Paper Recycling; Birdsong Peanut Co.; Money Mailer LLC, a direct-mail coupon distributor, and Southampton Memorial Hospital which is the City's largest employer.

## **Factors Affecting Financial Condition: (Continued)**

The City's largest source of revenue is provided by assessments on real estate. The City's tax rate is \$0.77 per \$100 of assessed value for the fiscal year beginning July 1, 2010.

**Long-Term Financial Planning.** City management remains committed to the continued economic development of the City. In 2011, the City finished out the fourth floor of the downtown business incubator building. This was the final renovation to the business incubator which was opened in the spring of 2005. The renovation was funded through state and federal grants. The City has continued its commitment to the Franklin-Southampton Economic Development Authority through the provision of operating support.

In 2010, the City refunded several outstanding bond issues to take advantage of favorable interest rates and provide short term financial relief once the revenue associated with the International Paper facility declined. During FY2011, the expenditure savings from the reduced debt service payments were set aside for use in FY2012-2013 and beyond, when the City would lose approximately \$1.2 million in annual revenue from revenue sharing agreements supported by the IP facility. The repurposing of the IP facility in 2012 is anticipated to mitigate some portion of this revenue loss.

**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 as permissible under the Virginia Public Investment Act. At June 30, 2011, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$4,022,635 for the Governmental Activities and \$2,889,771 for Business-type Activities.

**Pension Benefits.** The City and Schools contribute to the Virginia Retirement System (VRS), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for political subdivisions. For more information on the defined benefit retirement plan, see 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 Robinson, Farmer, Cox Associates, PLLC. Due credit should also be given to City Council for their interest and support in planning and conducting the operations of the City of Franklin in a responsible and progressive manner.

Respectfully Submitted,



Melissa Rollins  
Director of Finance (Effective 8/8/2011)



# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of June 30, 2011, 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.

As described in Note 1 to the financial statements, the City of Franklin, Virginia adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011 on our consideration of the City of Franklin, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and schedules of funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis and schedules of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison 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.

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

*Robinson, Farmer, Cox Associates*

Charlottesville, Virginia  
December 5, 2011

## Management's Discussion and Analysis Fiscal Year July 1, 2010 - June 30, 2011

The management of the City of Franklin (the City's) provides this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statements information included in this report.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Franklin exceeded its liabilities at the close of fiscal year 2011 by \$32,639,961 (net assets). Of this amount, \$6,639,126 represents unrestricted net assets which may be used to meet the City's ongoing obligations and \$1,032,007 represents restricted net assets for future debt service. The residual \$24,968,828 relates to capital assets, net of related debt, and is not available for expenditure.
- The City's total net assets decreased by \$1,046,615 from the prior year. Of this amount, proprietary fund net assets decreased \$725,396 while governmental fund net assets decreased \$321,219.
- The General Fund, on a current financial resources basis, reported deficit revenues and other financing sources over expenditures and other financing uses of \$149,924. While the City had a \$900,000 reduction in revenues relative to the revenue sharing payment from Isle of Wight County, transfer to the General Fund from other funds (i.e. VPA, Disaster Recovery) lessened the adverse impact on fund balance. Expenditures increased \$1,636,958 when compared to fiscal year 2009-2010, due to the expenditure of various public safety grants, increased costs associated with judicial administration (care of juvenile and adult inmates), acquisition of public safety equipment, public works street improvement projects and a contribution made to the Industrial Development Authority. See Exhibit 5 for details.
- The City's total outstanding general obligation debt at June 30, 2011 was \$17,110,566. This includes \$3,940,296 in business-activity debt, and \$13,170,270 in general government activities (\$6,276,286 School related debt and \$6,893,984 other general government debt - details in Note 8 - Notes to the Financial Statements).
- Effective for the June 30, 2011 financial statement, fund balance classifications have been enhanced in accordance with GASB Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions. Fund balance classifications comprise a hierarchy based primarily on the extent to which the City is bound to observe constraints upon the use of resources reported in governmental funds. There are five fund balance classifications: Non-spendable, restricted, committed, assigned and unassigned. Non-spendable represents amounts that cannot be spent and can include prepaid amounts or long term notes receivables. Restricted fund balances are amounts that are restricted to specific purposes; constraints have been placed on these resources through financial obligations. Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by the governing body; City Council has committed these resources via the form of appropriations from FY 10. Assigned fund balance includes amounts that are constrained by the City's intent to be used for purposes other than restricted or committed. Unassigned fund balance hence represents the fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to any specific purposes within the City's general fund. The City's General Fund reported a total of \$5,061,612 in fund balances at June 30, 2011 comprised of Non spendable (\$978,500), restricted (\$146,044), committed (\$343,194), assigned (\$1,212,612) and unassigned (\$2,381,262). The Unassigned fund balance, as a percentage of actual Fiscal Year 2010-11 general fund expenditures, totaled 11.89%. City of Franklin financial guidelines require an unassigned fund balance of 15% to 25% of annual expenditures. The unassigned fund balance approximates the sum of cash balances for governmental funds at June 30, 2011. See Exhibit 3 for more details on fund balance classifications.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The *Statement of Activities* presents information identifying how net assets 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 (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component units for which the City is financially accountable: the City of Franklin Public Schools, and the City of Franklin Industrial Development Authority. Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on Exhibits 23 - 28 of this report.

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

### ***Fund Financial Statements***

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. In the Basic Financial Statements, the emphasis is on major funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

## OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

### *Fund Financial Statements: (Continued)*

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The City maintains 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Capital Projects and Debt Service funds. Data from the other governmental funds are combined into a single aggregate presentation. Individual funds data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The City adopts an annual budget for its various funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided on Exhibits 11 and 12 of this report.

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

**Fiduciary Funds** - The fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs. The accounting for fiduciary funds is similar to the proprietary funds. The fiduciary fund financial statement can be found on Exhibit 10 of this report.

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

**Other Information** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City, including financial information of the School Board component unit. Supplementary information can be found in Exhibits 13 - 28 of this report.

**OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)**

**Government-Wide Financial Statements Analysis**

Over time, net assets may serve as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City's assets exceeded its liabilities by \$32,639,961.

**Statement of Net Assets  
June 30, 2011**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>
Current and other assets	\$ 8,632,010	\$ 9,026,666	\$ 4,389,987	\$ 3,913,530	\$ 13,021,997	\$ 12,940,196
Capital assets	30,037,638	30,525,368	12,256,179	13,132,596	42,293,817	43,657,964
Total assets	<u>\$ 38,669,648</u>	<u>\$ 39,552,034</u>	<u>\$ 16,646,166</u>	<u>\$ 17,046,126</u>	<u>\$ 55,315,814</u>	<u>\$ 56,598,160</u>
Current and other liabilities	\$ 16,510,866	\$ 17,072,033	\$ 6,164,987	\$ 5,839,551	\$ 22,675,853	\$ 22,911,584
Long-term liabilities	22,158,782	22,480,001	10,481,179	11,206,575	32,639,961	33,686,576
Total liabilities	<u>\$ 38,669,648</u>	<u>\$ 39,552,034</u>	<u>\$ 16,646,166</u>	<u>\$ 17,046,126</u>	<u>\$ 55,315,814</u>	<u>\$ 56,598,160</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 16,568,294	\$ 17,477,560	\$ 8,400,534	\$ 9,228,349	\$ 24,968,828	\$ 26,705,909
Restricted for Debt Service	1,032,007	-	-	-	1,032,007	-
Unrestricted net assets	4,558,481	5,002,441	2,080,645	1,978,226	6,639,126	6,980,667
Total Net assets	<u>\$ 22,158,782</u>	<u>\$ 22,480,001</u>	<u>\$ 10,481,179</u>	<u>\$ 11,206,575</u>	<u>\$ 32,639,961</u>	<u>\$ 33,686,576</u>

The largest portion of the City's total net assets of \$32,639,961, is its \$24,968,828 investment in capital assets (e.g. land, buildings and improvements, machinery and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining net assets totaling \$7,671,133 of which \$6,639,126 represent unrestricted net assets, which may be used to meet the City's ongoing obligations and \$1,032,007 is restricted for debt service obligations.

**OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)**

**Government-Wide Financial Statements Analysis: (Continued)**

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

**Changes in Net Assets  
For the Fiscal Year Ended June 30, 2011**

	Governmental		Business-Type		Total	
	Activities		Activities			
	FY 2011	FY 2010	FY 2011	FY 2010	FY2011	FY2010
Revenues						
Program Revenues:						
Charges for Services	\$ 2,811,885	\$ 2,678,132	\$ 17,086,470	\$ 15,607,631	\$ 19,898,355	\$ 18,285,763
Operating grants & contributions	4,638,338	4,077,928	-	-	4,638,338	4,077,928
Capital grants & contributions		49,197	109,004	2,040,691	109,004	2,089,888
General Revenues:						
Real estate & pers. Prop. taxes	6,499,693	6,668,337	-	-	6,499,693	6,668,337
Other local taxes	4,931,497	4,911,007	-	-	4,931,497	4,911,007
Revenue Sharing from Counties	438,746	1,316,661	-	-	438,746	1,316,661
Use of money & property	341,820	354,881	-	6,445	341,820	361,326
Grants & gifts - non-restricted	1,663,699	1,673,064	-	-	1,663,699	1,673,064
Miscellaneous	249,154	305,705	-	-	249,154	305,705
Total Revenues	<u>\$ 21,574,832</u>	<u>\$ 22,034,912</u>	<u>\$ 17,195,474</u>	<u>\$ 17,654,767</u>	<u>\$ 38,770,306</u>	<u>\$ 39,689,679</u>
Expenses						
General government	\$ 2,451,215	\$ 2,301,552	-	-	\$ 2,451,215	\$ 2,301,552
Judicial	417,073	227,580	-	-	417,073	227,580
Public safety	6,638,673	5,799,871	-	-	6,638,673	5,799,871
Public works	4,123,252	4,497,628	-	-	4,123,252	4,497,628
Health and welfare	2,092,175	2,406,592	-	-	2,092,175	2,406,592
Education	4,762,168	4,633,929	-	-	4,762,168	4,633,929
Parks, recreation, cultural	1,045,170	1,049,424	-	-	1,045,170	1,049,424
Community development	2,134,311	1,273,639	-	-	2,134,311	1,273,639
Interest & fees on long-term debt	240,711	549,261	-	-	240,711	549,261
Water & Sewer			3,025,608	3,069,237	3,025,608	3,069,237
Electric			12,315,508	11,107,273	12,315,508	11,107,273
Airport			571,057	572,686	571,057	572,686
Total Expenses	<u>\$ 23,904,748</u>	<u>\$ 22,739,476</u>	<u>\$ 15,912,173</u>	<u>\$ 14,749,196</u>	<u>\$ 39,816,921</u>	<u>\$ 37,488,672</u>
Excess of revenue over expenses	<u>\$ (2,329,916)</u>	<u>\$ (704,564)</u>	<u>\$ 1,283,301</u>	<u>\$ 2,905,571</u>	<u>\$ (1,046,615)</u>	<u>\$ 2,201,007</u>
Transfers	2,008,697	1,490,165	(2,008,697)	(1,490,165)	-	-
Increase in net assets	<u>\$ (321,219)</u>	<u>\$ 785,601</u>	<u>\$ (725,396)</u>	<u>\$ 1,415,406</u>	<u>\$ (1,046,615)</u>	<u>\$ 2,201,007</u>
Net assets - beginning of year	22,480,001	21,694,400	11,206,575	9,791,169	33,686,576	31,485,569
Net assets - ending of year	<u><u>\$ 22,158,782</u></u>	<u><u>\$ 22,480,001</u></u>	<u><u>\$ 10,481,179</u></u>	<u><u>\$ 11,206,575</u></u>	<u><u>\$ 32,639,961</u></u>	<u><u>\$ 33,686,576</u></u>

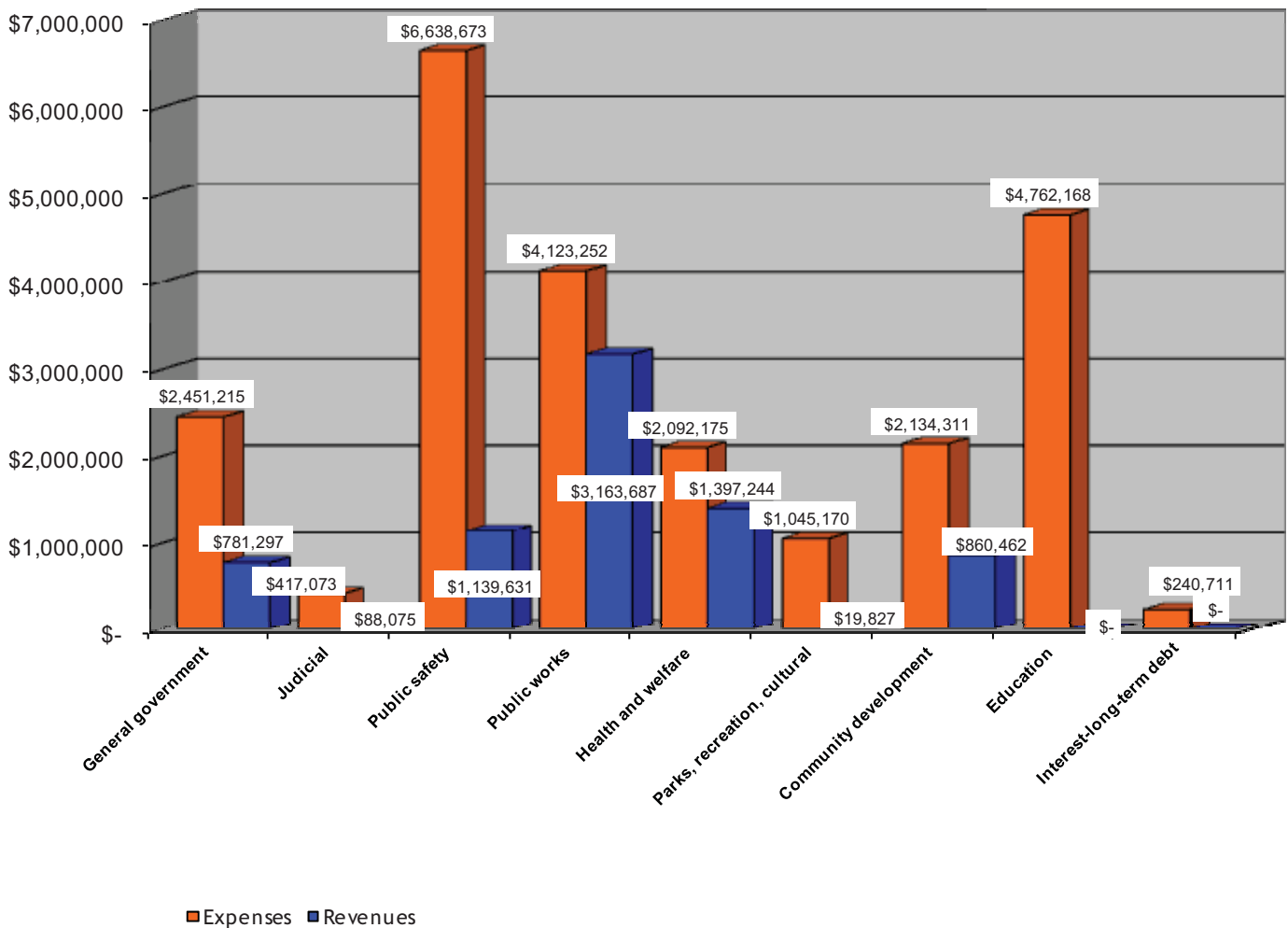
**OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)**

**Government Activities**

Real estate and personal property tax revenue, the City’s largest revenue source, totaled \$6,499,693 down \$168,644 from the previous year. The City’s real estate tax rate remained at \$0.77 per hundred dollars of assessed value. Personal property was taxed at \$4.50 per \$100 of assessed value. The State Car Tax (Personal Property Tax Relief Act) payment is listed on the Grants & contributions - non-restricted line and totals \$1,048,897. This amount has been frozen and will remain at this level going forward, unless changed by some future legislation by the State General Assembly.

Other local tax revenues, which totaled \$4,931,497, consist primarily of local option sales, consumer utility, franchise license, motor vehicle license, and meals taxes. Starting in January 1, 2007, the State collects all communications tax and remits to localities their share based on a historical percentage of the effective taxes the localities were collecting. The communication taxes the city was collecting (and will now receive from the Commonwealth) include cable franchise tax, telephone tax, E-911 tax and cellular tax. These taxes, which were previously classified as other local tax revenues, are now classified as state revenues per Auditor of Public Accounts guidance.

**Expenses and Program Revenues  
Governmental Activities**

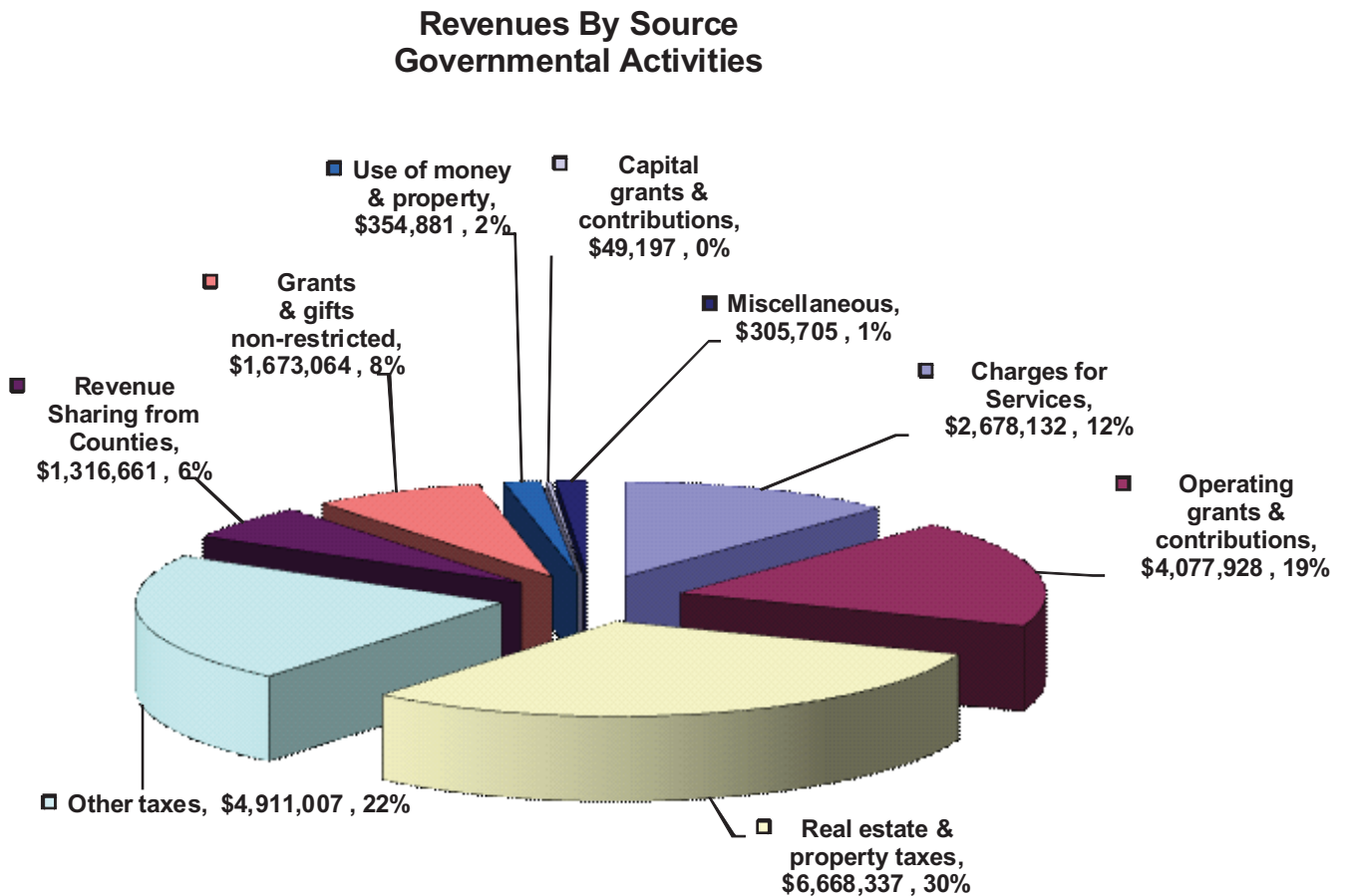




**OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)**

**Government Activities: (Continued)**

Revenues from other Counties of \$438,746 represent revenue sharing payments received from Isle of Wight and Southampton Counties as part of annexation and service providing agreements. This is significantly less than FY10 revenue sharing payments due to the accounting for the \$900,000 payment received in July 2011, in the current (FY12) accounting period. In the past, this payment had been accrued to the prior year (June) accounting period. The chart above provides an overview of program expenses and related revenues as reflected on Exhibit 2, the Statement of Activities. The chart below denotes the major sources of revenue for the governmental funds.



**Business- Type Activities**

Business-type activities increased the City’s net assets before transfers and capital grants by \$1,174,297 and after transfers and capital grants decreased net assets by \$725,396. Key elements of the each fund were:

Water and Sewer Fund revenue declined \$243,949, or 7.4% from the prior year primarily due to a decline in charges for services. Revenues totaled \$3,035,547 (\$3,279,496 in 2010). Operating expenses totaled \$2,946,683 consistent with 2010 expenses of \$2,961,057 and interest expense on debt decreased to \$78,925 (\$108,180 in 2010). The change in net assets (\$444,137) is primarily attributed to the transfer of \$452,076 to the General Fund for the Debt Restructuring.

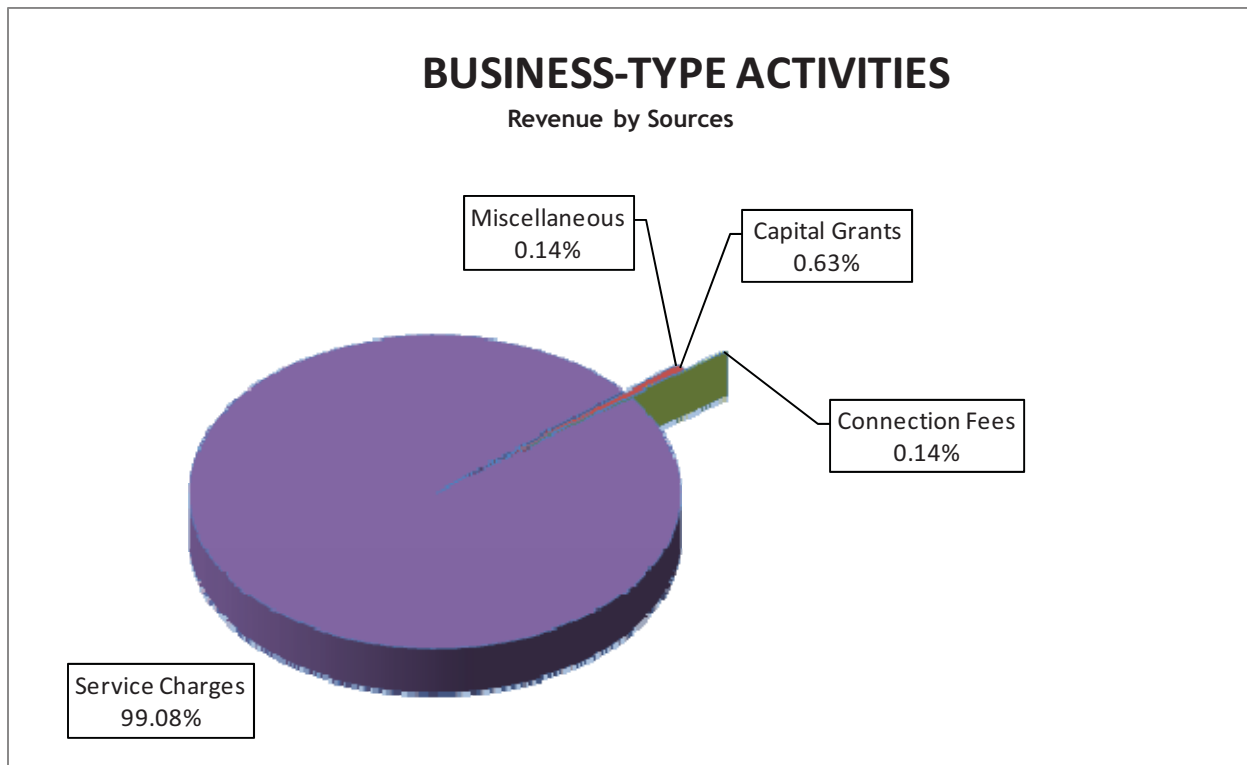
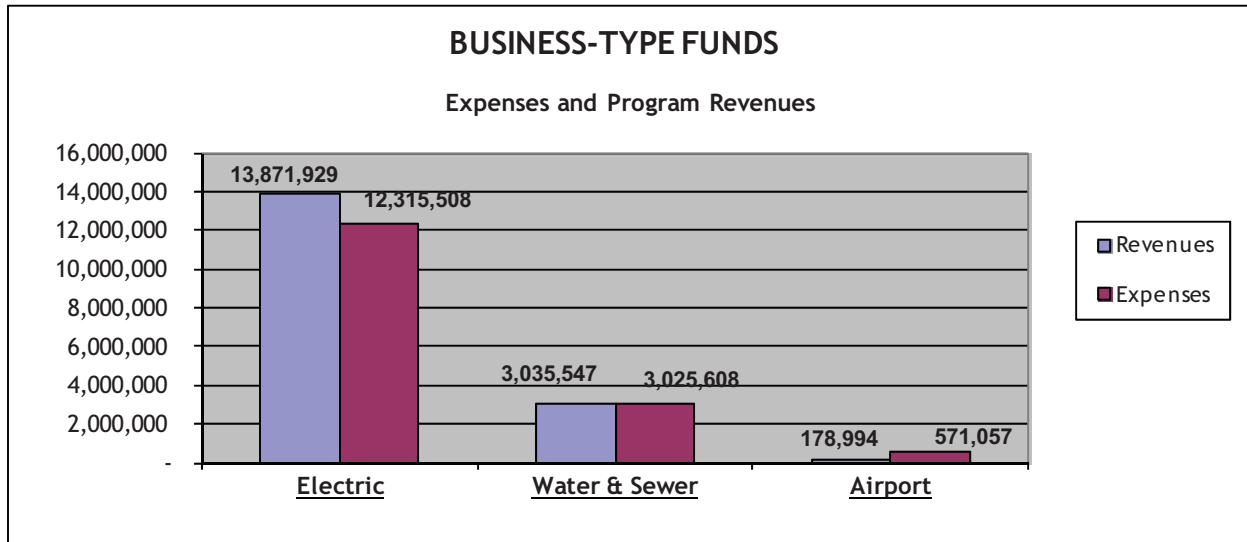
The Electric Fund net income before transfers totaled \$1,556,421, down \$270,551 or 15% from the previous year’s net income of \$1,826,972. This decrease is primarily due to the increase in the electricity purchased for resale which increased \$1,901,247 compared to the increase in operating revenues of \$1,726,211. Net assets, after the transfer to the general fund, decreased \$95,538; in comparison to the prior year net increase in assets of \$267,978 in 2010. City Council reduced the contribution transfer to the general fund by \$150,000 from the previous year’s total of \$1,559,891; combined with the \$92,068 transfer for the debt restructuring, transfers total \$1,651,959.

**OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)**

**Business- Type Activities: (Continued)**

Airport Fund net assets decreased \$187,721, which compares to a \$1,706,712 increase last year. This decrease was directly related to a reduction in state and federal capital grants for FY2011. The net loss before capital grants and transfers totaled \$392,063, compared to a net loss of \$384,429 last year.

The first chart below provides a comparison of program expenses and revenues, while the second chart denotes revenues by source. The first chart denotes revenues and expenses from continuing operations and does not include capital grants or transfers.



## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$7,146,888, compared to \$7,069,859 last year. The various components are discussed below.

**General fund.** The general fund is the chief operating fund of the City. At the conclusion of the current fiscal year, combined fund balance totaled \$5,061,612, which reflects a \$149,924 decrease over the prior year ending fund balance of \$5,211,536. Of the \$5,061,612 balance, \$2,381,262 or 47% represents unassigned funds which are available for operations of the government. The remaining \$2,680,350 is allocated among non-spendable, restricted and committed fund balance. (See page 1 of this discussion for fund balance definitions and explanations). Unassigned fund balance expressed as a percentage of total fund expenditures is a useful measure of the general fund's liquidity. For the fiscal year ended June 30, 2011 this percentage totaled 11.89%, which is a little below the City's financial policy of 15 to 25 percent. With the 2010 closure of the International Paper plant and the economic downturn, the City has taken steps to ensure that sufficient liquidity exist to weather any possible reduction in future revenues. These steps include foregoing employee pay raises, restructuring of debt, postponing of new programs and capital projects, and funding reductions to outside agencies.

**Capital projects fund.** The capital projects fund accounts for all general government, including schools, construction projects, excluding capital projects related to business-type activities which are accounted for elsewhere. At the end of the current fiscal year, the assigned fund balance totaled \$180,277, which is related to school capital expenditures.

**Debt service fund.** The debt service fund has a restricted fund balance of \$1,032,007 which represents funds purposed to pay future debt service obligations.

**Proprietary funds.** The City's Propriety Funds (Enterprise Funds) provide the same type of information found in the government-wide financial statements, but in more detail. The City's enterprise funds account for its water and sewer, municipal electric, and airport operations. Total net assets of the enterprise funds at the end of the current fiscal year totaled \$10,481,179, a decrease of \$725,396 over the prior balance of \$11,206,575. Most of the decrease is related to a restatement of accrued liabilities in FY11 for accounts payable totaling \$787,922 for the Electric Fund. Information supporting the analysis of the proprietary funds was discussed previously.

## GENERAL FUND BUDGETARY HIGHLIGHTS

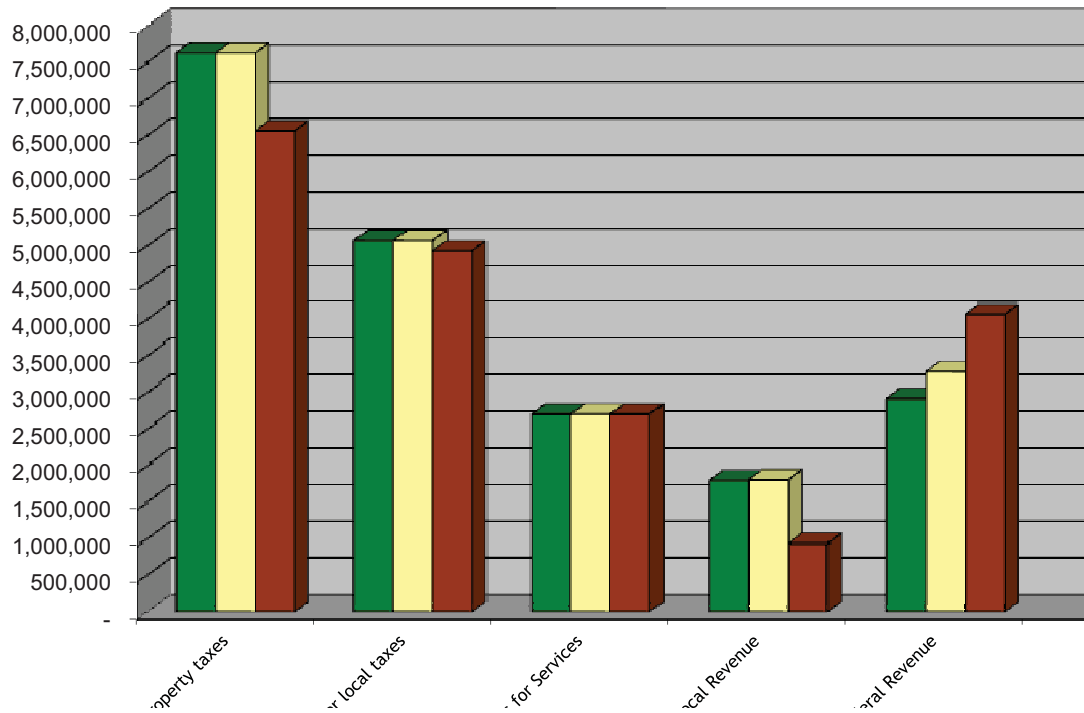
The City's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations. Annual operating budgets are adopted by ordinance for the General Fund, Debt Service Fund, Water & Sewer Fund, Electric Fund, Airport Fund and several Special Revenue Funds. However,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

Differences between the general fund original budget and the final amended budget resulted in a \$1.3 million increase in appropriations. The public safety budget increased \$71,274 as a result of grants; judicial administration increased \$97,818 relative to inmate detention costs; public works (maintenance of streets and highways) increased \$651,332, mostly attributed to VDOT grant funds from FY10; \$305,000 was appropriated prior year carryover to Education. The remaining increase was primarily due to the appropriation of prior year other grant and expenditure balances.

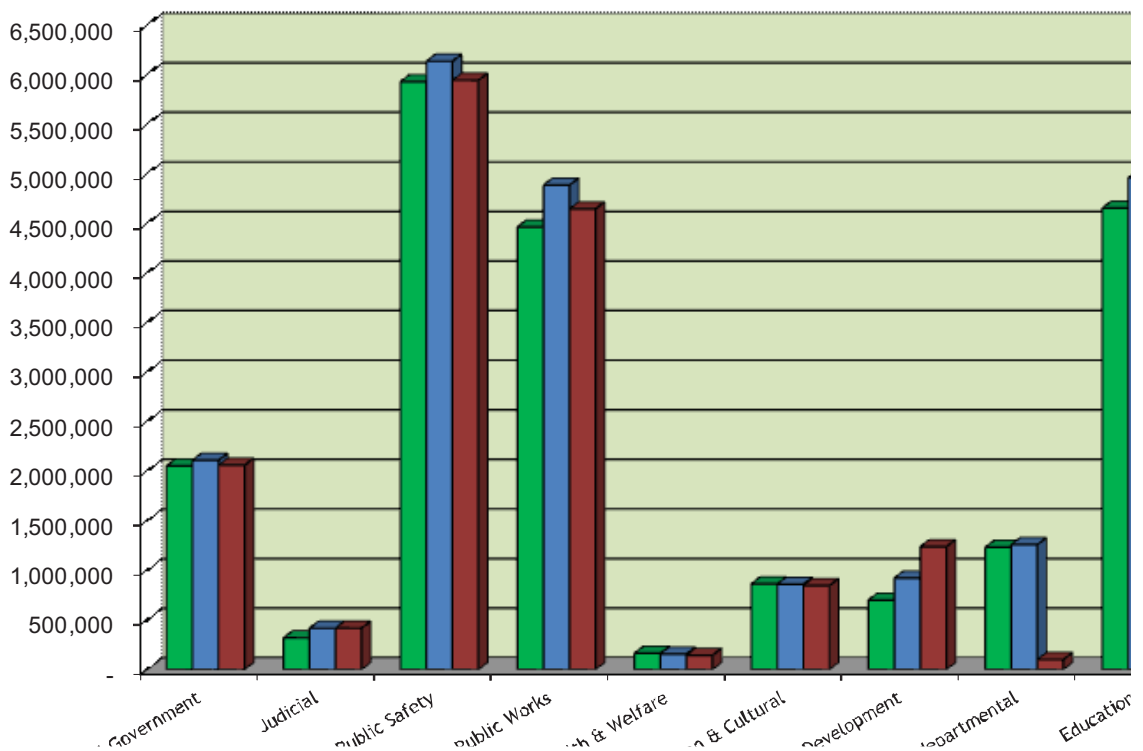
## GENERAL FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

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

**GENERAL FUND REVENUE**  
Comparison of Budget to Actual  
Fiscal Year 2010-2011



**GENERAL FUND EXPENDITURES**  
Comparison of Budget to Actual  
Fiscal Year 2010-2011



## 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, 2011, totaled \$42,293,817, net of accumulated depreciation. Investment in capital assets includes land and easements, buildings, improvements other than buildings, infrastructure, machinery and equipment and construction in progress. The current year reduction in capital asset of \$1,364,147 is primarily due to depreciation expense which totaled 1,890,367 in the governmental activities and \$1,499,306 in the proprietary activities. School board capital assets are not included in the schedule below. Additional details on school board capital assets can be located in note 6 to the financial statements.

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-Type Activities		Total	
	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010
Land	\$ 5,069,980	\$ 5,069,980	\$ 99,630	\$	\$ 5,169,610	\$ 5,069,980
Construction in progress	-	-	2,348,460	2,554,948	2,348,460	2,554,948
Buildings	13,866,762	13,821,968	451,566	420,405	14,318,328	14,242,373
Improvements other than buildings	1,614,675	1,767,039			1,614,675	1,767,039
Machinery and equipment	2,108,986	2,562,079	400,499	485,378	2,509,485	3,047,457
Infrastructure	5,006,825	4,688,864	8,956,024	9,671,865	13,962,849	14,360,729
Allocations of Component Units	2,370,410	2,615,438			2,370,410	2,615,438
Totals	<u>\$ 30,037,638</u>	<u>\$ 30,525,368</u>	<u>\$ 12,256,179</u>	<u>\$ 13,132,596</u>	<u>\$ 42,293,817</u>	<u>\$ 43,657,964</u>

**Debt Administration.** The City's total outstanding general obligation debt at June 30, 2011 was \$17,110,566. This includes \$6,276,286 in School related debt and \$6,893,984 of general government debt. Of this total, \$13,170,270 is considered to be tax supported debt. A total \$3,940,296 of this total is related to Enterprise Fund (water & sewer, electric and airport) debt, which is directly supported by revenues generated from operations and not supported by taxes.

State statutes limit the amount of general obligation debt a government may issue to 10% of its total assessed valuation of real and public service corporations. The ratio of net bonded debt to assessed value totals 2.02% (see Table 8).

	FY 2011	FY 2010
General Government Activities:		
Bonds Payable - General	\$ 6,893,984	\$ 7,055,262
School Related Bonds & Notes	6,276,286	6,660,879
Total Tax Supported Debt	<u>\$ 13,170,270</u>	<u>\$ 13,716,141</u>
Business-type Activities	3,940,296	3,995,409
Total Long-Term Debt	<u>\$ 17,110,566</u>	<u>\$ 17,711,550</u>
Per Capita Tax Supported	\$ 1,535	\$ 1,556
Total Per Capita Debt	\$ 1,994	\$ 2,009

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

## **ECONOMIC FACTORS**

The June 30, 2011 unemployment rate for the City of Franklin was 10.3% compared to 6.3% for Virginia and the national rate of 9.3%. The June 30, 2010 unemployment rate for the City of Franklin was 12.9%, compared to the state's unemployment rate of 7.1% and the average national rate of 9.6%.

## **REQUEST FOR INFORMATION**

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

**BASIC FINANCIAL STATEMENTS**

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## **Government-wide Financial Statements**

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Statement of Net Assets  
June 30, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 4,022,635	\$ 2,889,771	\$ 6,912,406	\$ 1,130,481	\$ 14,276
Receivables (net of allowance for uncollectibles):					
Property taxes receivable	606,365	-	606,365	-	-
Accounts receivable	1,053,740	2,270,618	3,324,358	2,754	-
Internal balances	969,874	(969,874)	-	-	-
Due from other governmental units	597,153	81,210	678,363	506,584	-
Inventories	226,048	28,303	254,351	11,155	-
Prepaid expenses	8,626	-	8,626	332,507	-
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	1,032,007	-	1,032,007	-	-
Other assets:					
Deposits	-	12,633	12,633	-	-
Unamortized bond issue costs	115,562	77,326	192,888	-	-
Capital assets (net of accumulated depreciation):					
Land	5,069,980	99,630	5,169,610	-	-
Construction in progress	-	2,348,460	2,348,460	-	-
Land improvements	-	-	-	62,865	-
Buildings	16,237,172	451,566	16,688,738	4,977,314	-
Improvements other than buildings	1,614,675	-	1,614,675	-	-
Machinery and equipment	2,108,986	400,499	2,509,485	761,916	-
Infrastructure	5,006,825	8,956,024	13,962,849	3,895,228	-
Total assets	\$ 38,669,648	\$ 16,646,166	\$ 55,315,814	\$ 11,680,804	\$ 14,276
<b>LIABILITIES</b>					
Reconciled overdraft	-	120,490	120,490	-	-
Accounts payable and accrued liabilities	\$ 819,380	\$ 1,435,090	\$ 2,254,470	\$ 1,275,920	\$ -
Customers' deposits	-	527,753	527,753	-	-
Accrued interest payable	132,388	40,743	173,131	-	-
Deposits held in escrow	51,213	-	51,213	-	-
Long-term liabilities:					
Due within one year	531,889	59,315	591,204	27,634	-
Due in more than one year	14,975,996	3,981,596	18,957,592	358,206	-
Total liabilities	\$ 16,510,866	\$ 6,164,987	\$ 22,675,853	\$ 1,661,760	\$ -
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	\$ 16,568,294	\$ 8,400,534	\$ 24,968,828	\$ 9,697,323	\$ -
Restricted for:					
Debt service	1,032,007	-	1,032,007	-	-
Unrestricted (deficit)	4,558,481	2,080,645	6,639,126	321,721	14,276
Total net assets	\$ 22,158,782	\$ 10,481,179	\$ 32,639,961	\$ 10,019,044	\$ 14,276
Total liabilities and net assets	\$ 38,669,648	\$ 16,646,166	\$ 55,315,814	\$ 11,680,804	\$ 14,276

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

CITY OF FRANKLIN, VIRGINIA

Statement of Activities  
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General government administration	\$ 2,451,215	\$ 613,208	\$ 168,089	\$ -
Judicial administration	417,073	88,075	-	-
Public safety	6,638,673	529,385	610,246	-
Public works	4,123,252	1,535,386	1,628,301	-
Health and welfare	2,092,175	16,112	1,381,132	-
Education	4,762,168	-	-	-
Parks, recreation, and cultural	1,045,170	17,327	2,500	-
Community development	2,134,311	12,392	848,070	-
Interest on long-term debt	240,711	-	-	-
Total governmental activities	<u>\$ 23,904,748</u>	<u>\$ 2,811,885</u>	<u>\$ 4,638,338</u>	<u>\$ -</u>
Business-type activities:				
Water and Sewer	\$ 3,025,608	\$ 3,035,547	\$ -	\$ -
Electric	12,315,508	13,871,929	-	-
Airport	571,057	178,994	-	109,004
Total business-type activities	<u>\$ 15,912,173</u>	<u>\$ 17,086,470</u>	<u>\$ -</u>	<u>\$ 109,004</u>
Total primary government	<u>\$ 39,816,921</u>	<u>\$ 19,898,355</u>	<u>\$ 4,638,338</u>	<u>\$ 109,004</u>
<b>COMPONENT UNITS:</b>				
School Board	\$ 15,828,795	\$ 113,260	\$ 10,617,900	\$ -
Industrial Development Authority	-	-	-	-
Total component units	<u>\$ 15,828,795</u>	<u>\$ 113,260</u>	<u>\$ 10,617,900</u>	<u>\$ -</u>

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

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
\$ (1,669,918)	\$ -	\$ (1,669,918)	\$ -	\$ -
(328,998)	-	(328,998)	-	-
(5,499,042)	-	(5,499,042)	-	-
(959,565)	-	(959,565)	-	-
(694,931)	-	(694,931)	-	-
(4,762,168)	-	(4,762,168)	-	-
(1,025,343)	-	(1,025,343)	-	-
(1,273,849)	-	(1,273,849)	-	-
(240,711)	-	(240,711)	-	-
<u>\$ (16,454,525)</u>	<u>\$ -</u>	<u>\$ (16,454,525)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ 9,939	\$ 9,939	\$ -	\$ -
-	1,556,421	1,556,421	-	-
-	(283,059)	(283,059)	-	-
<u>\$ -</u>	<u>\$ 1,283,301</u>	<u>\$ 1,283,301</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (16,454,525)</u>	<u>\$ 1,283,301</u>	<u>\$ (15,171,224)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (5,097,635)	\$ -
-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,097,635)</u>	<u>\$ -</u>
\$ 6,499,693	\$ -	\$ 6,499,693	\$ -	\$ -
1,592,995	-	1,592,995	-	-
1,154,659	-	1,154,659	-	-
943,069	-	943,069	-	-
604,689	-	604,689	-	-
636,085	-	636,085	-	-
438,746	-	438,746	-	-
341,820	-	341,820	2,252	22
249,154	-	249,154	237,411	-
-	-	-	4,630,469	339,486
1,663,699	-	1,663,699	-	-
2,008,697	(2,008,697)	-	-	-
<u>\$ 16,133,306</u>	<u>\$ (2,008,697)</u>	<u>\$ 14,124,609</u>	<u>\$ 4,870,132</u>	<u>\$ 339,508</u>
<u>\$ (321,219)</u>	<u>\$ (725,396)</u>	<u>\$ (1,046,615)</u>	<u>\$ (227,503)</u>	<u>\$ 339,508</u>
<u>22,480,001</u>	<u>11,206,575</u>	<u>33,686,576</u>	<u>10,246,547</u>	<u>(325,232)</u>
<u><u>\$ 22,158,782</u></u>	<u><u>\$ 10,481,179</u></u>	<u><u>\$ 32,639,961</u></u>	<u><u>\$ 10,019,044</u></u>	<u><u>\$ 14,276</u></u>

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## **Fund Financial Statements**

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## Balance Sheet

## Governmental Funds

June 30, 2011

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,381,509	\$ -	\$ 180,277	\$ -	\$ 699,317	\$ 4,261,103
Receivables (net of allowance for uncollectibles):						
Property taxes receivable	606,365	-	-	-	-	606,365
Accounts receivable	968,310	-	-	-	85,430	1,053,740
Due from other funds	969,874	-	-	-	-	969,874
Due from other governmental units	381,350	93,926	-	-	121,877	597,153
Prepays	8,626	-	-	-	-	8,626
Inventory	-	-	-	-	226,048	226,048
Restricted assets:						
Cash and cash equivalents	-	-	-	1,032,007	-	1,032,007
Total assets	<u>\$ 6,316,034</u>	<u>\$ 93,926</u>	<u>\$ 180,277</u>	<u>\$ 1,032,007</u>	<u>\$ 1,132,672</u>	<u>\$ 8,754,916</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Reconciled overdraft	\$ -	\$ 64,300	\$ -	\$ -	\$ 174,168	\$ 238,468
Accounts payable and accrued liabilities	733,395	29,626	-	-	56,359	819,380
Deferred revenue	498,967	-	-	-	-	498,967
Deposits held in escrow	22,060	-	-	-	29,153	51,213
Total liabilities	<u>\$ 1,254,422</u>	<u>\$ 93,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 259,680</u>	<u>\$ 1,608,028</u>
Fund balances:						
Nonspendable:						
Inventory and prepaids	\$ 8,626	\$ -	\$ -	\$ -	\$ 226,048	\$ 234,674
Long-term receivables - Airport	969,874	-	-	-	-	969,874
Restricted:						
Public safety - fire truck	34,202	-	-	-	82,958	117,160
Public works - garbage truck	101,955	-	-	-	-	101,955
Education - grants	9,887	-	-	-	-	9,887
Parks, recreation, and cultural	-	-	-	-	158,249	158,249
Community development	-	-	-	-	455,047	455,047
Debt service	-	-	-	1,032,007	-	1,032,007
Committed:						
General government	5,500	-	-	-	-	5,500
Public safety	35,202	-	-	-	-	35,202
Public works	104,000	-	-	-	-	104,000
Education - FY 12 carryover	180,277	-	-	-	-	180,277
Community development	18,215	-	-	-	-	18,215
Assigned:						
Capital projects	-	-	180,277	-	-	180,277
Debt service	1,212,612	-	-	-	-	1,212,612
Unassigned:						
General fund	2,381,262	-	-	-	-	2,381,262
Special revenue funds	-	-	-	-	(49,310)	(49,310)
Total fund balances	<u>\$ 5,061,612</u>	<u>\$ -</u>	<u>\$ 180,277</u>	<u>\$ 1,032,007</u>	<u>\$ 872,992</u>	<u>\$ 7,146,888</u>
Total liabilities and fund balances	<u>\$ 6,316,034</u>	<u>\$ 93,926</u>	<u>\$ 180,277</u>	<u>\$ 1,032,007</u>	<u>\$ 1,132,672</u>	<u>\$ 8,754,916</u>

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

Reconciliation of the Balance Sheet of Governmental Funds  
 To the Statement of Net Assets  
 June 30, 2011

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Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 7,146,888

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

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

Capital assets, cost	\$ 55,225,335	
Less: accumulated depreciation	<u>(25,187,697)</u>	30,037,638

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

Deferred revenue	\$ 498,967	
Unamortized bond issue costs	<u>115,562</u>	\$ 614,529

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

Bonds, notes and loans payable, net of premium and deferred amounts	\$ (12,935,824)	
Interest payable	(132,388)	
Capital lease obligations	(533,520)	
Compensated absences	(743,147)	
Other postemployment benefits obligation	(359,653)	
Landfill closure cost liability	<u>(935,741)</u>	<u>(15,640,273)</u>

Net assets of governmental activities \$ 22,158,782

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

Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2011

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
<b>REVENUES</b>						
General property taxes	\$ 6,564,430	\$ -	\$ -	\$ -	\$ -	\$ 6,564,430
Other local taxes	4,931,497	-	-	-	-	4,931,497
Permits, privilege fees, and regulatory licenses	43,827	-	-	-	-	43,827
Fines and forfeitures	67,659	-	-	-	-	67,659
Revenue from the use of money and property	223,959	-	-	27,266	90,595	341,820
Charges for services	2,700,399	-	-	-	-	2,700,399
Miscellaneous	573,084	2,065	-	-	112,751	687,900
Recovered costs	27,261	-	-	-	-	27,261
Intergovernmental revenues:						
Commonwealth	3,960,131	385,353	-	-	376,514	4,721,998
Federal	111,090	810,113	-	-	658,836	1,580,039
Total revenues	\$ 19,203,337	\$ 1,197,531	\$ -	\$ 27,266	\$ 1,238,696	\$ 21,666,830
<b>EXPENDITURES</b>						
Current:						
General government administration	\$ 2,060,446	\$ -	\$ -	\$ -	\$ -	\$ 2,060,446
Judicial administration	417,073	-	-	-	-	417,073
Public safety	5,941,589	-	-	-	97,801	6,039,390
Public works	4,644,403	-	-	-	-	4,644,403
Health and welfare	144,173	1,552,403	-	-	350,911	2,047,487
Education	4,630,469	-	33,937	-	-	4,664,406
Parks, recreation, and cultural	846,267	-	-	-	21,724	867,991
Community development	1,239,147	-	-	-	923,099	2,162,246
Nondepartmental	100,632	-	-	-	3,523	104,155
Debt service:						
Principal retirement	-	-	-	674,229	-	674,229
Interest and other fiscal charges	-	-	-	318,941	-	318,941
Total expenditures	\$ 20,024,199	\$ 1,552,403	\$ 33,937	\$ 993,170	\$ 1,397,058	\$ 24,000,767
Excess (deficiency) of revenues over (under) expenditures	\$ (820,862)	\$ (354,872)	\$ (33,937)	\$ (965,904)	\$ (158,362)	\$ (2,333,937)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	\$ 2,540,787	\$ -	\$ 95,330	\$ 1,488,674	\$ 509,482	\$ 4,634,273
Transfers (out)	(2,188,824)	(307,517)	-	-	(129,235)	(2,625,576)
Issuance of capital leases	318,975	-	-	-	-	318,975
Total other financing sources (uses)	\$ 670,938	\$ (307,517)	\$ 95,330	\$ 1,488,674	\$ 380,247	\$ 2,327,672
Net change in fund balances	\$ (149,924)	\$ (662,389)	\$ 61,393	\$ 522,770	\$ 221,885	\$ (6,265)
Fund balances - beginning, as restated	5,211,536	662,389	118,884	509,237	651,107	7,153,153
Fund balances - ending	\$ 5,061,612	\$ -	\$ 180,277	\$ 1,032,007	\$ 872,992	\$ 7,146,888

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

Reconciliation of Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2011

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

Net change in fund balances - total governmental funds	\$	(6,265)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following is a computation of these differences.

Capital asset additions	\$	1,402,637	
Depreciation expense		<u>(1,890,367)</u>	(487,730)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			(64,737)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This following is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt, net of premiums and deferred amount on refunding	\$		
Proceeds from capital lease obligations		(318,975)	
Principal payments		750,209	
Bond issue costs		(8,891)	
Premium on bond issue		6,036	
Deferred amount on refunding		(24,070)	404,309

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

Compensated absences	\$	(37,048)	
Other postemployment benefits		(122,853)	
Accrued interest		<u>(6,895)</u>	<u>(166,796)</u>

Change in net assets of governmental activities	\$		<u><u>(321,219)</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Assets  
 Proprietary Funds  
 June 30, 2011

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,570,023	\$ 1,319,748	\$ -	\$ 2,889,771
Accounts receivable, net of allowances for uncollectibles	279,313	1,984,051	7,254	2,270,618
Due from other governmental units	-	-	81,210	81,210
Inventories	-	-	28,303	28,303
Unamortized bond issue costs - current portion	3,931	2,017	-	5,948
Total current assets	<u>\$ 1,853,267</u>	<u>\$ 3,305,816</u>	<u>\$ 116,767</u>	<u>\$ 5,275,850</u>
Noncurrent assets:				
Other assets:				
Deposits	\$ -	\$ -	\$ 12,633	\$ 12,633
Unamortized bond issue costs	47,169	24,209	-	71,378
Capital assets:				
Land	-	-	99,630	99,630
Construction in progress	175,405	60,356	2,112,699	2,348,460
Buildings and improvements	-	34,966	1,405,576	1,440,542
Equipment and furniture/fixtures	1,004,573	1,900,988	308,995	3,214,556
Infrastructure	14,871,830	12,600,196	3,378,893	30,850,919
Less: accumulated depreciation	(12,212,609)	(9,950,136)	(3,535,183)	(25,697,928)
Total capital assets	<u>\$ 3,839,199</u>	<u>\$ 4,646,370</u>	<u>\$ 3,770,610</u>	<u>\$ 12,256,179</u>
Total noncurrent assets	<u>\$ 3,886,368</u>	<u>\$ 4,670,579</u>	<u>\$ 3,783,243</u>	<u>\$ 12,340,190</u>
Total assets	<u>\$ 5,739,635</u>	<u>\$ 7,976,395</u>	<u>\$ 3,900,010</u>	<u>\$ 17,616,040</u>
<b>LIABILITIES</b>				
Current liabilities:				
Reconciled overdraft	\$ -	\$ -	\$ 120,490	\$ 120,490
Accounts payable and accrued liabilities	306,671	1,096,633	31,786	1,435,090
Customers' deposits	-	527,753	-	527,753
Accrued interest payable	22,361	18,382	-	40,743
Due to other funds	-	-	969,874	969,874
Current portion of long-term liabilities	58,403	852	60	59,315
Total current liabilities	<u>\$ 387,435</u>	<u>\$ 1,643,620</u>	<u>\$ 1,122,210</u>	<u>\$ 3,153,265</u>
Noncurrent liabilities:				
Long-term liabilities - less current portion	<u>\$ 2,762,263</u>	<u>\$ 1,208,772</u>	<u>\$ 10,561</u>	<u>\$ 3,981,596</u>
Total noncurrent liabilities	<u>\$ 2,762,263</u>	<u>\$ 1,208,772</u>	<u>\$ 10,561</u>	<u>\$ 3,981,596</u>
Total liabilities	<u>\$ 3,149,698</u>	<u>\$ 2,852,392</u>	<u>\$ 1,132,771</u>	<u>\$ 7,134,861</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 1,092,573	\$ 3,537,351	\$ 3,770,610	\$ 8,400,534
Unrestricted	1,497,364	1,586,652	(1,003,371)	2,080,645
Total net assets	<u>\$ 2,589,937</u>	<u>\$ 5,124,003</u>	<u>\$ 2,767,239</u>	<u>\$ 10,481,179</u>
Total liabilities and net assets	<u>\$ 5,739,635</u>	<u>\$ 7,976,395</u>	<u>\$ 3,900,010</u>	<u>\$ 17,616,040</u>

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

Statement of Revenues, Expenses, and Changes in Net Assets  
 Proprietary Funds  
 For the Year Ended June 30, 2011

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
<b>OPERATING REVENUES</b>				
Charges for services	\$ 3,030,250	\$ 13,828,400	\$ 178,994	\$ 17,037,644
Miscellaneous	5,297	19,029		24,326
Total operating revenues	<u>\$ 3,035,547</u>	<u>\$ 13,847,429</u>	<u>\$ 178,994</u>	<u>\$ 17,061,970</u>
<b>OPERATING EXPENSES</b>				
Personal services	\$ 563,200	\$ 732,902	\$ 73,038	\$ 1,369,140
Benefits	220,102	281,674	31,559	533,335
Purchased services/goods - for resale	-	9,894,517	94,765	9,989,282
Contractual services	165,482	94,376	-	259,858
Other charges	944,096	421,833	59,719	1,425,648
Payment to general fund for services and taxes	341,334	355,596	2,020	698,950
Depreciation and amortization	712,469	476,881	309,956	1,499,306
Total operating expenses	<u>\$ 2,946,683</u>	<u>\$ 12,257,779</u>	<u>\$ 571,057</u>	<u>\$ 15,775,519</u>
Operating income (loss)	<u>\$ 88,864</u>	<u>\$ 1,589,650</u>	<u>\$ (392,063)</u>	<u>\$ 1,286,451</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Connection fees	\$ -	\$ 24,500	\$ -	\$ 24,500
Interest expense	(78,925)	(57,729)	-	(136,654)
Total nonoperating revenues (expenses)	<u>\$ (78,925)</u>	<u>\$ (33,229)</u>	<u>\$ -</u>	<u>\$ (112,154)</u>
Income before capital grants and transfers	<u>\$ 9,939</u>	<u>\$ 1,556,421</u>	<u>\$ (392,063)</u>	<u>\$ 1,174,297</u>
Capital grants:				
Commonwealth	\$ -	\$ -	\$ 25,760	\$ 25,760
Federal	-	-	83,244	83,244
Transfers in	-	-	95,338	95,338
Transfers (out)	<u>(452,076)</u>	<u>(1,651,959)</u>	<u>-</u>	<u>(2,104,035)</u>
Change in net assets	<u>\$ (442,137)</u>	<u>\$ (95,538)</u>	<u>\$ (187,721)</u>	<u>\$ (725,396)</u>
Total net assets - beginning, as restated	<u>3,032,074</u>	<u>5,219,541</u>	<u>2,954,960</u>	<u>11,206,575</u>
Total net assets - ending	<u><u>\$ 2,589,937</u></u>	<u><u>\$ 5,124,003</u></u>	<u><u>\$ 2,767,239</u></u>	<u><u>\$ 10,481,179</u></u>

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

Statement of Cash Flows  
 Proprietary Funds  
 For the Year Ended June 30, 2011

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 3,116,483	\$ 13,477,447	\$ 182,433	\$ 16,776,363
Payments to suppliers for goods and services	(1,378,788)	(10,575,623)	(145,913)	(12,100,324)
Payments to and on behalf of employees	(773,013)	(997,920)	(100,996)	(1,871,929)
Net cash provided (used) by operating activities	<u>\$ 964,682</u>	<u>\$ 1,903,904</u>	<u>\$ (64,476)</u>	<u>\$ 2,804,110</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers (to) other funds	\$ (452,076)	\$ (1,651,959)	\$ -	\$ (2,104,035)
Transfers from other funds	-	-	95,338	95,338
Net cash provided (used) by noncapital financing activities	<u>\$ (452,076)</u>	<u>\$ (1,651,959)</u>	<u>\$ 95,338</u>	<u>\$ (2,008,697)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital grants	\$ -	\$ -	\$ 44,947	\$ 44,947
Acquisition and construction of capital assets	(263,335)	(213,524)	(146,030)	(622,889)
Principal paid on capital debt	(55,113)	-	-	(55,113)
Interest paid on capital debt	(67,684)	(47,313)	-	(114,997)
Connection and cut-off fees	-	24,500	-	24,500
Net cash provided (used) by capital and related financing activities	<u>\$ (386,132)</u>	<u>\$ (236,337)</u>	<u>\$ (101,083)</u>	<u>\$ (723,552)</u>
Net increase (decrease) in cash and cash equivalents	\$ 126,474	\$ 15,608	\$ (70,221)	\$ 71,861
Cash and cash equivalents - beginning	1,443,549	1,304,140	(50,269)	2,697,420
Cash and cash equivalents - ending	<u>\$ 1,570,023</u>	<u>\$ 1,319,748</u>	<u>\$ (120,490)</u>	<u>\$ 2,769,281</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 88,864	\$ 1,589,650	\$ (392,063)	\$ 1,286,451
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	\$ 712,469	\$ 476,881	\$ 309,956	\$ 1,499,306
(Increase) decrease in accounts receivable	80,936	(318,748)	3,439	(234,373)
(Increase) in other post employment benefits	12,052	16,472	1,623	30,147
(Increase) decrease in inventories	-	-	12,276	12,276
(Increase) decrease in prepaid items	-	-	-	-
Increase (decrease) in accounts payable and accrued liabilities	72,124	190,699	(1,685)	261,138
Increase (decrease) in compensated absences	(1,763)	184	1,978	399
Increase (decrease) in customer deposits	-	(51,234)	-	(51,234)
Total adjustments	<u>\$ 875,818</u>	<u>\$ 314,254</u>	<u>\$ 327,587</u>	<u>\$ 1,517,659</u>
Net cash provided (used) by operating activities	<u>\$ 964,682</u>	<u>\$ 1,903,904</u>	<u>\$ (64,476)</u>	<u>\$ 2,804,110</u>

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

Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2011

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 243,431
Total assets	\$ <u>243,431</u>
<b>LIABILITIES</b>	
Amounts held for others	\$ 243,431
Total liabilities	\$ <u>243,431</u>

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



CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

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

**A. Government-wide and Fund Financial Statements**

Management's Discussion and Analysis

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

Government-Wide Financial Statements

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

Statement of Net Assets

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

Statement of Activities

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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

Budgetary Comparison Schedules

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

B. Other Related Organizations

Included in the City's Financial Report

None

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

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

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

Government-Wide and Fund Accounting Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

Governmental Funds

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

General Fund

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

Special Revenue Funds

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

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

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

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

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

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

Comprehensive Services Act Fund-accounts for revenues and expenditures related to the Comprehensive Services Act for At-risk Youth and Families. Revenues are derived from categorical aid received from the Commonwealth of Virginia.

Western Tidewater Home Consortium Fund-accounts for revenues and expenditures related to a joint venture with the City of Suffolk and Isle of Wight County to provide affordable housing.

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

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

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

Special Revenue Funds: (Continued)

Police State Forfeiture Fund-accounts for revenues and expenditures related to police forfeitures. Revenues are derived from entitlement funds received from the Commonwealth of Virginia.

Police Evidence Holding Fund-accounts for revenues and expenditures related to police evidence that is held for the courts.

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

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

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

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

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

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

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

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

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

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

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

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

Debt Service Fund

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

Capital Projects Fund

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

Proprietary 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 applies all GASB as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements. The City's proprietary funds consist of only enterprise funds.

Enterprise Funds

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

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

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

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

Enterprise Funds: (Continued)

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

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

Fiduciary Funds

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

Trust and Agency Funds

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

Agency Funds

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

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

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

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

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



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

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

**Discretely Presented Component Units**

City of Franklin Public Schools

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

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

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

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

Industrial Development Authority

The Industrial Development Authority of the City of Franklin (IDA) was established under the Industrial Development and Revenue Bond Act - *Code of Virginia*. A separate board appointed by the City Council governs the IDA. The IDA is authorized to acquire, own, lease and dispose of properties and to conduct related activities to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises to locate or to remain in the City. In prior years, the City made significant capital contributions toward properties the IDA developed and marketed.

**D. Budgets and Budgetary Accounting**

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

- 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.

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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**D. Budgets and Budgetary Accounting: (Continued)**

- The budget must be approved by a majority vote of City Council and legally adopted before July 1. If City Council does not adopt the proposed budget before July 1, the budget as submitted is automatically adopted.
- Additional appropriations may be made by City Council only if there is an undesignated fund balance or additional funding becomes available.
- The City Manager is authorized to transfer budgeted amounts within departments. Expenditures over the original budget of any department must be approved by City Council. The School Board is authorized to transfer budgeted amounts within the school system's categories.
- Appropriations lapse on June 30, for all City units.
- All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America as applicable to governmental entities.

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

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

**E. Allowance for Uncollectible Accounts**

The City calculates its allowances for uncollectible property taxes, refuse collection and utility service charges using historical collection data. At June 30, 2011, the allowance attributed to property taxes amounted to \$150,000, refuse collection in the amount of \$113,613 and utility service charges in the amount of \$1,218,734.

**F. Cash and Investments**

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

**G. Inventories**

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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H. Capital Assets

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

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

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

The estimated useful lives of capital assets are as follows:

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

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

I. Compensated Absences

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

J. Deferred Revenue

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

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

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**K. Statement of Cash Flows**

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

**L. Estimates**

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

**M. Credit Risk**

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 14.18% and 13.38% of the City's real estate and personal property tax base, respectively. Concentration of credit risk with respect to receivables is limited due to the large number of citizens comprising the City's taxpayer base.

**N. Net Assets**

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

**O. Fund Equity**

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

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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O. Fund Equity: (Continued)

- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

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

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

NOTE 2—DEPOSITS AND INVESTMENTS:

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Deposits

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

Investments

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

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

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Investments: (Continued)

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

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

Credit Risk of Debt Securities

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

Interest Rate Risk

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

NOTE 3—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

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Interfund balances at June 30, 2011 were as follows:

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

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

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

Interfund transfers for the year ended June 30, 2011 were as follows:

Fund	Transfer In	Transfer Out
Major funds:		
General	\$ 2,540,787	\$ 2,188,824
Virginia public assistance	-	307,517
Capital projects	95,330	-
Debt service	1,488,674	-
Nonmajor governmental funds:		
Disaster recovery	-	129,235
Comprehensive services act	352,394	-
Block grant fund	5,000	-
Economic development	152,088	-
Economic development	-	-
Proprietary funds:		
Water and sewer	-	452,076
Airport	95,338	-
Electric	-	1,651,959
Total	\$ 4,729,611	\$ 4,729,611

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

NOTE 4—RECEIVABLES:

Receivables in the fund statements at June 30, 2011, are as follows:

*Primary Government*

	General	Nonmajor Governmental Funds	Business- type Activities	Total
Property taxes	\$ 756,365	\$ -	\$ -	\$ 756,365
Accounts receivable	1,081,923	85,430	3,489,352	4,656,705
	\$ 1,838,288	\$ 85,430	\$ 3,489,352	\$ 5,413,070
Less-allowance for uncollectible accounts:				
Property taxes	150,000	-	-	150,000
Utility and other service charges	113,613	-	1,218,734	1,332,347
Receivables - net	\$ 1,574,675	\$ 85,430	\$ 2,270,618	\$ 3,930,723

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 5—DUE FROM OTHER GOVERNMENTS:

Due from other governments consists of the following at June 30, 2011:

*Primary Government*

	General	Virginia Public Assistance	Nonmajor Governmental Funds	Airport Fund	Total	Component Unit School Board
<b>Commonwealth of Virginia:</b>						
Sales tax	\$ 266,538	\$ -	\$ -	\$ -	\$ 266,538	\$ -
State sales tax	-	-	-	-	-	206,150
Communication tax	88,127	-	-	-	88,127	-
Comprehensive Services Act	-	-	80,144	-	80,144	-
Other	26,685	-	19,548	1,140	47,373	-
Department of Social Services	-	33,081	-	-	33,081	-
<b>Total due from the Commonwealth of Virginia</b>	<u>\$ 381,350</u>	<u>\$ 33,081</u>	<u>\$ 99,692</u>	<u>\$ 1,140</u>	<u>\$ 515,263</u>	<u>\$ 206,150</u>
<b>Federal Government:</b>						
Department of Social Services	\$ -	\$ 60,845	\$ -	\$ -	\$ 60,845	\$ -
School grants	-	-	-	-	-	300,434
Federal Aviation Administration	-	-	-	80,070	80,070	-
Department of Housing and Community Development	-	-	22,185	-	22,185	-
<b>Total due from federal government</b>	<u>\$ -</u>	<u>\$ 60,845</u>	<u>\$ 22,185</u>	<u>\$ 80,070</u>	<u>\$ 163,100</u>	<u>\$ 300,434</u>
<b>Total due from other governments</b>	<u><u>\$ 381,350</u></u>	<u><u>\$ 93,926</u></u>	<u><u>\$ 121,877</u></u>	<u><u>\$ 81,210</u></u>	<u><u>\$ 678,363</u></u>	<u><u>\$ 506,584</u></u>



CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 6—CAPITAL ASSETS:

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

Governmental Activities

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
<b>Capital assets not being depreciated</b>				
Land	\$ 5,069,980	\$ -	\$ -	\$ 5,069,980
<b>Total capital assets not being depreciated</b>	<u>\$ 5,069,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,069,980</u>
<b>Capital assets being depreciated</b>				
Buildings	\$ 17,640,862	\$ 333,199	\$ -	\$ 17,974,061
Improvements other than buildings	3,151,302	-	-	3,151,302
Machinery and equipment	8,347,059	165,407	16,945	8,495,521
School joint tenancy assets	4,888,086	-	-	4,888,086
Infrastructure	14,742,354	904,031	-	15,646,385
<b>Total capital assets being depreciated</b>	<u>\$ 48,769,663</u>	<u>\$ 1,402,637</u>	<u>\$ 16,945</u>	<u>\$ 50,155,355</u>
<b>Less-accumulated depreciation</b>				
Buildings	\$ 3,818,894	\$ 435,671	\$ -	\$ 4,254,565
Improvements other than buildings	1,384,263	152,364	-	1,536,627
Machinery and equipment	5,784,980	618,500	16,945	6,386,535
School joint tenancy assets	2,272,648	97,762	-	2,370,410
Infrastructure	10,053,490	586,070	-	10,639,560
<b>Total accumulated depreciation</b>	<u>\$ 23,314,275</u>	<u>\$ 1,890,367</u>	<u>\$ 16,945</u>	<u>\$ 25,187,697</u>
<b>Subtotal capital assets, net</b>	<u>\$ 25,455,388</u>	<u>\$ (487,730)</u>	<u>\$ -</u>	<u>\$ 24,967,658</u>
<b>Total capital assets, governmental activities, net</b>	<u><u>\$ 30,525,368</u></u>	<u><u>\$ (487,730)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 30,037,638</u></u>

- 1) Legislation enacted during the year ended June 30, 2002, Section 15.2-1800.1 of the Code of Virginia 1950, as amended, has changed the reporting of local capital assets and related debt for financial statement purposes. Historically, debt incurred by local governments "on-behalf" of school boards was reported in the school board's discrete column along with the related capital assets. Under the law local governments have a "tenancy in common" with the school board whenever the locality incurs any financial obligation for any school property which is payable over more than one year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt. The effect on the City of Franklin, Virginia for the year ended June 30, 2010, is that school financed assets in the amount of \$2,615,438 net are reported in the Primary Government for financial reporting purposes.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

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

General Governmental Administration	\$ 417,812
Public Safety	491,738
Public Works	652,313
Health and Welfare	51,977
Parks, Recreation, and Cultural	178,765
Education	97,762
Total	<u>\$ 1,890,367</u>

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

	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
<b>Water and Sewer Fund:</b>				
<b>Capital assets not being depreciated</b>				
Construction in progress	\$ 442,249	\$ 175,405	\$ 442,249	\$ 175,405
<b>Total capital assets not being depreciated</b>	<u>\$ 442,249</u>	<u>\$ 175,405</u>	<u>\$ 442,249</u>	<u>\$ 175,405</u>
<b>Other capital assets</b>				
Infrastructure	\$ 14,376,550	\$ 495,280	\$ -	\$ 14,871,830
Machinery and equipment	969,674	34,900	-	1,004,574
<b>Total other capital assets</b>	<u>\$ 15,346,224</u>	<u>\$ 530,180</u>	<u>\$ -</u>	<u>\$ 15,876,404</u>
<b>Less - accumulated depreciation</b>				
Infrastructure	\$ 10,703,315	\$ 660,910	\$ -	\$ 11,364,225
Machinery and equipment	796,825	51,560	-	848,385
<b>Total accumulated depreciation</b>	<u>\$ 11,500,140</u>	<u>\$ 712,470</u>	<u>\$ -</u>	<u>\$ 12,212,610</u>
<b>Subtotal capital assets, net</b>	<u>\$ 3,846,084</u>	<u>\$ (182,290)</u>	<u>\$ -</u>	<u>\$ 3,663,794</u>
<b>Total Water and Sewer Fund</b>	<u>\$ 4,288,333</u>	<u>\$ (6,885)</u>	<u>\$ 442,249</u>	<u>\$ 3,839,199</u>

## CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

## NOTE 6—CAPITAL ASSETS: (CONTINUED)

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Electric Fund:</b>				
<b>Capital assets not being depreciated</b>				
Construction in progress	\$ -	\$ 60,356	\$ -	\$ 60,356
<b>Total capital assets not being depreciated</b>	<b>\$ -</b>	<b>\$ 60,356</b>	<b>\$ -</b>	<b>\$ 60,356</b>
<b>Other capital assets</b>				
Infrastructure	\$ 12,565,660	\$ 34,536	\$ -	\$ 12,600,196
Buildings and improvements	34,966	-	-	34,966
Machinery and equipment	1,927,916	118,632	145,560	1,900,988
<b>Total other capital assets</b>	<b>\$ 14,528,542</b>	<b>\$ 153,168</b>	<b>\$ 145,560</b>	<b>\$ 14,536,150</b>
<b>Less - accumulated depreciation</b>				
Infrastructure	\$ 7,900,939	\$ 399,909	\$ -	\$ 8,300,848
Buildings and improvements	34,966	-	-	34,966
Machinery and equipment	1,682,910	76,972	145,560	1,614,322
<b>Total accumulated depreciation</b>	<b>\$ 9,618,815</b>	<b>\$ 476,881</b>	<b>\$ 145,560</b>	<b>\$ 9,950,136</b>
<b>Subtotal capital assets, net</b>	<b>\$ 4,909,727</b>	<b>(323,713)</b>	<b>-</b>	<b>4,586,014</b>
<b>Total Electric Fund</b>	<b>\$ 4,909,727</b>	<b>\$ (263,357)</b>	<b>\$ -</b>	<b>\$ 4,646,370</b>
<b>Airport Fund:</b>				
<b>Capital assets not being depreciated</b>				
Land	\$ -	\$ 99,630	\$ -	\$ 99,630
Construction in progress	2,112,699	-	-	2,112,699
<b>Total capital assets not being depreciated</b>	<b>\$ 2,112,699</b>	<b>\$ 99,630</b>	<b>\$ -</b>	<b>\$ 2,212,329</b>
<b>Other capital assets</b>				
Infrastructure	\$ 3,378,893	\$ -	\$ -	\$ 3,378,893
Buildings and improvements	1,405,576	-	-	1,405,576
Machinery and equipment	262,595	46,400	-	308,995
<b>Total other capital assets</b>	<b>\$ 5,047,064</b>	<b>\$ 46,400</b>	<b>\$ -</b>	<b>\$ 5,093,464</b>
<b>Less - accumulated depreciation</b>				
Infrastructure	\$ 2,019,549	\$ 210,273	\$ -	\$ 2,229,822
Buildings and improvements	985,171	87,471	-	1,072,642
Machinery and equipment	220,507	12,212	-	232,719
<b>Total accumulated depreciation</b>	<b>\$ 3,225,227</b>	<b>\$ 309,956</b>	<b>\$ -</b>	<b>\$ 3,535,183</b>
<b>Subtotal capital assets, net</b>	<b>\$ 1,821,837</b>	<b>(263,556)</b>	<b>-</b>	<b>1,558,281</b>
<b>Total Airport Fund</b>	<b>\$ 3,934,536</b>	<b>(163,926)</b>	<b>\$ -</b>	<b>\$ 3,770,610</b>
<b>Total capital assets, business-type activities, net</b>	<b>\$ 13,132,596</b>	<b>(434,168)</b>	<b>442,249</b>	<b>\$ 12,256,179</b>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

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

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Capital assets not being depreciated</b>				
Construction in progress	\$ 129,319	\$ 200,729	\$ 330,048	\$ -
<b>Total capital assets not being depreciated</b>	<u>\$ 129,319</u>	<u>\$ 200,729</u>	<u>\$ 330,048</u>	<u>\$ -</u>
<b>Other capital assets</b>				
Land improvement	\$ 144,911	\$ -	\$ -	\$ 144,911
Buildings	12,668,140	330,048	-	12,998,188
Infrastructure	4,292,955	-	-	4,292,955
School joint tenancy assets	(4,888,086)	-	-	(4,888,086)
Machinery and equipment	3,115,970	-	-	3,115,970
<b>Total other capital assets</b>	<u>\$ 15,333,890</u>	<u>\$ 330,048</u>	<u>\$ -</u>	<u>\$ 15,663,938</u>
<b>Less - accumulated depreciation</b>				
Land improvements	\$ 78,805	\$ 3,241	\$ -	\$ 82,046
Buildings	5,289,264	213,934	-	5,503,198
Infrastructure	341,666	231,240	-	572,906
School joint tenancy assets	(2,272,648)	(97,762)	-	(2,370,410)
Machinery and equipment	2,122,814	56,061	-	2,178,875
<b>Total accumulated depreciation</b>	<u>\$ 5,559,901</u>	<u>\$ 406,714</u>	<u>\$ -</u>	<u>\$ 5,966,615</u>
<b>Other capital assets - net</b>	<u>\$ 9,773,989</u>	<u>\$ (76,666)</u>	<u>\$ -</u>	<u>\$ 9,697,323</u>
<b>Total capital assets, net</b>	<u>\$ 9,903,308</u>	<u>\$ 124,063</u>	<u>\$ 330,048</u>	<u>\$ 9,697,323</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 7—LONG-TERM OBLIGATIONS:

The following is a summary of the changes in long-term obligations of the primary government and its Component Unit-School Board, respectively, for the year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>one year</u>
<b>Primary Government:</b>					
<b>Governmental Activities</b>					
General obligation bonds	\$ 13,456,141	\$ -	\$ 285,871	\$ 13,170,270	\$ 310,032
Capital lease obligations	418,883	318,975	204,338	533,520	165,576
Premium on bond issuance	84,500	-	6,036	78,464	6,036
Deferred amount on refunding	(336,980)	-	(24,070)	(312,910)	(24,070)
Literary loans payable	100,000	-	100,000	-	-
Notes payable	160,000	-	160,000	-	-
Landfill postclosure/ corrective action	935,741	-	-	935,741	-
Compensated absences	706,097	143,854	106,804	743,147	74,315
Other postemployment benefits	236,800	122,853	-	359,653	-
<b>Total - Governmental activities</b>	<u>\$ 15,761,182</u>	<u>\$ 585,682</u>	<u>\$ 838,979</u>	<u>\$ 15,507,885</u>	<u>\$ 531,889</u>
<b>Business-type Activities:</b>					
Bonds payable	\$ 3,435,000	\$ -	\$ -	\$ 3,435,000	\$ -
Premium on bond issuance	55,445	-	3,960	51,485	3,960
Deferred amount on refunding	(146,607)	-	(10,471)	(136,136)	(10,471)
Revolving loan	560,409	-	55,113	505,296	56,778
<b>Total bonds and loans</b>	<u>\$ 3,904,247</u>	<u>\$ -</u>	<u>\$ 48,602</u>	<u>\$ 3,855,645</u>	<u>\$ 50,267</u>
Compensated absences	95,831	9,911	9,823	95,919	9,048
Other postemployment benefits	59,200	30,147	-	89,347	-
<b>Total - Business-type activities</b>	<u>\$ 4,059,278</u>	<u>\$ 40,058</u>	<u>\$ 58,425</u>	<u>\$ 4,040,911</u>	<u>\$ 59,315</u>
<b>Total - Primary Government</b>	<u>\$ 19,820,460</u>	<u>\$ 625,740</u>	<u>\$ 897,404</u>	<u>\$ 19,548,796</u>	<u>\$ 591,204</u>
<b>Component Unit-School Board:</b>					
Compensated absences	\$ 236,200	\$ 40,140	\$ -	\$ 276,340	\$ 27,634
Other postemployment benefits	78,200	31,300	-	109,500	-
<b>Total School Board</b>	<u>\$ 314,400</u>	<u>\$ 71,440</u>	<u>\$ -</u>	<u>\$ 385,840</u>	<u>\$ 27,634</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

General obligation debt of the governmental activities at June 30, 2011, is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2011
<b>Primary Government:</b>					
<b>Governmental Obligations:</b>					
General obligation bonds:					
Public Improvement and Refunding Series 2010					
	04/27/10	01/15/26	2.00-4.50	\$ 5,235,000	\$ 5,235,000
Public Improvement Series 2001C					
	10/01/01	01/15/22	6.00	685,000	485,000
Public Improvement Series 2002					
	10/02/02	09/01/42	4.625	2,500,000	2,291,137
Public Improvement Series 1999A					
	05/28/99	07/15/19	3.970	2,041,330	801,816
Public Improvement Series 2003C					
	12/04/03	01/15/27	5.550	565,000	478,901
Public Improvement Series 2004					
	12/01/04	12/01/14	3.640	310,000	137,035
Public Improvement Series 2008					
	02/15/08	01/15/18	3.56	400,000	296,000
Virginia General Obligation Qualified Zone Academy Bond, Series 2005					
	12/29/05	12/20/20	-	2,214,429	2,214,430
City of Franklin, Virginia School Bond Series 1992					
	11/01/92	07/15/12	4.90-6.35	285,325	37,982
Virginia Public School Authority Series 1995A					
	12/21/95	01/15/16	5.10-6.10	567,942	172,059
Virginia General Obligation Qualified Zone Academy Bond, Series 2003					
	12/31/03	12/31/17	-	1,000,000	1,000,000
Southampton county debt assumed*					
	01/01/96	06/30/14	N/A	N/A	20,910
<b>Total general obligation bonds</b>					<b>\$ 13,170,270</b>
<b>Capital lease obligations:</b>					
Voice over IP					
	12/20/06	12/20/11	4.82	315,624	\$ 35,086
Garbage Truck					
	10/05/07	09/30/12	4.15	187,524	64,959
E-911 Equipment					
	04/14/08	06/30/13	3.71	270,687	114,500
Garbage Truck					
	06/20/11	06/20/16	3.22	101,955	101,955
Fire truck					
	06/13/11	08/30/20	3.74	217,020	217,020
<b>Total capital lease obligations</b>					<b>\$ 533,520</b>
Premium on bond issuance					\$ 78,464
Deferred amount on refunding					(312,910)
Landfill post-closure / corrective action					935,741
Compensated absences					743,147
Other postemployment benefits					359,653
<b>Total general long-term obligations</b>					<b>\$ 15,507,885</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.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2011
<b>Water and Sewer Fund:</b>					
General obligation bonds - Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	\$ 3,435,000	\$ 2,270,000
Virginia Resources Authority - revolving loan	04/30/99	07/01/19	3.00	1,050,000	505,296
Premium on bond issuance					34,024
Deferred amount on refunding					(62,694)
Compensated absences					38,308
Other postemployment benefits					35,732
Total Water and Sewer Fund					<u>\$ 2,820,666</u>
<b>Electric Fund:</b>					
General obligation bonds - Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	\$ 3,435,000	\$ 1,165,000
Premium on bond issuance					17,461
Deferred amount on refunding					(73,442)
Compensated absences					51,573
Other postemployment benefits					49,032
Total Electric Fund					<u>\$ 1,209,624</u>
<b>Airport Fund:</b>					
Compensated absences					\$ 6,038
Other postemployment benefits					4,583
Total Airport Fund					<u>\$ 10,621</u>
Total Proprietary Funds					<u>\$ 4,040,911</u>
Total Primary Government					<u><u>\$ 19,548,796</u></u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

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

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2012	\$ 310,032	\$ 406,777	\$ 165,576	\$ 12,407
2013	706,609	390,403	129,705	12,697
2014	994,472	366,137	39,552	8,590
2015	748,550	335,995	40,926	7,216
2016	722,684	309,742	42,348	5,794
2017	715,457	281,394	21,418	4,322
2018	698,106	253,665	22,220	3,520
2019	1,576,217	225,800	23,052	2,688
2020	601,624	200,661	23,915	1,825
2021	2,734,299	173,538	24,810	929
2022	546,330	148,480	-	-
2023	372,850	122,111	-	-
2024	389,435	107,306	-	-
2025	218,321	91,582	-	-
2026	231,923	82,360	-	-
2027	85,930	72,313	-	-
2028	69,975	68,625	-	-
2029	73,280	65,320	-	-
2030	76,742	61,858	-	-
2031	80,368	58,232	-	-
2032	84,165	54,435	-	-
2033	88,141	50,459	-	-
2034	92,305	46,295	-	-
2035	96,666	41,934	-	-
2036	101,233	37,367	-	-
2037	106,015	32,585	-	-
2038	111,024	27,576	-	-
2039	116,269	22,331	-	-
2040	121,762	16,838	-	-
2041	127,514	11,086	-	-
2042	133,538	5,062	-	-
2043	38,436	300	-	-
	<u>\$ 13,170,270</u>	<u>\$ 4,168,570</u>	<u>\$ 533,520</u>	<u>\$ 59,987</u>



CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Long-Term Liabilities - Business-Type Activities:

Long-term obligations of the business-type activities at June 30, 2011, are comprised of the following:

Fiscal Year Ending June 30,	General Obligation Bonds						Revolving loan	
	Water and Sewer Fund		Electric Fund		Total		Water and Sewer Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ -	\$ 65,681	\$ -	\$ 40,106	\$ -	\$ 105,787	\$ 56,778	\$ 14,736
2013	-	65,681	-	40,106	-	105,787	58,495	13,020
2014	310,000	65,681	110,000	40,106	420,000	105,787	60,263	11,252
2015	400,000	59,481	115,000	37,906	515,000	97,387	62,084	9,431
2016	405,000	50,481	120,000	35,319	525,000	85,800	63,961	7,554
2017	420,000	38,331	125,000	31,719	545,000	70,050	65,894	5,621
2018	440,000	25,731	130,000	27,969	570,000	53,700	67,885	3,629
2019	45,000	11,981	135,000	23,906	180,000	35,887	69,937	1,577
2020	45,000	10,463	135,000	19,350	180,000	29,813	-	-
2021	50,000	8,438	145,000	13,275	195,000	21,713	-	-
2022	50,000	6,188	150,000	6,750	200,000	12,938	-	-
2023	50,000	3,938	-	-	50,000	3,938	-	-
2024	55,000	2,063	-	-	55,000	2,063	-	-
<b>Total</b>	<b>\$ 2,270,000</b>	<b>\$ 414,138</b>	<b>\$ 1,165,000</b>	<b>\$ 316,512</b>	<b>\$ 3,435,000</b>	<b>\$ 730,650</b>	<b>\$ 505,297</b>	<b>\$ 66,820</b>

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, 2011, the City's aggregate general obligation indebtedness is approximately \$43.5 million less than the Commonwealth's limit as summarized in the following table:

<b>Total assessed value of taxed assessed value</b>	
Assessed value of real estate	\$ <u>606,470,410</u>
<b>Debt limit - 10% of total assessed value</b>	\$ 60,647,041
<b>Amount of debt applicable to debt limit</b>	
General obligation debt:	
Primary government	\$ 13,170,270
Business-type	3,435,000
Virginia Resources Authority revolving loan	505,296
	<u>17,110,566</u>
<b>Legal debt margin</b>	<b>\$ <u>43,536,475</u></b>

**Note:** The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2011.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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**NOTE 8—COMPENSATED ABSENCES:**

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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 \$743,147 and \$95,919, respectively, as of June 30, 2011.

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

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

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

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

All employees of the City of Franklin Public Schools earn one day per month of sick leave. Employees who retire under provisions of the Virginia Retirement System Act while employed by the City of Franklin Public Schools will receive severance compensation for unused sick leave at a rate of \$30 per day, not to exceed 200 days. The school system will accept transfer of up to 90-days accumulated unused sick leave earned by an employee while employed by another local school division or an institution accredited by the Virginia Department of Education. At June 30, 2011 accumulated unpaid vacation and sick leave amounted to \$276,340.

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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NOTE 9—DEFINED PENSION BENEFIT OBLIGATION:

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A. Plan Description

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

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

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

Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.

Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 9—DEFINED PENSION BENEFIT OBLIGATION:

A. Plan Description: (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2010-Annual-Report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City’s contribution rate for the fiscal year ended 2011 was 10.98% of annual covered payroll.

C. Annual Pension Cost

Primary Government

For fiscal year 2011, the City’s annual pension cost of \$735,224 was equal to the City’s required and actual contributions.

Three-Year Trend Information - Primary Government

Fiscal Year Ending	Annual Pension Cost (APC) <sup>1</sup>	Percentage of APC Contributed	Net Pension Obligation
6/30/09	\$ 671,065	100%	\$ -
6/30/10	642,989	100%	-
6/30/11	735,224	100%	-

<sup>1</sup>Employer portion only

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

NOTE 9—DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

C. Annual Pension Cost: (Continued)

Primary Government: (Continued)

The FY 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Liability was 20 years.

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

For fiscal year 2011, the School Board's annual pension cost of \$37,999 was equal to the School Board's required and actual contributions.

**Three-Year Trend Information for School Board - Component Unit**

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)<sup>1</sup></u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/09	\$ 38,286	100%	\$ -
6/30/10	35,674	100%	-
6/30/11	37,999	100%	-

<sup>1</sup>Employer portion only

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

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. The School Board has elected to assume the 5.00% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2011 was 3.93% of annual covered payroll.

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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NOTE 9—DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

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**D. Funded Status and Funding Progress**

Primary Government

As of June 30, 2011, the most recent actuarial valuation date, the plan was 76.39% funded. The actuarial accrued liability for benefits was \$31,019,400, and the actuarial value of assets was \$23,695,173, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,324,227. The covered payroll (annual payroll of active employees covered by the plan) was \$6,675,318, and ratio of the UAAL to the covered payroll was 109.72%.

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

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

As of June 30, 2011, the most recent actuarial valuation date, the plan was 79.01% funded. The actuarial accrued liability for benefits was \$1,708,021, and the actuarial value of assets was \$1,349,535, resulting in an unfunded actuarial accrued liability (UAAL) of \$358,486. The covered payroll (annual payroll of active employees covered by the plan) was \$442,585, and ratio of the UAAL to the covered payroll was 81.00%.

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

**E. Professional Employees - Discretely Presented Component Unit School Board:**

Plan Description

The Franklin City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. That report may be obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500 or a copy may be downloaded from the VRS website at <http://www.varetire.org/Publications/PDF/2009-Annual-Report.pdf>.

Funding Policy

Plan members are required to contribute 5.00% of their annual covered salary and Franklin City School Board is required to contribute at an actuarially determined rate. The current rate is 8.94% of annual covered payroll. The contribution requirements of plan members and Franklin City School Board are established and may be amended by the VRS Board of Trustees. The School Board's contributions to VRS for the years ending June 30, 2011, 2010, and 2009 were \$284,468, \$865,317, and \$1,061,534, respectively, equal to the required contributions for each year.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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**NOTE 10—JOINT VENTURES AND RELATED ORGANIZATIONS:**

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Blackwater Regional Library

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

Franklin-Southampton Economic Development Commission

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

Western Tidewater Regional Jail Authority

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

Western Tidewater Community Services Board

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

**NOTE 11—CONTINGENT LIABILITIES:**

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

General obligation bonds of \$3,435,000 have been recorded in the Enterprise Funds from which repayment is anticipated. The General Fund has a contingent liability for repayment of the aforementioned amounts should the Enterprise Funds be unable to pay.

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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**NOTE 11—CONTINGENT LIABILITIES: (CONTINUED)**

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

**NOTE 12—OTHER POST-EMPLOYMENT BENEFITS PROGRAM:**

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Background

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

City:

A. Plan Description:

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

B. Funding Policy:

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



CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

City: (Continued)

C. Annual OPEB and Net OPEB Obligation:

The annual cost of other post-employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay as you go cost for OPEB benefits is \$284,000 for fiscal year 2011. The City has paid an estimated \$131,000 towards this obligation during the fiscal year. The City is required to contribute the annual required contribution of the employer (ARC) an amount actuarially determined in accordance within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost

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

Annual required contribution	\$ 284,000
Interest on net OPEB obligation	12,000
Adjustment to annual required contribution	<u>(12,000)</u>
Annual OPEB cost (expense)	\$ 284,000
Estimated contributions made	<u>(131,000)</u>
Increase in net OPEB obligation	153,000
Net OPEB obligation, beginning of year	<u>296,000</u>
Net OPEB obligation, end of year	<u><u>\$ 449,000</u></u>

For 2011, the City's expected cash payment of \$131,000 was \$153,000 less than the OPEB cost. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011, 2010 and 2009 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 286,000	43%	\$ 162,000
June 30, 2010	295,000	55%	296,000
June 30, 2011	284,000	46%	449,000

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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City: (Continued)

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011 (based on the valuation dated July 1, 2010) is as follows:

Actuarial accrued liability (AAL)	\$	3,538,000
Actuarial value of plan assets	\$	-
Unfunded actuarial accrued liability	\$	3,538,000
Funded ratio (actuarial value of plan assets / AAL)		0%
Covered payroll (active plan members)	\$	5,473,000
UAAL as a percentage of covered payroll		64.64%

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

E. Actuarial Methods and Assumptions

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

Cost Method

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

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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City: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

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

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

Interest Assumptions

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

School Board:

A. Plan Description:

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

B. Funding Policy:

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

C. Annual OPEB Cost and Net OPEB Obligation:

The annual cost of other post-employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay as you go cost for OPEB benefits is \$78,300 for fiscal year 2011. The School Board has paid an estimated \$47,000 towards this obligation during the fiscal year. The School Board is required to contribute the annual required contribution of the employer (ARC) an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

School Board: (Continued)

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

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

Annual required contribution	\$ 78,300
Interest on net OPEB obligation	3,300
Adjustment to annual required contribution	<u>(3,300)</u>
Annual OPEB cost (expense)	\$ 78,300
Estimated contributions made	<u>(47,000)</u>
Increase in net OPEB obligation	\$ 31,300
Net OPEB obligation, beginning of year	<u>78,200</u>
Net OPEB obligation, end of year	<u><u>\$ 109,500</u></u>

Annual OPEB Cost

For 2011, the School Board's expected cash payment of \$47,000 was \$31,300 less than the OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011, 2010 and 2009 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 71,700	42%	\$ 41,400
June 30, 2010	75,700	51%	78,200
June 30, 2011	78,300	60%	109,500

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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School Board: (Continued)

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010 is as follows:

Actuarial accrued liability (AAL)	\$	710,600
Actuarial value of plan assets		-
Unfunded actuarial accrued liability		710,600
Funded ratio (actuarial value of plan assets / AAL)		0%
Covered payroll (active plan members)		5,870,400
UAAL as a percentage of covered payroll		12.10%

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

E. Actuarial Methods and Assumptions

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

Cost Method

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

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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School Board: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

Cost Method: (Continued)

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

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

Interest Assumptions

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

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

A. Plan Description

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

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

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 10.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

**B. Funding Policy**

As a participating local political subdivision, the School Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The School Board’s contribution rate for the fiscal year ended 2011 was .82% of annual covered payroll.

**C. OPEB Cost and Net OPEB Obligation:**

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

For 2011, the School Board’s contribution of \$1,488 was equal to the ARC and OPEB cost. The School Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 1,488	100%	\$ -

**D. Funded Status and Funding Progress**

The funded status of the plan as of June 30, 2010, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 28,414
Actuarial value of plan assets	21,403
Unfunded actuarial accrued liability	7,011
Funded ratio (actuarial value of plan assets / AAL)	75.33%
Covered payroll (active plan members)	442,585
UAAL as a percentage of covered payroll	1.58%

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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

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

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

**E. Actuarial Methods and Assumptions**

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

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

**F. Professional Employees - Discretely Presented Component Unit School Board**

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

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

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is .60% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2011, 2010, and 2009 were \$43,503, \$57,984, and \$83,016, respectively and equaled the required contributions for each year.



CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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**NOTE 13—LANDFILL POSTCLOSURE CARE COSTS:**

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State and federal laws and regulations require that the City perform certain maintenance and monitoring functions subsequent to closure of the City's landfill site. The City ceased accepting solid waste at the landfill in 1984 and completed initial closure measures in 1987. In letters dated January 13, 1995, and February 1, 1995, the Virginia Department of Environmental Quality informed the City the thirty-year postclosure period would begin in 1995 and the landfill closure had been completed in accordance with the Virginia Solid Waste Management Regulations, respectively. The original estimated total cost of the postclosure care of approximately \$132,608 was based on the expected costs of all equipment, facilities, and services required to monitor and maintain the landfill's postclosure care. However, the actual cost of postclosure care is higher due to inflation, changes in technology, and changes in applicable laws and regulations. The total reported as landfill postclosure care/corrective action cost liability in the amount of \$935,741 represents \$699,262 of postclosure care liability and \$236,479 of corrective action monitoring costs. The postclosure care costs and corrective action activities will continue through June 30, 2025 and June 30, 2014, respectively.

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

**NOTE 14—SURETY BONDS:**

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Surety bonds of the City of Franklin are as follows:

Division of Risk Management Surety:

Commonwealth Funds

Commissioner of Revenue

Treasurer

Brenda B. Rickman

Dina M. Babb

\$ 3,000

500,000

**NOTE 15—ANNEXATIONS:**

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Southampton County

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

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

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NOTE 15—ANNEXATIONS: (CONTINUED)

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Southampton County: (Continued)

The City adopted a Revenue-Sharing Agreement with the County in January 1997. County residents approved this agreement in November 1997. The agreement was reviewed and recommended for Court approval by the Commission on Local Government of the Commonwealth of Virginia in January 1999. The Revenue Sharing Agreement covers approximately 17.1 square miles in Southampton County immediately contiguous to the City of Franklin. The agreement provides that the County will pay to the City on October 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, 2011, the City received \$29,514 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, 2011, the City received \$409,332 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2010.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
AS OF JUNE 30, 2011 (CONTINUED)

**NOTE 16—DEFICIT FUND BALANCE:**

The following funds had a deficit fund balance at June 30, 2011:

<u>Fund</u>	<u>Amount</u>
Community Development Block Grant - Incubator	\$ 6,187
Community Development Downtown Grant	34,419

**NOTE 17—DEFERRED REVENUE:**

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting such amounts are measurable, but not available. Deferred revenue totaling \$498,967 is comprised of the following:

Deferred Property Tax Revenue: Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$498,967.

**NOTE 18—EXPENDITURES IN EXCESS OF APPROPRIATIONS:**

There were no expenditures in excess of appropriations at June 30, 2011.

**NOTE 19—FUND BALANCE / NET ASSET RESTATEMENTS**

Fund balances and net assets were restated as of July 1, 2010 as follows:

	Other	Proprietary		Net Assets	
	Governmental Funds	Electric	Airport	Governmental	Proprietary
Balances as previously reported	\$ 567,813	\$ 6,007,463	\$ 2,937,807	\$ 22,396,707	\$ 11,977,344
Adjustments:					
Inventory of land for resale Cobbtown Grant Fund	42,400	-	-	42,400	-
Accounts payable	-	(787,922)	-	-	(787,922)
Receivable from other governments - Airport Improvement Program		-	17,153	-	17,153
Inventory of land for resale Neighborhood Stabilization Program	54,000	-	-	54,000	-
Reclassifications:					
Employee Emergency Trust Fund restated as agency fund--previously reported as Permanent Fund	(13,106)	-	-	(13,106)	-
Fund balances / net assets as restated	<u>\$ 651,107</u>	<u>\$ 5,219,541</u>	<u>\$ 2,954,960</u>	<u>\$ 22,480,001</u>	<u>\$ 11,206,575</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

Note to Required Supplementary Information:

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

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## General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 7,629,348	\$ 7,629,348	\$ 6,564,430	\$ (1,064,918)
Other local taxes	5,076,596	5,076,596	4,931,497	(145,099)
Permits, privilege fees, and regulatory licenses	59,150	59,150	43,827	(15,323)
Fines and forfeitures	66,500	66,500	67,659	1,159
Revenue from the use of money and property	257,164	257,164	223,959	(33,205)
Charges for services	2,701,100	2,702,520	2,700,399	(2,121)
Miscellaneous	1,381,699	1,382,199	573,084	(809,115)
Recovered costs	33,500	46,992	27,261	(19,731)
Intergovernmental revenues:				
Commonwealth	2,655,153	2,920,958	3,960,131	1,039,173
Federal	261,356	360,987	111,090	(249,897)
Total revenues	\$ 20,121,566	\$ 20,502,414	\$ 19,203,337	\$ (1,299,077)
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 2,051,418	\$ 2,110,235	\$ 2,060,446	\$ 49,789
Judicial administration	319,113	416,931	417,073	(142)
Public safety	5,926,485	6,133,510	5,941,589	191,921
Public works	4,462,576	4,883,908	4,644,403	239,505
Health and welfare	164,173	157,173	144,173	13,000
Education	4,652,892	4,957,730	4,630,469	327,261
Parks, recreation, and cultural	863,670	860,858	846,267	14,591
Community development	699,755	921,795	1,239,147	(317,352)
Nondepartmental	1,232,612	1,259,312	100,632	1,158,680
Total expenditures	\$ 20,372,694	\$ 21,701,452	\$ 20,024,199	\$ 1,677,253
Excess (deficiency) of revenues over (under) expenditures	\$ (251,128)	\$ (1,199,038)	\$ (820,862)	\$ 378,176
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 2,104,035	\$ 2,325,338	\$ 2,540,787	\$ 215,449
Transfers out	(1,754,658)	(2,135,226)	(2,188,824)	(53,598)
Issuance of capital leases	150,000	150,000	318,975	168,975
Total other financing sources and uses	\$ 349,377	\$ 340,112	\$ 670,938	\$ 330,826
Net change in fund balances	\$ 98,249	\$ (858,926)	\$ (149,924)	\$ 709,002
Fund balances - beginning, as restated	(98,249)	858,926	5,211,536	4,352,610
Fund balances - ending	\$ -	\$ -	\$ 5,061,612	\$ 5,061,612

Virginia Public Assistance Fund  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Miscellaneous	\$ -	\$ 2,071	\$ 2,065	\$ (6)
Intergovernmental revenues:				
Commonwealth			385,353	385,353
Federal	1,232,372	1,281,985	810,113	(471,872)
Total revenues	\$ 1,232,372	\$ 1,284,056	\$ 1,197,531	\$ (86,525)
<b>EXPENDITURES</b>				
Current:				
Health and welfare	\$ 1,662,854	\$ 1,719,366	\$ 1,552,403	\$ 166,963
Total expenditures	\$ 1,662,854	\$ 1,719,366	\$ 1,552,403	\$ 166,963
Excess (deficiency) of revenues over (under) expenditures	\$ (430,482)	\$ (435,310)	\$ (354,872)	\$ 80,438
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	\$ 430,482	\$ 435,310	\$ (307,517)	\$ (742,827)
Total other financing sources and uses	\$ 430,482	\$ 435,310	\$ (307,517)	\$ (742,827)
Net change in fund balances	\$ -	\$ -	\$ (662,389)	\$ (662,389)
Fund balances - beginning	-	-	662,389	662,389
Fund balances - ending	\$ -	\$ -	\$ -	\$ -



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

## City:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded)	Funded Ratio (d) (a) / (b)	Annual Annual Covered Payroll (e)	UAAL
			Actuarial Accrued (UAAL) (c)			as % of Payroll (f) (c) / (e)
			(b) - (a)			
6/30/2010	\$ 23,695,173	\$ 31,019,400	\$ 7,324,227	76.39%	\$ 6,675,318	109.72%
6/30/2009	23,959,070	28,434,041	4,474,971	84.26%	7,077,456	63.23%
6/30/2008	23,583,001	26,312,773	2,729,772	89.63%	6,892,559	39.60%

## School Board Non-Professionals:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded)	Funded Ratio (d) (a) / (b)	Annual Annual Covered Payroll (e)	UAAL
			Actuarial Accrued (UAAL) (c)			as % of Payroll (f) (c) / (e)
			(b) - (a)			
6/30/2010	\$ 1,349,535	\$ 1,708,021	\$ 358,486	79.01%	\$ 442,585	81.00%
6/30/2009	1,344,094	1,552,283	208,189	86.59%	471,132	44.19%
6/30/2008	1,305,135	1,495,642	190,507	87.26%	490,860	38.81%

Required Supplementary Information  
 Schedule of Funding Progress for Other Post-Employment Benefits  
 Last Two Fiscal Years

## City:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Liability (AAL) (b)	Unfunded (Excess Funded)		Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			Actuarial Accrued (UAAL) (c)	Funded Ratio (d)		
			(b) - (a)	(a) / (b)		(c) / (e)
7/1/2008	\$ -	\$ 3,378,000	\$ 3,378,000	0.00%	\$ 5,972,000	56.56%
7/1/2010	-	3,538,000	3,538,000	0.00%	5,473,000	64.64%

## School Board:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Liability (AAL) (b)	Unfunded (Excess Funded)		Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			Actuarial Accrued (UAAL) (c)	Funded Ratio (d)		
			(b) - (a)	(a) / (b)		(c) / (e)
7/1/2008	\$ -	\$ 634,500	\$ 634,500	0.00%	\$ 5,870,400	10.81%
7/1/2010	-	710,600	710,600	0.00%	5,870,400	12.10%

## School Board - VRS Health Insurance Credit:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Liability (AAL) (b)	Unfunded (Excess Funded)		Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			Actuarial Accrued (UAAL) (c)	Funded Ratio (d)		
			(b) - (a)	(a) / (b)		(c) / (e)
6/30/2009	\$ 16,390	\$ 28,225	\$ 11,835	58.07%	\$ 471,132	2.51%
6/30/2010	21,403	28,414	7,011	75.33%	442,585	1.58%

**OTHER SUPPLEMENTARY INFORMATION**

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## **Combining and Individual Fund Statements and Schedules**

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## Primary Government

CITY OF FRANKLIN, VIRGINIA

Combining Balance Sheet  
 Nonmajor Special Revenue Funds  
 June 30, 2011

	Compre- hensive Services Act Fund	Regional	Community Development			Western	Neighbor-
		Fire Training Grounds Fund	Foundation Grants Fund	Block Grant Fund	Block Grant Incubator	Downtown Grant Fund	Tidewater Home Consortium Fund
<b>ASSETS</b>							
Cash and cash equivalents	\$ -	\$ -	\$ 71,520	\$ 143,908	\$ -	\$ -	\$ 4,373
Receivables (net of allowance for uncollectibles):							
Accounts receivable	-	-	-	-	1,082	84,348	-
Inventory	-	-	-	-	-	-	183,648
Due from other governmental units	80,144	19,548	-	-	22,185	-	-
Total assets	<u>\$ 80,144</u>	<u>\$ 19,548</u>	<u>\$ 71,520</u>	<u>\$ 143,908</u>	<u>\$ 22,185</u>	<u>\$ 1,082</u>	<u>\$ 84,348</u>
							<u>\$ 188,021</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Reconciled overdraft	\$ 49,811	\$ 18,383	\$ -	\$ -	\$ 15,645	\$ 15,261	\$ 66,364
Accounts payable and accrued expenses	30,333	70	1,348	-	12,727	-	506
Deposits held in escrow	-	-	-	-	-	20,240	-
Total liabilities	<u>\$ 80,144</u>	<u>\$ 18,453</u>	<u>\$ 1,348</u>	<u>\$ -</u>	<u>\$ 28,372</u>	<u>\$ 35,501</u>	<u>\$ 66,364</u>
							<u>\$ 506</u>
Fund balances:							
Nonspendable:							
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 183,648
Restricted:							
Public safety	-	1,095	70,172	-	-	-	-
Parks, recreation, and cultural	-	-	-	-	-	-	-
Community development	-	-	-	143,908	-	-	17,984
Unassigned:							
Special Revenue (deficit)	-	-	-	-	(6,187)	(34,419)	-
Total fund balances	<u>\$ -</u>	<u>\$ 1,095</u>	<u>\$ 70,172</u>	<u>\$ 143,908</u>	<u>\$ (6,187)</u>	<u>\$ (34,419)</u>	<u>\$ 17,984</u>
Total liabilities and fund balances	<u>\$ 80,144</u>	<u>\$ 19,548</u>	<u>\$ 71,520</u>	<u>\$ 143,908</u>	<u>\$ 22,185</u>	<u>\$ 1,082</u>	<u>\$ 84,348</u>
							<u>\$ 188,021</u>



Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
\$ -	\$ 1,520	\$ 1,928	\$ 1,477	\$ 105,109	\$ 187,334	\$ 54,507	\$ 6,766	\$ 3,684	\$ 104,540	\$ 12,651	\$ 699,317
-	-	-	-	-	-	-	-	-	-	-	85,430
42,400	-	-	-	-	-	-	-	-	-	-	226,048
-	-	-	-	-	-	-	-	-	-	-	121,877
<u>\$ 42,400</u>	<u>\$ 1,520</u>	<u>\$ 1,928</u>	<u>\$ 1,477</u>	<u>\$ 105,109</u>	<u>\$ 187,334</u>	<u>\$ 54,507</u>	<u>\$ 6,766</u>	<u>\$ 3,684</u>	<u>\$ 104,540</u>	<u>\$ 12,651</u>	<u>\$ 1,132,672</u>
\$ 8,704	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 174,168
-	-	-	-	1,367	10,008	-	-	-	-	-	56,359
-	-	-	-	-	8,913	-	-	-	-	-	29,153
<u>\$ 8,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,367</u>	<u>\$ 18,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 259,680</u>
\$ 42,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 226,048
-	1,520	1,928	1,477	-	-	-	6,766	-	-	-	82,958
-	-	-	-	103,742	-	54,507	-	-	-	-	158,249
-	-	-	-	-	168,413	-	-	3,684	104,540	12,651	455,047
(8,704)	-	-	-	-	-	-	-	-	-	-	(49,310)
<u>\$ 33,696</u>	<u>\$ 1,520</u>	<u>\$ 1,928</u>	<u>\$ 1,477</u>	<u>\$ 103,742</u>	<u>\$ 168,413</u>	<u>\$ 54,507</u>	<u>\$ 6,766</u>	<u>\$ 3,684</u>	<u>\$ 104,540</u>	<u>\$ 12,651</u>	<u>\$ 872,992</u>
<u>\$ 42,400</u>	<u>\$ 1,520</u>	<u>\$ 1,928</u>	<u>\$ 1,477</u>	<u>\$ 105,109</u>	<u>\$ 187,334</u>	<u>\$ 54,507</u>	<u>\$ 6,766</u>	<u>\$ 3,684</u>	<u>\$ 104,540</u>	<u>\$ 12,651</u>	<u>\$ 1,132,672</u>

CITY OF FRANKLIN, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Nonmajor Special Revenue Funds  
 For the Year Ended June 30, 2011

	Disaster Recovery Fund	Compre- hensive Services Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Community Development			Western Tidewater Home Consortium Fund	Neighbor- hood Stabilization Program Fund
					Block Grant Fund	Block Grant Incubator	Downtown Grant Fund		
<b>REVENUES</b>									
Revenue from the use of money and property	\$ -	\$ -	\$ -	\$ -	\$ 2,902	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	2,400	75,700	-	-	12,984	-	-
Intergovernmental revenues:									
Commonwealth	-	182,766	19,548	-	-	-	-	174,200	-
Federal	-	-	-	-	-	418,146	-	-	240,690
Total revenues	\$ -	\$ 182,766	\$ 21,948	\$ 75,700	\$ 2,902	\$ 418,146	\$ 12,984	\$ 174,200	\$ 240,690
<b>EXPENDITURES</b>									
Current:									
Public safety	\$ -	\$ -	\$ 23,771	\$ 50,050	\$ -	\$ -	\$ -	\$ -	\$ -
Health and welfare	-	350,911	-	-	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	519	420,146	-	176,465	103,091
Total expenditures	\$ -	\$ 350,911	\$ 23,771	\$ 50,050	\$ 519	\$ 420,146	\$ -	\$ 176,465	\$ 103,091
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (168,145)	\$ (1,823)	\$ 25,650	\$ 2,383	\$ (2,000)	\$ 12,984	\$ (2,265)	\$ 137,599
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	\$ -	\$ 352,394	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ -
Transfers (out)	(129,235)	-	-	-	-	-	-	-	-
Total other financing sources and uses	\$ (129,235)	\$ 352,394	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ -
Net change in fund balances	\$ (129,235)	\$ 184,249	\$ (1,823)	\$ 25,650	\$ 2,383	\$ 3,000	\$ 12,984	\$ (2,265)	\$ 137,599
Fund balances-beginning, as restated	129,235	(184,249)	2,918	44,522	141,525	(9,187)	(47,403)	20,249	49,916
Fund balances-ending	\$ -	\$ -	\$ 1,095	\$ 70,172	\$ 143,908	\$ (6,187)	\$ (34,419)	\$ 17,984	\$ 187,515

Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Home-stead Fund	Economic Develop-ment Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
\$ -	\$ 1	\$ 1	\$ -	\$ 1,500	\$ 83,818	\$ 2,126	\$ 3	\$ -	\$ 109	\$ 135	\$ 90,595
-	-	6,538	-	-	-	-	13,929	-	1,200	-	112,751
-	-	-	-	-	-	-	-	-	-	-	376,514
-	-	-	-	-	-	-	-	-	-	-	658,836
<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 6,539</u>	<u>\$ -</u>	<u>\$ 1,500</u>	<u>\$ 83,818</u>	<u>\$ 2,126</u>	<u>\$ 13,932</u>	<u>\$ -</u>	<u>\$ 1,309</u>	<u>\$ 135</u>	<u>\$ 1,238,696</u>
\$ -	\$ 3,509	\$ 6,710	\$ -	\$ -	\$ -	\$ -	\$ 13,761	\$ -	\$ -	\$ -	\$ 97,801
-	-	-	-	-	-	-	-	-	-	-	350,911
-	-	-	-	20,842	-	882	-	-	-	-	21,724
-	-	-	-	-	222,878	-	-	48	3,475	-	926,622
<u>\$ -</u>	<u>\$ 3,509</u>	<u>\$ 6,710</u>	<u>\$ -</u>	<u>\$ 20,842</u>	<u>\$ 222,878</u>	<u>\$ 882</u>	<u>\$ 13,761</u>	<u>\$ 48</u>	<u>\$ 3,475</u>	<u>\$ -</u>	<u>\$ 1,397,058</u>
<u>\$ -</u>	<u>\$ (3,508)</u>	<u>\$ (171)</u>	<u>\$ -</u>	<u>\$ (19,342)</u>	<u>\$ (139,060)</u>	<u>\$ 1,244</u>	<u>\$ 171</u>	<u>\$ (48)</u>	<u>\$ (2,166)</u>	<u>\$ 135</u>	<u>\$ (158,362)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 152,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 509,482
-	-	-	-	-	-	-	-	-	-	-	(129,235)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 380,247</u>
\$ -	\$ (3,508)	\$ (171)	\$ -	\$ (19,342)	\$ 13,028	\$ 1,244	\$ 171	\$ (48)	\$ (2,166)	\$ 135	\$ 221,885
33,696	5,028	2,099	1,477	123,084	155,385	53,263	6,595	3,732	106,706	12,516	651,107
<u>\$ 33,696</u>	<u>\$ 1,520</u>	<u>\$ 1,928</u>	<u>\$ 1,477</u>	<u>\$ 103,742</u>	<u>\$ 168,413</u>	<u>\$ 54,507</u>	<u>\$ 6,766</u>	<u>\$ 3,684</u>	<u>\$ 104,540</u>	<u>\$ 12,651</u>	<u>\$ 872,992</u>

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Combining Statement of Fiduciary Net Assets  
Agency Funds  
June 30, 2011

	Agency Funds					
	Special Welfare Fund	Special Welfare - SSI Fund	Flexible Spending Fund	Employee Emergency Trust Fund	Early Childhood Comission Fund	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 25,535	\$ 23,802	\$ 5,646	\$ 8,040	\$ 180,408	\$ 243,431
Total assets	<u>\$ 25,535</u>	<u>\$ 23,802</u>	<u>\$ 5,646</u>	<u>\$ 8,040</u>	<u>\$ 180,408</u>	<u>\$ 243,431</u>
<b>LIABILITIES</b>						
Amounts held for others	\$ 25,535	\$ 23,802	\$ 5,646	\$ 8,040	\$ 180,408	\$ 243,431
Total liabilities	<u>\$ 25,535</u>	<u>\$ 23,802</u>	<u>\$ 5,646</u>	<u>\$ 8,040</u>	<u>\$ 180,408</u>	<u>\$ 243,431</u>

Combining Statement of Changes in Assets and Liabilities  
 Agency Funds  
 For the Year Ended June 30, 2011

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Special Welfare Fund:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,713	\$ 38,095	\$ 17,273	\$ 25,535
Total assets	<u>\$ 4,713</u>	<u>\$ 38,095</u>	<u>\$ 17,273</u>	<u>\$ 25,535</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 4,713	\$ 38,095	\$ 17,273	\$ 25,535
Total liabilities	<u>\$ 4,713</u>	<u>\$ 38,095</u>	<u>\$ 17,273</u>	<u>\$ 25,535</u>
<b>Special Welfare - SSI Fund:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 15,934	\$ 7,934	\$ 66	\$ 23,802
Total assets	<u>\$ 15,934</u>	<u>\$ 7,934</u>	<u>\$ 66</u>	<u>\$ 23,802</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 15,934	\$ 7,934	\$ 66	\$ 23,802
Total liabilities	<u>\$ 15,934</u>	<u>\$ 7,934</u>	<u>\$ 66</u>	<u>\$ 23,802</u>
<b>Flexible Spending Fund:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,903	\$ 19,986	\$ 20,243	\$ 5,646
Total assets	<u>\$ 5,903</u>	<u>\$ 19,986</u>	<u>\$ 20,243</u>	<u>\$ 5,646</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 5,903	\$ 19,986	\$ 20,243	\$ 5,646
Total liabilities	<u>\$ 5,903</u>	<u>\$ 19,986</u>	<u>\$ 20,243</u>	<u>\$ 5,646</u>
<b>Employee Emergency Trust Fund:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 13,106	\$ 4,931	\$ 9,997	\$ 8,040
Total assets	<u>\$ 13,106</u>	<u>\$ 4,931</u>	<u>\$ 9,997</u>	<u>\$ 8,040</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 13,106	\$ 4,931	\$ 9,997	\$ 8,040
Total liabilities	<u>\$ 13,106</u>	<u>\$ 4,931</u>	<u>\$ 9,997</u>	<u>\$ 8,040</u>
<b>Early Childhood Commission Fund:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 100,683	\$ 371,092	\$ 291,367	\$ 180,408
Total assets	<u>\$ 100,683</u>	<u>\$ 371,092</u>	<u>\$ 291,367</u>	<u>\$ 180,408</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 100,683	\$ 371,092	\$ 291,367	\$ 180,408
Total liabilities	<u>\$ 100,683</u>	<u>\$ 371,092</u>	<u>\$ 291,367</u>	<u>\$ 180,408</u>
<b>Totals - All Agency Funds:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 140,339	\$ 442,038	\$ 338,946	\$ 243,431
Total assets	<u>\$ 140,339</u>	<u>\$ 442,038</u>	<u>\$ 338,946</u>	<u>\$ 243,431</u>
<b>LIABILITIES</b>				
Amounts held for others	\$ 140,339	\$ 442,038	\$ 338,946	\$ 243,431
Total liabilities	<u>\$ 140,339</u>	<u>\$ 442,038</u>	<u>\$ 338,946</u>	<u>\$ 243,431</u>

**Discretely Presented Component Unit**

**- School Board -**

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Combining Balance Sheet  
Discretely Presented Component Unit - School Board  
June 30, 2011

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 421,522	\$ 156,114	\$ 552,845	\$ 1,130,481
Receivables (net of allowance for uncollectibles):				
Accounts receivable	-	-	2,754	2,754
Due from other governmental units	469,365	37,219	-	506,584
Inventories	-	11,155	-	11,155
Prepaid items	332,507	-	-	332,507
Total assets	<u>\$ 1,223,394</u>	<u>\$ 204,488</u>	<u>\$ 555,599</u>	<u>\$ 1,983,481</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 76,622	\$ 14,989	\$ -	\$ 91,611
Accrued liabilities	1,146,772	37,537	-	1,184,309
Total liabilities	<u>\$ 1,223,394</u>	<u>\$ 52,526</u>	<u>\$ -</u>	<u>\$ 1,275,920</u>
Fund balances:				
Nonspendable:				
Inventory	\$ -	\$ 11,155	\$ -	\$ 11,155
Restricted:				
Special Revenue	-	140,807	555,599	696,406
Total fund balances	<u>\$ -</u>	<u>\$ 151,962</u>	<u>\$ 555,599</u>	<u>\$ 707,561</u>
Total liabilities and fund balances	<u>\$ 1,223,394</u>	<u>\$ 204,488</u>	<u>\$ 555,599</u>	<u>\$ 1,983,481</u>
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:				
Total fund balances per above			\$	707,561
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Capital assets			\$ 15,663,938	
Less: accumulated depreciation			<u>(5,966,615)</u>	9,697,323
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.				
Other postemployment benefits obligation			\$ (109,500)	
Compensated absences			<u>(276,340)</u>	<u>(385,840)</u>
Net assets of governmental activities			\$	<u>10,019,044</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds - Discretely Presented Component Unit - School Board  
 For the Year Ended June 30, 2011

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 1,848	\$ 15	\$ 389	\$ 2,252
Charges for services	9,452	101,054	2,754	113,260
Miscellaneous	187,870	49,541	-	237,411
Recovered costs	41,890	-	-	41,890
Intergovernmental revenues:				
Local government	4,630,469	-	-	4,630,469
Commonwealth	7,759,340	6,555	-	7,765,895
Federal	2,317,595	534,410	-	2,852,005
Total revenues	<u>\$ 14,948,464</u>	<u>\$ 691,575</u>	<u>\$ 3,143</u>	<u>\$ 15,643,182</u>
<b>EXPENDITURES</b>				
Current:				
Education:				
Instruction	\$ 11,504,533	\$ -	\$ 80,231	11,584,764
Administration, attendance and health	808,178	-	-	808,178
Transportation	593,504	-	-	593,504
Operations and maintenance	1,374,509	-	-	1,374,509
Technology	604,740	-	-	604,740
Food services	-	627,565	-	627,565
Total expenditures	<u>\$ 14,885,464</u>	<u>\$ 627,565</u>	<u>\$ 80,231</u>	<u>\$ 15,593,260</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 63,000</u>	<u>\$ 64,010</u>	<u>\$ (77,088)</u>	<u>\$ 49,922</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ 63,000	\$ 63,000
Transfers out	(63,000)	-	-	(63,000)
Total other financing sources and uses	<u>\$ (63,000)</u>	<u>\$ -</u>	<u>\$ 63,000</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ 64,010	\$ (14,088)	\$ 49,922
Fund balances - beginning	-	87,952	569,687	657,639
Fund balances - ending	<u>\$ -</u>	<u>\$ 151,962</u>	<u>\$ 555,599</u>	<u>\$ 707,561</u>

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

Net change in fund balances - total governmental funds - per above \$ 49,922

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

Capital asset additions	\$ 200,729	
Depreciation expense	(406,714)	(205,985)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds (accrued leave & OPEB) (71,440)

Change in net assets of governmental activities \$ (227,503)

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Discretely Presented Component Unit - School Board  
For the Year Ended June 30, 2011

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 2,000	\$ 2,000	\$ 1,848	\$ (152)
Charges for services	8,400	8,400	9,452	1,052
Miscellaneous	91,000	141,000	187,870	46,870
Recovered costs	53,718	53,718	41,890	(11,828)
Intergovernmental revenues:				
Local government	4,837,395	5,857,844	4,630,469	(1,227,375)
Commonwealth	7,633,181	7,502,163	7,759,340	257,177
Federal	1,485,462	2,784,342	2,317,595	(466,747)
Total revenues	<u>\$ 14,111,156</u>	<u>\$ 16,349,467</u>	<u>\$ 14,948,464</u>	<u>\$ (1,401,003)</u>
<b>EXPENDITURES</b>				
Current:				
Education:				
Instruction	\$ 10,826,636	\$ 13,052,859	\$ 11,504,533	\$ 1,548,326
Administration, attendance and health	893,949	888,681	808,178	80,503
Transportation	519,360	569,260	593,504	(24,244)
Operations and maintenance	1,296,007	1,269,725	1,374,509	(104,784)
Technology	575,204	568,942	604,740	(35,798)
Food services	-	-	-	-
Total expenditures	<u>\$ 14,111,156</u>	<u>\$ 16,349,467</u>	<u>\$ 14,885,464</u>	<u>\$ 1,464,003</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,000</u>	<u>\$ 63,000</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	(63,000)	(63,000)
Total other financing sources and uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (63,000)</u>	<u>\$ (63,000)</u>
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Fund balances - beginning	-	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**Discretely Presented Component Unit**

**- Industrial Development Authority -**

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Statement of Net Assets  
Discretely Presented Component Unit - Industrial Development Authority  
June 30, 2011

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	<u>Industrial Development Authority</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ <u>14,276</u>
Total assets	\$ <u><u>14,276</u></u>
<b>NET ASSETS</b>	
Unrestricted	\$ <u>14,276</u>
Total net assets	\$ <u><u>14,276</u></u>

Statement of Revenues, Expenses, and Changes in Net Assets  
Discretely Presented Component Unit - Industrial Development Authority  
For the Year Ended June 30, 2011

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	<u>Industrial Development Authority</u>
<b>NONOPERATING REVENUES</b>	
Contribution from Primary Government	\$ 339,486
Interest income	<u>22</u>
Total nonoperating income	\$ <u>339,508</u>
Change in net assets	\$ 339,508
Total net assets - beginning	<u>(325,232)</u>
Total net assets - ending	<u><u>\$ 14,276</u></u>



Statement of Cash Flows  
 Discretely Presented Component Unit - Industrial Development Authority  
 For the Year Ended June 30, 2011

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	<b>Industrial Development Authority</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Contribution from Primary Government	\$ 339,486
Repayment of amount due Primary Government	<u>(339,486)</u>
Net cash provided by capital and related financing activities	<u>\$ -</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends received	\$ <u>22</u>
Net cash provided by investing activities	<u>\$ 22</u>
Net increase (decrease) in cash and cash equivalents	\$ 22
Cash and cash equivalents - beginning	<u>14,254</u>
Cash and cash equivalents - ending	<u><u>\$ 14,276</u></u>

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## Supporting Schedules

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Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2011

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 5,027,369	\$ 5,027,369	\$ 4,943,598	\$ (83,771)
Real and personal public service corporation taxes	75,200	75,200	61,622	(13,578)
Personal property taxes	2,333,779	2,333,779	1,325,119	(1,008,660)
Machinery and tools taxes	61,000	61,000	60,650	(350)
Penalties	90,000	90,000	99,783	9,783
Uninterest	42,000	42,000	73,658	31,658
Total general property taxes	<u>\$ 7,629,348</u>	<u>\$ 7,629,348</u>	<u>\$ 6,564,430</u>	<u>\$ (1,064,918)</u>
Other local taxes:				
Local sales and use taxes	\$ 1,617,000	\$ 1,617,000	\$ 1,592,995	\$ (24,005)
Consumers' utility taxes	625,184	625,184	604,689	(20,495)
Right-of-way use fee	31,412	31,412	27,095	(4,317)
Electric consumption taxes	33,000	33,000	35,535	2,535
Business license taxes	1,025,000	1,025,000	943,069	(81,931)
Motor vehicle license taxes	150,000	150,000	144,176	(5,824)
Bank stock taxes	50,000	50,000	71,058	21,058
Taxes on recordation and wills	30,000	30,000	31,718	1,718
Cigarette taxes	230,000	230,000	208,592	(21,408)
Lodging taxes	130,000	130,000	117,911	(12,089)
Restaurant food taxes	1,155,000	1,155,000	1,154,659	(341)
Total other local taxes	<u>\$ 5,076,596</u>	<u>\$ 5,076,596</u>	<u>\$ 4,931,497</u>	<u>\$ (145,099)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 1,800	\$ 1,800	\$ 4,772	\$ 2,972
Building and related permits	31,500	31,500	18,638	(12,862)
Transfer fees	8,000	8,000	12,103	4,103
Permits and other licenses	17,850	17,850	8,314	(9,536)
Total permits, privilege fees, and regulatory licenses	<u>\$ 59,150</u>	<u>\$ 59,150</u>	<u>\$ 43,827</u>	<u>\$ (15,323)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 66,500	\$ 66,500	\$ 67,659	\$ 1,159
Total fines and forfeitures	<u>\$ 66,500</u>	<u>\$ 66,500</u>	<u>\$ 67,659</u>	<u>\$ 1,159</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 8,400	\$ 8,400	\$ 2,096	\$ (6,304)
Revenue from use of property	248,764	248,764	221,863	(26,901)
Total revenue from use of money and property	<u>\$ 257,164</u>	<u>\$ 257,164</u>	<u>\$ 223,959</u>	<u>\$ (33,205)</u>
Charges for services:				
Law library and court fees	\$ 4,250	\$ 4,250	\$ 4,213	\$ (37)
J & D Services - Southampton County	4,100	4,100	4,100	-
Fire and emergency services	108,354	108,354	106,026	(2,328)

Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2011

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Ambulance services	\$ 250,000	\$ 250,000	\$ 299,339	\$ 49,339
Southampton County - fire truck	100,000	100,000	100,000	-
Animal boarding and adoption fees	-	-	610	610
Janitorial services	17,509	17,509	17,117	(392)
Social services - telephone system	16,800	16,800	16,112	(688)
Waste collection and disposal	1,541,746	1,541,746	1,503,987	(37,759)
Demolition and debris removal	20,000	20,000	14,282	(5,718)
Administration - water and sewer	314,874	314,874	314,874	-
Administration - airport	2,020	2,020	2,020	-
Administration - electric	296,314	296,314	296,314	-
Recreation fees and admissions	21,700	23,120	17,327	(5,793)
Other charges for services	3,433	3,433	4,078	645
Total charges for services	<u>\$ 2,701,100</u>	<u>\$ 2,702,520</u>	<u>\$ 2,700,399</u>	<u>\$ (2,121)</u>
Miscellaneous revenue:				
Miscellaneous	\$ 13,700	\$ 14,200	\$ 5,944	\$ (8,256)
Payment in lieu of taxes - water and sewer	26,460	26,460	26,460	-
Payment in lieu of taxes - airport	59,282	59,282	59,282	-
Payment in lieu of taxes - FRHA	9,577	9,577	10,942	1,365
Isle of Wight - revenue sharing	1,200,000	1,200,000	409,232	(790,768)
Southampton County - revenue sharing	35,000	35,000	29,514	(5,486)
Sale of cemetery lots	37,680	37,680	31,710	(5,970)
Total miscellaneous revenue	<u>\$ 1,381,699</u>	<u>\$ 1,382,199</u>	<u>\$ 573,084</u>	<u>\$ (809,115)</u>
Recovered costs:				
Workers' compensation	\$ 10,000	\$ 10,000	\$ -	\$ (10,000)
Insurance recovery - liability	13,500	26,992	13,492	(13,500)
Other recovered costs	10,000	10,000	13,769	3,769
Total recovered costs	<u>\$ 33,500</u>	<u>\$ 46,992</u>	<u>\$ 27,261</u>	<u>\$ (19,731)</u>
Total revenue from local sources	<u>\$ 17,205,057</u>	<u>\$ 17,220,469</u>	<u>\$ 15,132,116</u>	<u>\$ (2,088,353)</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Railroad rolling stock tax	\$ 5,776	\$ 5,776	\$ 91	\$ (5,685)
Motor vehicle rental tax	28,707	28,707	21,804	(6,903)
Communication taxes	579,311	579,311	578,708	(603)
State recordation tax	20,000	20,000	14,199	(5,801)
Personal property tax relief funds	-	-	1,048,897	1,048,897
Total noncategorical aid	<u>\$ 633,794</u>	<u>\$ 633,794</u>	<u>\$ 1,663,699</u>	<u>\$ 1,029,905</u>

Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2011

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Revenue from the Commonwealth: (Continued)				
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 75,116	\$ 75,116	\$ 73,363	\$ (1,753)
Treasurer	63,158	63,158	59,846	(3,312)
Registrar/electoral board	36,658	36,658	34,880	(1,778)
Total shared expenses	<u>\$ 174,932</u>	<u>\$ 174,932</u>	<u>\$ 168,089</u>	<u>\$ (6,843)</u>
Other categorical aid:				
HB 599 Law enforcement grant	\$ 419,206	\$ 419,206	\$ 396,321	\$ (22,885)
Fire and rescue grant	-	-	6,917	6,917
Street and highway maintenance funds	1,356,586	1,622,391	1,622,391	-
Litter control grant	5,307	5,307	5,910	603
Wireless 911 grant	50,000	50,000	66,703	16,703
Other categorical aid	12,828	12,828	27,601	14,773
Arts grant	2,500	2,500	2,500	-
Total other categorical aid	<u>\$ 1,846,427</u>	<u>\$ 2,112,232</u>	<u>\$ 2,128,343</u>	<u>\$ 16,111</u>
Total categorical aid	<u>\$ 2,021,359</u>	<u>\$ 2,287,164</u>	<u>\$ 2,296,432</u>	<u>\$ 9,268</u>
Total revenue from the Commonwealth	<u>\$ 2,655,153</u>	<u>\$ 2,920,958</u>	<u>\$ 3,960,131</u>	<u>\$ 1,039,173</u>
Revenue from the federal government:				
Categorical aid:				
ARRA - summer youth work program	\$ -	\$ -	\$ 2,900	\$ 2,900
Emergency services grant	16,595	16,595	16,595	-
Police grant	-	71,274	57,931	(13,343)
Forest land management	-	-	2,500	2,500
USGS grant - river gauge	-	-	12,534	12,534
Fire department - safer grant	21,735	21,735	18,630	(3,105)
Other federal categorical aid	223,026	251,383	-	(251,383)
Total categorical aid	<u>\$ 261,356</u>	<u>\$ 360,987</u>	<u>\$ 111,090</u>	<u>\$ (249,897)</u>
Total revenue from the federal government	<u>\$ 261,356</u>	<u>\$ 360,987</u>	<u>\$ 111,090</u>	<u>\$ (249,897)</u>
Total General Fund	<u>\$ 20,121,566</u>	<u>\$ 20,502,414</u>	<u>\$ 19,203,337</u>	<u>\$ (1,299,077)</u>

Schedule of Expenditures - Budget and Actual  
 General Fund  
 For the Year Ended June 30, 2011

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund:</b>				
General government administration:				
Legislative:				
City council	\$ 138,221	\$ 131,221	\$ 128,919	\$ 2,302
General and financial administration:				
City manager	\$ 146,591	\$ 145,091	\$ 143,978	\$ 1,113
City attorney	131,998	131,998	131,806	192
Management services and human resources	149,561	139,661	135,832	3,829
Commissioner of revenue	232,149	231,049	227,826	3,223
Real estate assessor	57,560	53,060	47,555	5,505
Treasurer	247,666	239,866	230,759	9,107
Accounting	315,694	443,311	440,100	3,211
Purchasing	70,131	51,631	50,051	1,580
Utility billings and collections	216,344	191,044	189,803	1,241
Insurance	119,386	119,386	117,261	2,125
Information technology	122,350	129,150	121,015	8,135
Total general and financial administration	\$ 1,809,430	\$ 1,875,247	\$ 1,835,986	\$ 39,261
Board of elections:				
Electoral board and officials	\$ 103,767	\$ 103,767	\$ 95,541	\$ 8,226
Total board of elections	\$ 103,767	\$ 103,767	\$ 95,541	\$ 8,226
Total general government administration	\$ 2,051,418	\$ 2,110,235	\$ 2,060,446	\$ 49,789
Judicial administration:				
Courts:				
Circuit court - joint operations	\$ 12,820	\$ 12,820	\$ 12,819	\$ 1
General district court	19,995	18,195	16,625	1,570
Magistrates	150	150	-	150
Clerk of the circuit court	52,070	52,070	52,069	1
Juvenile and domestic relations court	90,198	189,816	191,681	(1,865)
Sheriff - courts	97,301	97,301	97,301	-
Total courts	\$ 272,534	\$ 370,352	\$ 370,495	\$ (143)
Commonwealth's attorney:				
Commonwealth's attorney	\$ 46,579	\$ 46,579	\$ 46,578	\$ 1
Total commonwealth's attorney	\$ 46,579	\$ 46,579	\$ 46,578	\$ 1
Total judicial administration	\$ 319,113	\$ 416,931	\$ 417,073	\$ (142)
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,627,744	\$ 2,833,202	\$ 2,826,406	\$ 6,796
Total law enforcement and traffic control	\$ 2,627,744	\$ 2,833,202	\$ 2,826,406	\$ 6,796



Schedule of Expenditures - Budget and Actual  
 General Fund  
 For the Year Ended June 30, 2011

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Public safety: (Continued)				
Emergency services:				
E-911 operations	\$ 607,939	\$ 597,939	\$ 547,916	\$ 50,023
Emergency management services	1,736,066	1,738,228	1,613,143	125,085
Total emergency services	<u>\$ 2,344,005</u>	<u>\$ 2,336,167</u>	<u>\$ 2,161,059</u>	<u>\$ 175,108</u>
Correction and detention:				
Detention - Western Tidewater Regional Jail	\$ 421,250	\$ 421,250	\$ 421,250	\$ -
Total correction and detention	<u>\$ 421,250</u>	<u>\$ 421,250</u>	<u>\$ 421,250</u>	<u>\$ -</u>
Inspections:				
Building	\$ 361,504	\$ 369,704	\$ 361,804	\$ 7,900
Total inspections	<u>\$ 361,504</u>	<u>\$ 369,704</u>	<u>\$ 361,804</u>	<u>\$ 7,900</u>
Other protection:				
Animal control	\$ 103,814	\$ 104,019	\$ 103,413	\$ 606
Civil defense	66,668	67,668	67,092	576
Safety and health	1,500	1,500	565	935
Total other protection	<u>\$ 171,982</u>	<u>\$ 173,187</u>	<u>\$ 171,070</u>	<u>\$ 2,117</u>
Total public safety	<u>\$ 5,926,485</u>	<u>\$ 6,133,510</u>	<u>\$ 5,941,589</u>	<u>\$ 191,921</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Streets and highways	\$ 1,771,470	\$ 2,413,802	\$ 2,281,990	\$ 131,812
Snow removal	7,000	16,000	15,662	338
Garage	227,110	227,110	223,132	3,978
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 2,005,580</u>	<u>\$ 2,656,912</u>	<u>\$ 2,520,784</u>	<u>\$ 136,128</u>
Sanitation and waste removal:				
Refuse collection	\$ 1,539,746	\$ 1,319,746	\$ 1,242,828	\$ 76,918
Total sanitation and waste removal	<u>\$ 1,539,746</u>	<u>\$ 1,319,746</u>	<u>\$ 1,242,828</u>	<u>\$ 76,918</u>
Maintenance of general buildings and grounds:				
Maintenance of general buildings and grounds	\$ 599,850	\$ 562,850	\$ 548,832	\$ 14,018
Maintenance of armory	51,310	63,310	62,544	766
Maintenance of city hall	170,323	185,323	180,804	4,519
Maintenance of social services	72,258	72,258	68,221	4,037
Maintenance of health department	23,509	23,509	20,390	3,119
Total maintenance of general buildings and grounds	<u>\$ 917,250</u>	<u>\$ 907,250</u>	<u>\$ 880,791</u>	<u>\$ 26,459</u>
Total public works	<u>\$ 4,462,576</u>	<u>\$ 4,883,908</u>	<u>\$ 4,644,403</u>	<u>\$ 239,505</u>
Health and welfare:				
Health:				
Local health department	\$ 110,000	\$ 110,000	\$ 110,000	\$ -
Mosquito control	20,000	13,000	-	13,000
Mental health	34,173	34,173	34,173	-
Total health	<u>\$ 164,173</u>	<u>\$ 157,173</u>	<u>\$ 144,173</u>	<u>\$ 13,000</u>
Total health and welfare	<u>\$ 164,173</u>	<u>\$ 157,173</u>	<u>\$ 144,173</u>	<u>\$ 13,000</u>

Schedule of Expenditures - Budget and Actual  
 General Fund  
 For the Year Ended June 30, 2011

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>General Fund: (Continued)</b>				
Education:				
Contribution to local school board	\$ 4,652,892	\$ 4,957,730	\$ 4,630,469	\$ 327,261
Total education	<u>\$ 4,652,892</u>	<u>\$ 4,957,730</u>	<u>\$ 4,630,469</u>	<u>\$ 327,261</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Programs and operations	\$ 393,900	\$ 386,988	\$ 379,588	\$ 7,400
Senior citizen programs	94,396	94,396	88,901	5,495
Senior citizen nutrition	38,599	38,599	38,594	5
Cemeteries	50,700	50,800	50,158	642
Total parks and recreation	<u>\$ 577,595</u>	<u>\$ 570,783</u>	<u>\$ 557,241</u>	<u>\$ 13,542</u>
Library:				
Library administration	\$ 286,075	\$ 290,075	\$ 289,026	\$ 1,049
Total library	<u>\$ 286,075</u>	<u>\$ 290,075</u>	<u>\$ 289,026</u>	<u>\$ 1,049</u>
Total parks, recreation, and cultural	<u>\$ 863,670</u>	<u>\$ 860,858</u>	<u>\$ 846,267</u>	<u>\$ 14,591</u>
Community development:				
Planning and community development:				
Planning and zoning	\$ 25,592	\$ 22,431	\$ 13,540	\$ 8,891
Beautification commission	1,927	20,028	6,812	13,216
Downtown development	102,236	102,236	102,236	-
Contribution to component unit IDA	-	-	339,486	(339,486)
Payments to Southampton County	570,000	777,100	777,073	27
Total planning and community development	<u>\$ 699,755</u>	<u>\$ 921,795</u>	<u>\$ 1,239,147</u>	<u>\$ (317,352)</u>
Total community development	<u>\$ 699,755</u>	<u>\$ 921,795</u>	<u>\$ 1,239,147</u>	<u>\$ (317,352)</u>
Nondepartmental:				
Nondepartmental capital	\$ 1,217,612	\$ 1,217,612	-	\$ 1,217,612
Other nondepartmental	15,000	41,700	100,632	(58,932)
Total nondepartmental	<u>\$ 1,232,612</u>	<u>\$ 1,259,312</u>	<u>\$ 100,632</u>	<u>\$ 1,158,680</u>
Total General Fund	<u>\$ 20,372,694</u>	<u>\$ 21,701,452</u>	<u>\$ 20,024,199</u>	<u>\$ 1,677,253</u>

## Statistical Tables

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Table 1

City of Franklin, Virginia

Government-Wide Revenues  
Year Ended June 30, 2011

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

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

City of Franklin, Virginia

Government-Wide Expenses by Function

Year Ended June 30, 2011

Fiscal Year	General Government	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
2011	\$ 2,451,215	\$ 417,073	\$ 6,638,673	\$ 4,123,252	\$ 2,092,175	\$ 4,762,168	\$ 1,045,170	\$ 4,762,168	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 2,134,311	\$ 39,816,921
2010	2,301,552	227,580	5,786,765	4,497,628	2,406,592	4,633,929	1,049,424	4,633,929	1,370,039	1,370,039	1,370,039	1,370,039	1,370,039	-	-	549,261	3,069,237	10,319,351	572,686	572,686	572,686	572,686	572,686	36,784,044
2009	2,570,721	238,213	6,175,136	4,328,943	2,607,817	4,866,262	1,156,868	4,866,262	1,249,752	1,249,752	1,249,752	1,249,752	1,249,752	-	-	554,434	2,994,753	12,844,876	584,294	584,294	584,294	584,294	584,294	40,172,069
2008	2,648,658	254,382	5,244,287	4,360,802	2,479,570	5,005,226	1,030,677	5,005,226	1,551,031	1,551,031	1,551,031	1,551,031	1,551,031	-	-	594,528	3,028,136	11,084,995	637,885	637,885	637,885	637,885	637,885	37,920,177
2007	2,418,619	276,708	5,199,732	4,049,898	2,328,871	5,877,702	1,035,540	5,877,702	1,658,873	1,658,873	1,658,873	1,658,873	1,658,873	-	-	879,419	2,931,072	10,833,758	628,378	628,378	628,378	628,378	628,378	38,118,570
2006	3,579,360	220,786	4,581,392	3,273,363	2,476,948	4,358,068	908,320	4,358,068	1,154,255	1,154,255	1,154,255	1,154,255	1,154,255	580,617	580,617	717,482	2,895,536	10,704,954	571,601	571,601	571,601	571,601	571,601	36,022,682
2005	2,154,840	227,962	4,385,901	4,452,836	2,138,779	4,155,196	993,109	4,155,196	213,146	213,146	213,146	213,146	213,146	577,465	577,465	734,457	2,794,462	8,887,833	614,946	614,946	614,946	614,946	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	7,271,975	4,464,002	4,464,002	4,464,002	4,464,002	4,464,002	546,196	546,196	751,139	2,714,447	8,645,465	620,913	620,913	620,913	620,913	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	4,264,145	3,477,458	3,477,458	3,477,458	3,477,458	3,477,458	536,786	536,786	613,353	2,603,237	7,926,959	570,952	570,952	570,952	570,952	570,952	32,852,914

**General Governmental Revenues by Source  
Year Ended June 30, 2011**

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General property taxes	\$ 6,564,430	\$ 6,530,638	\$ 6,738,891	\$ 6,583,034	\$ 5,996,085	\$ 6,359,770	\$ 5,782,264	\$ 5,523,583	\$ 5,509,757	\$ 5,306,578
Other local taxes	4,931,497	5,496,343	5,508,466	5,612,005	5,598,044	5,245,322	5,037,186	4,801,060	4,366,505	4,250,437
Permits, fees and licenses	43,827	42,070	50,721	85,785	84,958	111,310	69,920	72,184	43,889	39,303
Fines and forfeitures	67,659	62,877	59,119	51,650	67,106	42,865	51,248	62,331	49,407	57,330
Use of money and property	344,072	355,363	363,039	380,946	463,110	612,208	456,174	385,383	249,722	376,718
Charges for services	2,813,659	2,716,955	2,395,449	2,205,796	2,109,470	1,688,388	1,773,283	1,572,875	1,469,736	1,393,338
Miscellaneous and donations	925,311	1,965,875	2,212,987	2,561,414	2,375,228	1,856,200	1,481,570	1,368,093	1,582,999	1,981,749
Recovered costs	69,151	140,199	109,572	208,839	832,764	162,534	130,621	154,223	92,106	156,802
Intergovernmental	16,919,937	16,640,925	17,063,702	17,187,544	17,823,513	18,955,586	20,107,570	21,443,712	19,708,670	13,732,213
<b>Total</b>	<b>\$ 32,679,543</b>	<b>\$ 33,951,245</b>	<b>\$ 34,501,946</b>	<b>\$ 34,877,013</b>	<b>\$ 35,350,278</b>	<b>\$ 35,034,183</b>	<b>\$ 34,889,836</b>	<b>\$ 35,383,444</b>	<b>\$ 33,072,791</b>	<b>\$ 27,294,468</b>

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

**General Governmental Expenditures by Function  
Last Ten Fiscal Years Ended June 30, 2011**

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General government administrator	\$ 2,060,446	\$ 2,083,550	\$ 2,231,540	\$ 2,342,771	\$ 2,170,465	\$ 2,033,571	\$ 1,916,668	\$ 1,898,128	\$ 1,921,302	\$ 1,859,894
Judicial administration	417,073	226,508	236,455	260,681	277,318	220,786	227,962	166,707	267,988	132,119
Public safety	6,039,390	5,379,484	5,871,389	5,132,088	5,179,909	4,352,306	4,363,831	3,986,257	4,242,378	3,454,288
Public works	4,644,403	4,253,984	4,155,038	4,279,138	4,729,833	4,131,807	4,031,172	4,048,957	4,159,512	4,060,813
Health and welfare	2,047,487	2,314,766	2,531,118	2,418,143	2,395,651	2,411,904	2,068,157	2,097,930	1,794,405	1,815,008
Education	15,627,197	16,189,511	16,245,264	16,260,078	15,648,683	14,264,376	15,767,293	12,777,477	13,906,854	13,067,817
Parks, recreation and cultural	867,991	877,561	1,098,785	1,142,871	978,109	989,414	910,516	839,088	831,648	724,478
Community development	2,162,246	1,486,489	1,306,902	1,553,177	1,668,299	866,223	953,592	4,464,002	2,272,636	1,613,500
Nondepartmental	104,155	61,375	50,554	782,653	20,869	718,739	578,963	551,561	535,925	522,669
Capital Projects	-	46,127	152,417	1,231,340	2,413,468	1,332,763	1,569,281	1,453,738	4,055,653	5,265,185
Debt service:										
Principal retirement	674,229	1,173,938	1,157,421	1,041,923	2,557,013	2,575,710	1,008,779	715,570	3,446,839	739,387
Interest and fiscal charges	318,941	1,066,708	577,131	589,825	679,916	761,876	737,999	715,178	613,353	374,388
<b>Totals</b>	<b>\$ 34,963,558</b>	<b>\$ 35,160,001</b>	<b>\$ 35,614,014</b>	<b>\$ 37,034,688</b>	<b>\$ 38,719,533</b>	<b>\$ 34,659,475</b>	<b>\$ 34,134,213</b>	<b>\$ 33,714,593</b>	<b>\$ 38,048,493</b>	<b>\$ 33,629,546</b>

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



City of Franklin, Virginia

Table 5

Property Tax Levies and Collections  
Last Ten Fiscal Years Ended June 30, 2011

Year	Total Tax Levy (1)		Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)(2)	Total Tax Collections	Percent of Total Tax Collections to		Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
	Tax Levy (1)	\$					Total Tax Collections	Tax Levy		
2011	\$ 7,333,436	\$	7,135,568	97.30%	\$ 304,318	\$ 7,439,886	101.45%	\$ 756,365	10.31%	
2010	7,355,039		7,326,977	99.62%	125,647	7,452,624	101.33%	863,109	11.73%	
2009	7,774,091		7,482,861	96.25%	182,767	7,665,628	98.60%	758,751	9.76%	
2008	7,510,356		7,240,857	96.41%	232,401	7,473,258	99.51%	756,356	10.07%	
2007	7,023,237		6,827,150	97.21%	179,681	7,006,831	99.77%	649,891	9.25%	
2006	6,229,526		5,913,050	94.92%	279,881	6,192,931	99.41%	619,208	9.94%	
2005	5,640,259		5,323,582	94.39%	290,026	5,613,608	99.53%	485,700	8.61%	
2004	5,463,530		5,220,437	95.55%	286,425	5,506,862	100.79%	459,049	8.40%	
2003	5,221,065		5,067,596	97.06%	329,579	5,397,175	103.37%	498,463	9.55%	
2002	5,153,719		4,896,547	95.01%	230,318	5,126,865	99.48%	452,614	8.78%	

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

City of Franklin, Virginia

Table 6

Assessed Value of Taxable Property  
Last Ten Fiscal Years Ended June 30, 2011

Year	Real Estate		Personal Property	Mobile Homes	Machinery and Tools	Public Service Corporations		Total
	Real Estate	Personal Property				Real Estate	Personal Property	
2011	\$ 606,470,410	\$ 55,398,273	\$ -	3,032,569	\$ 7,371,365	\$ 16,575	\$ 672,289,192	
2010	629,410,310	57,061,332	-	3,018,957	7,761,879	42,224	697,294,702	
2009	671,857,100	59,307,993	900	2,909,231	7,646,642	27,151	741,749,017	
2008	561,634,400	57,716,863	-	573,729	8,480,797	39,340	628,445,129	
2007	567,081,965	62,652,410	-	703,167	6,596,676	21,591	637,055,809	
2006	418,087,841	59,659,923	-	738,901	8,611,442	39,123	487,137,230	
2005	413,484,184	55,210,009	-	757,167	8,617,223	39,123	478,107,706	
2004	371,050,871	52,890,760	-	1,134,874	9,097,960	57,587	434,232,052	
2003	365,657,221	55,879,359	166,080	971,160	8,969,861	38,567	431,682,248	
2002	339,435,343	53,684,686	259,368	764,613	11,150,501	12,254	405,306,765	

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

Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Service Corporation	
					Real Estate (1)	Personal Property
2011	\$ 0.77 / \$ 1.01 (5)	\$ 4.50	\$ 0.77	\$ 2.00	\$ 0.77	\$ 4.50
2010	\$ 0.77 / \$ 1.01 (5)	4.50	0.77	2.00	0.77	4.50
2009	\$ 0.77 / \$ 1.01 (5)	4.50	0.77	2.00	0.77	4.50
2008	\$ 0.90 / \$ 1.14 (3)	4.50	0.90	2.00	0.90	4.50
2007	\$ 0.85 / \$ 1.09 (2)	4.50	0.85	2.00	0.85	4.50
2006	\$ 0.95 / \$ 1.19 (4)	4.50	0.95	2.00	0.95	4.50
2005	\$ 0.90 / \$ 1.14 (3)	4.50	0.90	2.00	0.90	4.50
2004	\$ 0.90 / \$ 1.14 (3)	4.50	0.90	2.00	0.90	4.50
2003	\$ 0.90 / \$ 1.14 (3)	4.50	0.90	2.00	0.90	4.50
2002	\$ 0.90 / \$ 1.14 (3)	4.50	0.90	2.00	0.90	4.50

- (1) Public Service Corporation property was taxed at basic real estate rates regardless of location.
- (2) Downtown district real estate tax rate was \$1.09 and remaining areas were taxed at \$0.85 for real estate.
- (3) Downtown district real estate tax rate was \$1.14 and remaining areas were taxed at \$ 0.90 for real estate.
- (4) Downtown district real estate tax rate was \$1.19 and remaining areas were taxed at \$ 0.95 for real estate.
- (5) Downtown district real estate tax rate was \$1.01 and remaining areas were taxed at \$ 0.77 for real estate.

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

Year	Assessed Value (in Thousands)	Gross Bonded Debt (1)	Less:			Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value
			Debt Service Escrow	Debt Payable from Enterprise Revenues (2)	Net Bonded Debt		
2011	\$ 613,842	\$ 17,110,566	\$ 1,032,007	\$ 3,940,296	\$ 12,138,263	1.98%	
2010	637,172	17,711,550	834,736	3,995,409	12,881,405	2.02%	
2009	679,504	18,683,258	644,623	4,303,770	13,734,865	2.02%	
2008	570,115	20,202,716	460,698	4,788,132	14,953,886	2.62%	
2007	573,679	21,351,648	279,236	5,319,576	15,752,836	2.75%	
2006	426,699	24,486,173	-	5,920,883	18,565,290	4.35%	
2005	422,101	23,479,028	-	6,597,451	16,881,577	3.53%	
2004	380,149	24,583,588	-	7,099,588	17,484,000	4.03%	
2003	374,627	22,871,597	-	9,111,219	13,760,378	3.19%	
2002	350,586	22,481,784	-	9,766,132	12,715,652	3.14%	

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

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

Fiscal Year	Expenditures - All Governmental Fund Types	Total Debt Service (1)	Percentage of Debt Service to Expenditures
2011	\$ 34,963,558	\$ 993,170	2.84%
2010	35,160,001	2,240,646	6.37%
2009	35,614,014	1,734,552	4.87%
2008	37,034,688	1,631,748	4.41%
2007	38,719,533	3,236,929	8.36%
2006	34,659,475	3,337,586	9.63%
2005	34,134,213	1,746,778	5.12%
2004	33,714,593	1,430,748	4.24%
2003	38,048,493	4,060,192	10.67%
2002	33,629,546	1,113,775	3.31%

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

*City of Franklin, Virginia*

Table 10

*Principal Taxpayers - Real Estate  
June 30, 2011*

Taxpayer	Type of Business	2010 Assessed Valuation	Percent of Total Assessed Valuation of Real Estate
Community Health Systems Inc.	Hospital	\$ 25,620,800	4.03%
James L. Rifkin Estate	Shopping Center	12,949,600	2.03%
The Village at Woods Edge	Retirement Home	10,643,500	1.67%
Lowes Home Centers Inc.	Retail - Hardware	8,341,800	1.31%
Mag II Franklin LLC	Shopping Center	6,672,900	1.05%
Southampton Shopping Center L. P.	Shopping Center	5,760,600	0.91%
ACJCS LLC	Direct Mail - Advertising	5,497,100	0.86%
Hampton Roads Development LLC	Real Estate Development	5,161,800	0.81%
Meadowridge Associates L P	Apartments	5,101,400	0.80%
Dorchester Apartments L.P.	Apartments	4,474,100	0.70%
		\$ 90,223,600	14.18%

Table 11

City of Franklin, Virginia

Principal Taxpayers - Personal Property  
June 30, 2011

Taxpayer	Type of Business	2010 Assessed Valuation	Percent of Total Assessed Personal Property
Money Mailer LLC	Direct Mail - Advertising	\$ 2,338,404	3.75%
Franklin Hospital Corporation	Hospital	2,153,319	3.46%
Charter Communications	Service - Telecommunications	751,538	1.21%
Wal-Mart Stores Inc.	Retail - Variety	721,867	1.16%
Lowes Home Centers #2698	Retail - Hardware	636,735	1.02%
Richfood Procurement LLC	Retail - Grocery	646,803	1.04%
Butler Paper Recycling Inc	Paper Recycling	378,939	0.61%
De Lage Landen Operational Services	Financial Services	243,452	0.39%
Birdsong Corporation	Peanut Wholesaler Industry	239,302	0.38%
Food Lion Inc.	Retail-Grocery	224,896	0.36%
		<u>\$ 8,335,255</u>	<u>13.38%</u>

*City of Franklin, Virginia*

**Table 12**

**Demographic Statistics  
Last Ten Fiscal Years**

Fiscal Year	Population	Per Capita Income (3)	School Enrollment (4)	Unemployment Rate (5)
2011	8,582 (1)	Not Available	1,187	10.30%
2010	8,814 (1)	Not Available	1,160	12.90%
2009	8,877 (1)	\$31,367	1,331	11.5%
2008	8,906 (1)	\$31,290	1,319	6.4%
2007	8,800 (1)	\$30,068	1,287	4.0%
2006	8,594 (1)	\$29,102	1,307	5.2%
2005	8,594 (1)	\$27,813	1,360	5.2%
2004	8,450 (1)	\$27,290	1,384	5.0%
2003	8,324 (1)	\$26,349	1,434	4.9%
2002	8,181 (1)	\$25,234	1,404	4.9%

**Source:**

- (1) United States Census Estimates
- (2) 2000 United States Census
- (3) US Commerce - Bureau of Economic Analysis (Franklin & Southampton combined)
- (4) Franklin School
- (5) Virginia Employment Commission



City of Franklin, Virginia

Table 13

Net Assets by Component  
June 30,

	2011	2010	2009	2008	2007	2006
<b>Governmental activities</b>						
Invested in capital assets - net of related debt	\$ 16,568,294	\$ 17,477,560	\$ 17,319,997	\$ 16,777,541	\$ 15,949,140	\$ 13,717,240
Restricted: Debt Service	1,032,007	-	-	-	-	1,870,206
Unrestricted	4,558,481	4,919,147	4,374,403	4,188,340	3,188,314	3,226,660
<b>Total governmental activities</b>	<b>\$ 22,158,782</b>	<b>\$ 22,396,707</b>	<b>\$ 21,694,400</b>	<b>\$ 20,965,881</b>	<b>\$ 19,137,454</b>	<b>\$ 18,814,106</b>
<b>Business-type activities</b>						
Invested in capital assets - net of related debt	\$ 8,400,534	\$ 9,228,349	\$ 8,004,309	\$ 8,388,252	\$ 8,363,160	\$ 8,276,928
Unrestricted	2,080,645	2,748,995	1,786,860	2,191,355	2,511,591	2,855,121
<b>Total business-type activities</b>	<b>\$ 10,481,179</b>	<b>\$ 11,977,344</b>	<b>\$ 9,791,169</b>	<b>\$ 10,579,607</b>	<b>\$ 10,874,751</b>	<b>\$ 11,132,049</b>
<b>Primary government</b>						
Invested in capital assets - net of related debt	\$ 24,968,828	\$ 26,705,909	\$ 25,324,306	\$ 25,165,793	\$ 24,312,300	\$ 21,994,168
Restricted	1,032,007	-	-	-	-	1,870,206
Unrestricted	6,639,126	7,668,142	6,161,263	6,379,695	5,699,905	6,081,781
<b>Total primary government</b>	<b>\$ 32,639,961</b>	<b>\$ 34,374,051</b>	<b>\$ 31,485,569</b>	<b>\$ 31,545,488</b>	<b>\$ 30,012,205</b>	<b>\$ 29,946,155</b>

Change in Net Assets  
June 30,

	2011	2010	2009	2008	2007	2006
<b>Expenses</b>						
Governmental activities:						
General government	\$ 2,451,215	\$ 2,301,552	\$ 2,570,721	\$ 2,648,658	\$ 2,418,619	\$ 3,579,360
Judicial	417,073	227,580	238,213	254,382	276,708	220,786
Public safety	6,638,673	5,799,871	6,175,136	5,244,287	5,199,732	4,581,392
Public works	4,123,252	4,497,628	4,328,943	4,360,802	4,049,898	3,273,363
Health and welfare	2,092,175	2,406,592	2,607,817	2,479,570	2,328,871	2,476,948
Education	4,762,168	4,633,929	4,866,262	5,005,226	5,877,702	4,358,068
Parks, recreation, and cultural	1,045,170	1,049,424	1,156,868	1,030,677	1,035,540	908,320
Community development	2,134,311	1,273,639	1,249,752	1,551,031	1,658,873	1,154,255
Interest on long-term debt	240,711	549,261	554,434	594,528	879,419	761,876
Nondepartmental	-	-	-	-	-	580,617
<b>Total governmental activities</b>	\$ 23,904,748	\$ 22,739,476	\$ 23,748,146	\$ 23,169,161	\$ 23,725,362	\$ 21,894,985
Business-type activities:						
Water and sewer	\$ 3,025,608	\$ 3,069,237	\$ 2,994,753	\$ 3,028,136	\$ 2,931,072	\$ 2,895,536
Electric	12,315,508	11,107,273	12,844,876	11,084,995	10,833,758	10,704,954
Airport	571,057	572,686	584,294	637,885	628,378	571,601
<b>Total business-type activities</b>	\$ 15,912,173	\$ 14,749,196	\$ 16,423,923	\$ 14,751,016	\$ 14,393,208	\$ 14,172,091
<b>Total expenses</b>	\$ 39,816,921	\$ 37,488,672	\$ 40,172,069	\$ 37,920,177	\$ 38,118,570	\$ 36,067,076
<b>Program revenue</b>						
Governmental activities:						
Charges for services:						
General government	\$ 613,208	\$ 662,101	\$ 615,929	\$ 607,034	\$ 613,334	\$ 754,493
Judicial	88,075	14,432	17,509	9,601	8,831	51,540
Public safety	529,385	510,261	464,978	384,793	493,587	244,800
Public works	1,535,386	1,469,356	1,207,847	1,101,485	877,464	799,434
Health and welfare	16,112	-	9,503	34,060	-	-
Parks, recreation, and cultural	17,327	14,418	20,197	22,216	19,185	54,750
Community development	12,392	7,564	9,655	32,003	-	48,868
Operating grants and contributions	4,638,338	4,077,928	4,056,878	2,520,711	4,096,205	3,698,397
Capital grants and contributions	-	49,197	656,776	2,532,197	1,207,312	93,952
<b>Total governmental activities</b>	\$ 7,450,223	\$ 6,805,257	\$ 7,059,272	\$ 7,244,100	\$ 7,315,918	\$ 5,746,234

Change in Net Assets  
June 30,

	2011	2010	2009	2008	2007	2006
<b>Program revenue</b>						
Business-type activities:						
Charges for services:						
Water and sewer	\$ 3,035,547	\$ 3,276,636	\$ 3,283,366	\$ 3,396,655	\$ 3,330,432	\$ 3,868,775
Electric	13,871,929	12,142,738	13,687,790	12,493,995	12,007,869	12,109,011
Airport	178,994	188,257	174,456	231,698	251,026	835,929
Capital grants and contributions:						
Airport	109,004	2,040,691	102,004	5,453	400,143	-
<b>Total business-type activities</b>	<b>\$ 17,195,474</b>	<b>\$ 17,648,322</b>	<b>\$ 17,247,616</b>	<b>\$ 16,127,801</b>	<b>\$ 15,989,470</b>	<b>\$ 16,813,715</b>
<b>Total program revenue</b>	<b>\$ 24,645,697</b>	<b>\$ 24,453,579</b>	<b>\$ 24,306,888</b>	<b>\$ 23,371,901</b>	<b>\$ 23,305,388</b>	<b>\$ 22,559,949</b>
<b>Governmental activities net expense</b>	<b>\$ (16,454,525)</b>	<b>\$ (15,934,219)</b>	<b>\$ (16,688,874)</b>	<b>\$ (15,925,061)</b>	<b>\$ (16,409,444)</b>	<b>\$ (16,148,751)</b>
<b>Business-type activities net expense</b>	<b>\$ 1,283,301</b>	<b>\$ 2,899,126</b>	<b>\$ 823,693</b>	<b>\$ 1,376,785</b>	<b>\$ 1,596,262</b>	<b>\$ 2,641,624</b>
<b>Total primary government net expense</b>	<b>\$ (15,171,224)</b>	<b>\$ (13,035,093)</b>	<b>\$ (15,865,181)</b>	<b>\$ (14,548,276)</b>	<b>\$ (14,813,182)</b>	<b>\$ (13,507,127)</b>
<b>General revenues and other changes in net assets</b>						
Governmental activities:						
Taxes:						
Property taxes	\$ 6,499,693	\$ 6,668,337	\$ 6,974,226	\$ 6,376,419	\$ 6,052,770	\$ 6,344,577
Other taxes	4,931,497	4,911,007	5,508,466	5,612,005	5,683,002	5,414,961
Revenue sharing from counties	438,746	1,316,661	1,310,461	1,279,456	1,175,879	1,136,199
Revenue from use of money and property	341,820	354,881	362,362	380,114	460,631	374,124
Grants & Gifts non-restricted	1,663,699	1,673,064	1,108,120	1,323,968	1,132,497	482,165
Miscellaneous	249,154	305,705	533,867	1,015,319	1,154,938	613,854
Transfers	2,008,697	1,490,165	1,619,891	1,766,207	1,926,907	2,100,872
<b>Total governmental activities</b>	<b>\$ 16,133,306</b>	<b>\$ 16,719,820</b>	<b>\$ 17,417,393</b>	<b>\$ 17,753,488</b>	<b>\$ 17,586,624</b>	<b>\$ 16,466,752</b>
Business-type activities:						
Revenue from use of money and property	\$ -	\$ 6,445	\$ 7,760	\$ 94,278	\$ 73,346	\$ 65,481
Transfers	(2,008,697)	(1,490,165)	(1,619,891)	(1,766,207)	(1,926,907)	(2,100,872)
<b>Total business-type activities</b>	<b>\$ (2,008,697)</b>	<b>\$ (1,483,720)</b>	<b>\$ (1,612,131)</b>	<b>\$ (1,671,929)</b>	<b>\$ (1,853,561)</b>	<b>\$ (2,035,391)</b>
<b>Total general revenues and other changes in net assets</b>	<b>\$ 14,124,609</b>	<b>\$ 15,236,100</b>	<b>\$ 15,805,262</b>	<b>\$ 16,081,559</b>	<b>\$ 15,733,063</b>	<b>\$ 14,431,361</b>
<b>Change in Net Assets</b>						
Governmental activities	\$ (321,219)	\$ 785,601	\$ 728,519	\$ 1,828,427	\$ 1,177,180	\$ 318,001
Business-type activities	(725,396)	1,415,406	(788,438)	(295,144)	(257,299)	606,233
<b>Total primary government</b>	<b>\$ (1,046,615)</b>	<b>\$ 2,201,007</b>	<b>\$ (59,919)</b>	<b>\$ 1,533,283</b>	<b>\$ 919,881</b>	<b>\$ 924,234</b>

**Taxable Sales by Category  
Last Ten Calendar Years \***

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Merchant Wholesaler, Durable Goods	\$ 540,973	319,700 \$	160,501 \$	206,624 \$	370,011 \$	N/A \$	N/A \$	N/A \$	N/A \$	N/A
Motor Vehicle & Parts Dealers	5,049,510	4,177,804	3,978,697	4,485,996	4,740,931	N/A	N/A	N/A	N/A	N/A
Furniture & Home Furnishings	3,367,524	3,415,004	3,766,476	3,460,241	3,768,080	N/A	N/A	N/A	N/A	N/A
Crop Production	67,636	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Building materials, Farm & Garden Supplies	-	-	-	-	3,683,597	N/A	N/A	N/A	N/A	N/A
Food and Beverage Stores	17,562,519	18,543,874	20,153,777	14,117,933	11,325,087	N/A	N/A	N/A	N/A	N/A
Health and Personal Care	1,620,007	1,708,589	1,181,688	914,493	-	N/A	N/A	N/A	N/A	N/A
Gasoline Stations	5,728,484	5,064,456	5,484,253	4,347,208	2,841,936	N/A	N/A	N/A	N/A	N/A
Clothing & Clothing Accessories Stores	1,918,978	1,992,877	1,910,099	1,954,980	2,057,085	N/A	N/A	N/A	N/A	N/A
Sporting Goods, Hobby, Book & Music Stores	-	34,340	-	-	229,560	N/A	N/A	N/A	N/A	N/A
General Merchandise Stores	57,836,189	60,044,952	60,639,197	60,217,521	53,083,978	N/A	N/A	N/A	N/A	N/A
Miscellaneous Store Retailers	2,094,847	1,745,625	1,735,875	2,469,992	2,912,936	N/A	N/A	N/A	N/A	N/A
Nonstore Retailers	1,392,909	1,169,469	1,518,049	2,895,028	3,550,649	N/A	N/A	N/A	N/A	N/A
Rental & Lease Services	676,770	929,073	796,030	1,291,440	960,998	N/A	N/A	N/A	N/A	N/A
Professional, Scientific and Technical Services	1,765,592	1,605,670	634,005	177,766	-	N/A	N/A	N/A	N/A	N/A
Accommodation	816,451	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Food Services & Drinking Places	16,947,347	17,052,909	15,814,206	13,903,248	12,888,112	N/A	N/A	N/A	N/A	N/A
Repair & Maintenance	2,906,222	2,772,329	2,528,870	2,650,097	2,388,335	N/A	N/A	N/A	N/A	N/A
Personal & Laundry Services	1,115,148	905,405	1,309,468	1,252,258	922,640	N/A	N/A	N/A	N/A	N/A
All Other Businesses	1,155,848	213,205	318,129	1,352,993	5,437,841	N/A	N/A	N/A	N/A	N/A
Miscellaneous & Unidentifiable	25,414,636	27,559,023	28,788,615	24,690,382	22,719,304	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>\$ 147,977,590</b>	<b>149,254,304 \$</b>	<b>150,717,935 \$</b>	<b>140,388,200 \$</b>	<b>133,881,080 \$</b>	<b>- \$</b>	<b>- \$</b>	<b>- \$</b>	<b>- \$</b>	<b>-</b>

\* Source - Department of Taxation

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

Function/Program	Full-time Equivalent Employees as of June 30									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>GENERAL FUND</b>										
General Government	23	23.5	24	26	26	26	24.5	24.5	26	25.5
Police & Communications	42	39	40	37.5	42	42	42	42	42	42
Animal Control	1.5	1.5	1	1	1	1	1	1	1	1
Fire & Rescue - EMS	15	15	15	15	15	12	12	12	10	10
Community Services	5	5	7	7	6	6	5	5	5	5
Public Works-Streets	15	13.5	14	18	23	23	23	24	25	25
Garage	4	4	4	4	4	4	4	4	4	4
Refuse collection	9	9	8	7	9	9	9	9	9	9
Public Works-Bldgs & Grounds	9.5	9.5	9.5	11.5	9	9	9	7.5	7	6
Cemetery & Mosquito Control	0	0	0	0	0	0	0	0.5	1	1
Park and Recreation	4.5	4.5	3.5	3.5	7.5	7.5	7.5	7.5	7.5	7.5
Senior Program	2	2.5	2.5	1.5	2	2	2	2	2	2
Library	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Economic Development	0	0	0	0	0	0	0	1	1	0
Downtown Development	1	1	1	1	1	1	1	1	1	1
<b>Total General Fund</b>	<b>132</b>	<b>128.5</b>	<b>130</b>	<b>133.5</b>	<b>146</b>	<b>143</b>	<b>140.5</b>	<b>141.5</b>	<b>142</b>	<b>139.5</b>
<b>SOCIAL SERVICES FUND</b>										
ELECTRIC	19	19	20	18	19	19	19	20	20	20
WATER & SEWER	14	14	16	15	20	20	20	20	20	20
INCUBATOR	16	14	14	15.5	16	16	17	18	18	18
AIRPORT	0	0	0	0.5	1	1	0	0	0	0
EARLY CHILDHOOD	2	2	2	2	2	2	2	2	1.5	1.5
	2	2	2	1	0	0	0	0	0	0
	53	51	54	52	58	58	58	60	59.5	59.5
<b>Total</b>	<b>185</b>	<b>179.5</b>	<b>184</b>	<b>185.5</b>	<b>204</b>	<b>201</b>	<b>198.5</b>	<b>201.5</b>	<b>201.5</b>	<b>199</b>

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

Function/Program	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Police										
Physical arrests	671	638	686	721	1,223	955	954	882	695	667
Parking violations	78	39	37	39	45	108	80	110	120	188
Traffic violations	1845	1792	1,406	1,172	1,370	1,955	1,069	1,022	1,220	1,001
Fire										
Emergency responses	2111	2390	2,324	2,422	2,304	2,170	2,072	1,886	1,827	1,718
Fires extinguished	31	68	202	96	98	108	95	89	89	86
Inspections	24	22	17	1,726	18	11	10	12	10	7
Building Inspections(a)										
Inspections Performed	1647	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Permits Issued	413	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Refuse collection										
Refuse collected (tons per day)	14.77	12.77	13.82	12.65	13.41	13.40	-	-	-	-
Recyclables collected (tons per day)	0.93	0.83	1.02	1.01	1.22	1.31	N/A	N/A	N/A	-
Other public works										
Street resurfacing (tons)	10,542	2,728	3,576	1,503	215	2,750	-	-	-	-
Potholes repaired	152	178	207	234	250	200	-	-	-	-
Park and recreation										
Athletic field permits issued	355	285	275	250	56	N/A	-	-	-	-
Community center admissions	44,486	30,214	29,634	33,026	25,956	25,956	26,605	N/A	N/A	18,438
Library										
Volumes in collection	32,600	37,000	47,000	53,000	50,000	50,000	N/A	-	-	-
Total volumes borrowed	121,000	121,000	116,000	106,000	97,000	107,672	102,455	-	-	-
Water										
New connections	1	5	11	24	25	40	42	36	11	7
Water mains breaks	42	50	54	75	68	20	-	-	-	-
Average daily consumption (thousands of gallons)	1,067	1,082	1,037	1,100	1,072	1,169	-	-	-	-
Peak daily consumption (thousands of gallons)	1,700	1,700	1,453	1,800	1,610	1,700	-	-	-	-
Wastewater										
Average daily sewage treatment	1,100	1,780	1,090	1,090	903	980	-	-	-	-
Sewer connections - New	1	5	9	21	25	40	42	36	11	7
Transit										
Total route miles	None	None	None	None	None	None	None	None	None	None
Passengers	None	None	None	None	None	None	None	None	None	None

(a) data collection began in FY 2011

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

Function/Program	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	16	16	16	28	27	27	27	27	27	27
Fire stations	2	2	2	2	2	2	2	2	2	2
Refuse collection										
Collection trucks	5	5	5	5	4	4	3	3	3	3
Other public works										
Street (miles)	35.50	35.50	35.5	35.50	35.50	35.50	-	-	-	-
Highways (miles)	15.09	15.09	15.09	15.09	15.09	15.09	-	-	-	-
Streetslights	945	945	937	945	953	953	-	-	-	-
Traffic signals	14	14	14	14	14	14	13	13	13	12
Park and recreation										
Acreage	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61
Playgrounds	4	4	4	4	4	4	4	4	4	4
Baseball/softball diamonds	6	6	6	6	6	6	6	6	6	6
Soccer/football fields	2	2	2	2	2	2	2	2	2	2
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	67	67	67	67	66	66	-	-	-	-
Fire hydrants	336	336	336	336	333	333	-	-	-	-
Storage capacity (thousands of gallons)	1,300	1,300	1,300	1,300	1,300	1,300	-	-	-	-
Wastewater										
Sanitary sewers (miles)	43	43	43	43	43	43	-	-	-	-
Storm sewers (miles)	210	210	210	210	210	210	-	-	-	-
Treatment capacity (thousands of gallons)	2,000	2,000	2,000	2,000	2,000	2,000	-	-	-	-

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## Compliance

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the 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, 2011, which collectively comprise the City of Franklin, Virginia's basic financial statements and have issued our report thereon dated December 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Franklin, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Franklin, Virginia's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

*Compliance and Other Matters: (Continued)*

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*.

We noted other matters that we have reported to management of the City of Franklin, Virginia, in a separate letter dated December 5, 2011.

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

*Robinson, Farmer, Cox Associates*  
Charlottesville, Virginia  
December 5, 2011

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## Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

### Compliance

We have audited the compliance of the City of Franklin, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City of Franklin, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express an opinion on the City of Franklin, Virginia's compliance based on our audit.

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

In our opinion, the City of Franklin, Virginia complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

The management of the City of Franklin, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Franklin, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

**Internal Control Over Compliance: (Continued)**

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

*Robinson, Farmer, Cox Associates*  
Charlottesville, Virginia  
December 5, 2011

CITY OF FRANKLIN, VIRGINIA

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2011

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title (Pass - Through Grantor's Number)	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass Through Payments:			
Department of Social Services:			
Promoting safe and stable families	93.556	0950109/0950110	\$ 13,712
Temporary assistance to needy families (TANF)	93.558	0400109/0400110	124,233
Refugee and entrant assistance - state administered programs	93.566	0500109/0500110	383
Low income home energy assistance	93.568	0600409/0600410	13,475
CCDF Cluster:			
Child care and development block grant	93.575	0770109/0770110	73,217
ARRA - Child care and development block grant	93.713	0740109/0780109	10,281
Child care mandatory and matching funds of the child care and development fund	93.596	0760109/0760110	54,100
Stephanie Tubbs Jones child welfare services program	93.645	0900109/0900110	610
Foster Care Cluster:			
Foster care - Title IV-E	93.658	1100109/1100110	\$ 74,477
ARRA - Foster care - Title IV-E	93.658	1100109/1100110	1,635
Adoption assistance	93.659	1120109/1120110	4,904
Social services block grant	93.667	1000109/1000110	110,506
Chafee foster care independence program	93.674	9150108/9150109/9150110	2,272
Children's Health Insurance Program (CHIP)	93.767	0540109/0540110	5,834
Medical assistance program	93.778	1200109/1200110	118,407
Total Department of Health and Human Services			\$ 608,046
Department of Defense:			
Direct Payments:			
Junior ROTC program	12.000	N/A	\$ 44,720
Department of Agriculture:			
Pass Through Payments:			
Department of Agriculture:			
Cooperative Forestry Assistance	10.664	50105-653	\$ 2,500
Community Facility Loans and Grants	10.766	N/A	50,000
Rural Business Enterprise Grants	10.769	N/A	76,464
Child Nutrition Cluster:			
Food distribution - schools: school lunch program	10.555	10.555/2010/2009	\$ 33,619
Department of Education:			
Child Nutrition Cluster:			
National school lunch program	10.555	10.555/2010/2009	366,357
National school breakfast program	10.553	10.553/2010/2009	134,435
Summer food service program	10.559	10.559/2010/2009	
Department of Social Services:			
SNAP Cluster:			
State administrative grants for the supplemental nutrition assistance program	10.561	00101109/0040109/0040110	\$ 197,903
ARRA - State administrative grants for the supplemental nutrition assistance program	10.561	00101109/0040109/0040110	4,163
Total Department of Agriculture			\$ 865,441
Department of Labor:			
Direct payments:			
ARRA - WIA youth activities	17.259	N/A	\$ 2,900

CITY OF FRANKLIN, VIRGINIA

Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2011

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title (Pass - Through Grantor's Number)	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Housing and Community Development:			
Pass Through Payments:			
Department of Housing and Community Development:			
Community development block grant	14.228	N/A	\$ <u>341,682</u>
Department of Transportation:			
Direct Payments:			
Airport improvement program	20.106	N/A	\$ 83,244
Highway planning and construction	20.205	N/A	
Pass Through Payments:			
Department of Motor Vehicles:			
Alcohol open container requirements	20.607	154AL10504084031	<u>3,132</u>
Total Department of Transportation			\$ <u>86,376</u>
Department of Homeland Security:			
Direct Payments:			
Staffing for adequate fire and emergency response	97.083	N/A	\$ 18,630
Pass Through Payments:			
Department of Emergency Management:			
Emergency management performance grant	97.042	N/A	\$ 16,595
State Homeland Security Program	97.073	N/A	12,534
Law enforcement terrorism prevention grant	97.074	N/A	<u>4,799</u>
Total Department of Homeland Security			\$ <u>52,558</u>
Appalachian Regional Commission:			
Pass Through Payments Payments:			
Department of Housing and Community Development			
Appalachian regional development	23.001	N/A	\$ <u>240,690</u>
Department of Education:			
Pass Through Payments:			
Department of Education:			
ARRA - State fiscal stabilization fund (SFSF) - education state grants	84.394	S394A090047	\$ 361,674
Adult basic education	84.002	V002A080046	16,561
Title I, Part A Cluster:			
Title I: Grants to local educational agencies	84.010	S010A080046	760,931
ARRA - Title I: Grants to local educational agencies	84.389	S389A090046	12,080
School improvement grants	84.377	S377A080047	218,401
Special Education Cluster:			
Special education - grants to states	84.027	H027A080107	326,213
ARRA - Title VI-B: Special education - grants to states	84.391	H391A090107	178,825
Special education preschool grants	84.173	H173A080112	9,258
Career and technical education: basic grants to states	84.048	V048A090046	39,378
Safe and drug free schools and communities state grant	84.186	Q186A080048	
Rural education	84.358	S358B090046	32,086
21st Century Community Learning Centers	84.287	N/A	236,985
Reading first state grants	84.357	S357A070048	
Education technology Cluster:			
Education technology state grants	84.318	S318X080046	4,035
ARRA - Education technology state grants	84.386	S386A090046	8,000
Improving teacher quality state grants	84.367	S367A080044	<u>68,448</u>
Total Department of Education			\$ <u>2,272,875</u>
Total Expenditures of Federal Awards			\$ <u>4,515,288</u>

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



CITY OF FRANKLIN, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2011

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Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal grant activity of the City of Franklin, Virginia under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Franklin, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Franklin, Virginia.

Note 2 - Summary of Significant Accounting Policies

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

(2) Pass-through entity identifying numbers are presented where available.

Note 3 - Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General fund	\$ 111,090
Special revenue funds:	
Virginia public assistance fund	810,113
Neighborhood stabilization program fund	240,690
Community development block grant - incubator fund	418,146
Enterprise funds:	
Airport fund	83,244
Total primary government	\$ <u>1,663,283</u>

Component unit - City of Franklin Public Schools

School operating fund	\$ 2,317,595
School cafeteria fund	534,410
Total component unit public schools	\$ <u>2,852,005</u>

Total federal expenditures per basic financial statements \$ 4,515,288

Total federal expenditures per the Schedule of Expenditures of Federal Awards \$ 4,515,288

CITY OF FRANKLIN, VIRGINIA

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

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

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

**Section II - Financial Statement Findings**

There are no financial statement findings to report.

**Section III - Federal Award Findings and Questioned Costs**

There are no federal award findings to report

**Section IV - Financial Statement Findings - Prior Year**

There are no financial statement findings from the prior year.