

*Community
Community*



*Growth
Growth*



CITY OF FRANKLIN, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL
REPORT

For the Period Ended June 30, 2018
Prepared by the Department of Finance



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Spirit*



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THE CITY OF FRANKLIN, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018



Growth – Community – Spirit
Department of Finance

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

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City of Franklin, Virginia

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City of Franklin, Virginia

Directory of Principal Officials

June 30, 2018

Mayor

Frank M. Rabil

Vice Mayor

Barry Cheatham

Council Members

Brenton D. Burgess
Linwood Johnson
Robert Cutchins

Gregory McLemore
Wynndolyn H. Copeland

Constitutional Officers

Dinah M. Babb
Brenda B. Rickman

Treasurer
Commissioner of Revenue

Franklin City Public Schools

Robert Holt
Tamara Sterling
Pamela D. Kindred

Chairman of School Board
Superintendent
Coordinator of Finance

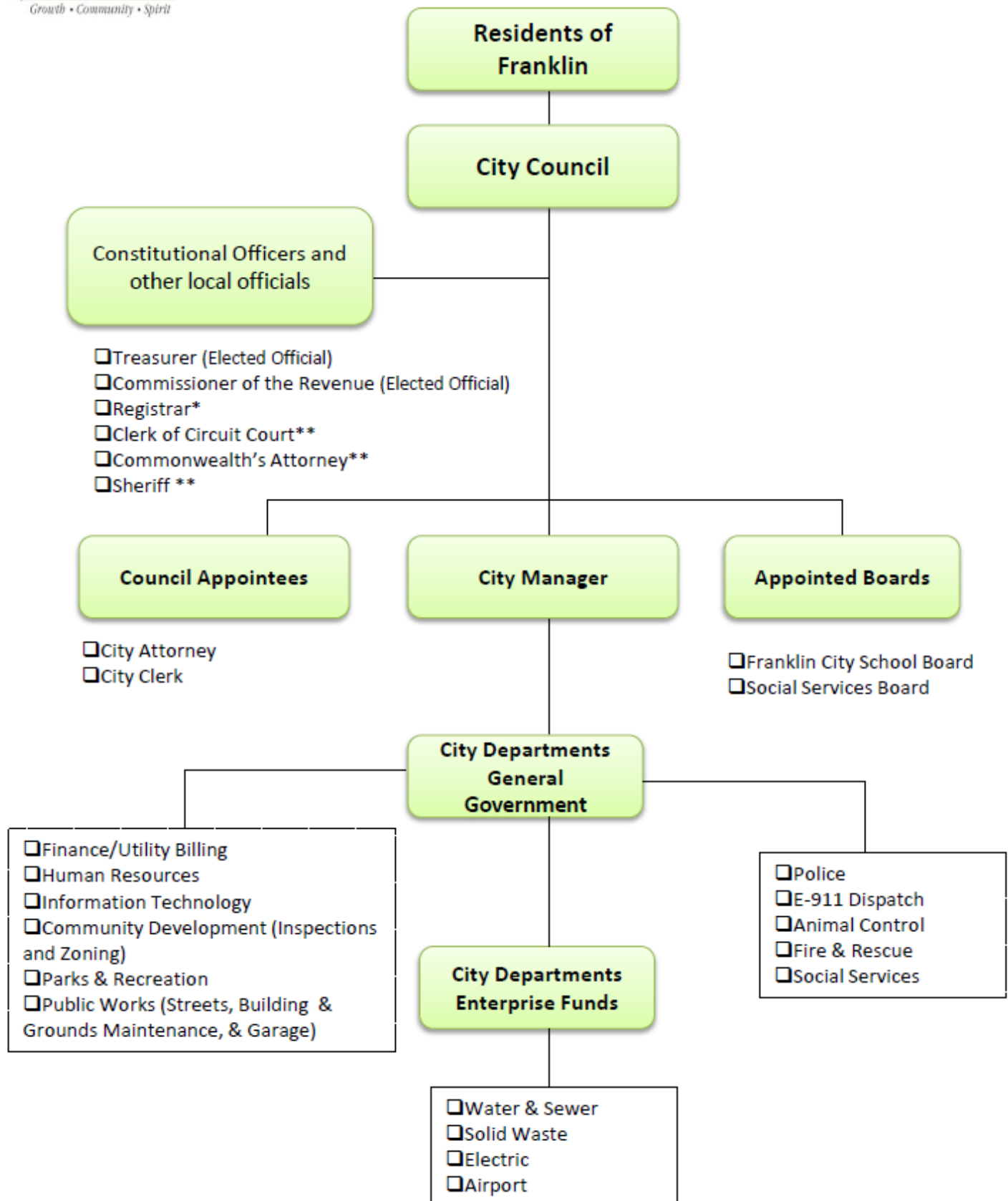
City Administration

Clarence Monday
H. Taylor Williams, IV
Tracy Gregory, CPA
Phillip M. Hardison
Mark Bly
Frank A. Davis
Jennifer L. Maynard
Mark Carr
Russell L. Pace
Anne White
Donald E. Goodwin

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

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CITY OF FRANKLIN ORGANIZATIONAL CHART



*Appointed by State Board of Elections

** Shared Services with Southampton County

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November 14, 2018

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, 2018. 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. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City of Franklin. GAAP requires management to provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report.

The Reporting Entity and Its Services

Background

Franklin, which had been a part of Southampton County for many years, became an incorporated town in 1876 and an independent city on December 22, 1961. Subsequent annexations in 1986 and 1996 increased the population and land area of the City. The population today is approximately 8,900 and the land area is 8.75 square miles. The City is located in the southeastern part of the state in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the country.

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

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

The City of Franklin provides a full range of general governmental services for its citizens, including police and fire protection and emergency medical services; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services and cultural events. The City's Community Development Office provides building and planning related services throughout Southampton County through a shared services agreement with the County.

Other services provided include public education, health and social services, and judicial activities. The City owns and operates a municipal electric company (Franklin Power & Light), which provides electrical services to City residents and certain geographical locations within surrounding jurisdictions (Southampton, Suffolk and Isle of Wight). The City also owns and operates water and sewage facilities that extend into portions of Southampton and Isle of Wight Counties; provides curb-side solid waste disposal and recycling services; owns and operates a City pool; and manages various paid recreational activities. Franklin owns and maintains a municipal airport located one mile east of Franklin in Isle of Wight County.

Component Units

In addition to general governing activities, the governing body has significant financial influence over the Schools, which is reported separately within the City of Franklin's financial statements as a component unit. Component units are legally separate entities for which the City is financially accountable. For Franklin City Public Schools, the City must provide all capital improvement funds, pay debt on school projects, and provide a significant amount of operating funds required, but not provided by the state. The City Council's authority is limited to appointing local school board members and appropriating funds. Local school boards do not have taxing or bond issuance authority.

The Industrial Development Authority is also reported as a component unit. Additional information on legally separate entities can be found in the Notes to the Financial Statements and in the Other Supplementary Information Section.

Economic Conditions & Outlook

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

Local Economy

The City's development activities are executed primarily through Franklin Southampton Economic Development Council, Inc. (FSEDI), whose core mission is to grow and diversify the tax and employment base of the City. This mission is accomplished by promoting Franklin City as an ideal location for business start-up, relocation, and expansion and capital investment. The City enjoys its unique relationship with Isle of Wight and Southampton Counties and through collaboration with these neighbor counties, and partnership with FSEDI, the City is better positioned to promote economic growth and stability. Major initiatives of the City from FSEDI activities include:

- ❖ Assisted in the negotiation of the former Money Mailer building to Birdsong Peanuts through the spring of 2019.
- ❖ Successfully collaborated with Isle of Wight County to retain ownership of the former Skating Rink property and then negotiated the sale to Quality Aire to expand their business. The City of Franklin retained 100% of the proceeds from the real estate transaction and the facility is located in the revenue sharing area.
- ❖ Stepping Stones, Landwerks Contracting, and New Hope Family Services all graduated from the Franklin Business Center and located their business in Downtown Franklin or the revenue sharing area with Isle of Wight County.
- ❖ The Franklin Business Center was awarded a Gold Award from the International Economic Development Council for Special Purpose Print.
- ❖ Paul D. Camp Community College announced an Entrepreneurial Scholarship to provide funding for one year at the Franklin Business Center for a Paul D. Camp College graduate.
- ❖ 13 new and expanding businesses signed leases to locate at the Franklin Business Center.
- ❖ STARTUP Downtown Franklin through a collaboration of Franklin Southampton Economic Development, Inc. continues to generate businesses in the downtown area.

Local taxes indicative of Franklin's economy was stable at June 30, 2018 as shown in the table below:

Fiscal Year	Business Licenses	Meals Tax	Lodging Tax	Cigarette Taxes	Sales & Use Taxes	TOTALS
FY 11	\$ 941,650	\$ 1,154,659	\$ 117,911	\$ 208,592	\$ 1,592,996	\$ 4,015,807
FY 12	\$ 934,328	\$ 1,330,207	\$ 198,481	\$ 244,959	\$ 1,683,980	\$ 4,391,956
FY 13	\$ 923,492	\$ 1,259,747	\$ 152,875	\$ 356,358	\$ 1,782,760	\$ 4,475,232
FY 14	\$ 952,525	\$ 1,294,882	\$ 149,854	\$ 342,433	\$ 1,722,799	\$ 4,462,493
FY 15	\$ 921,270	\$ 1,439,601	\$ 149,166	\$ 373,904	\$ 1,767,063	\$ 4,651,004
FY 16	\$ 969,182	\$ 1,494,137	\$ 123,626	\$ 352,199	\$ 1,767,781	\$ 4,706,925
FY 17	\$ 959,132	\$ 1,498,567	\$ 141,317	\$ 316,662	\$ 1,799,419	\$ 4,715,097
FY 18	\$ 972,179	\$ 1,522,481	\$ 170,060	\$ 298,773	\$ 1,854,694	\$ 4,818,187
Growth Trend Since FYE 6-30-11						\$ 802,380
						19.98%
Growth Trend Since FYE 6-30-17						\$ 103,090
						2.19%

Enterprise Zones

In an effort to attract new business to the community, the City of Franklin has established Enterprise Zones. These zones have been approved and authorized by the state and entitle new businesses to various state and local incentives to promote further economic development including job creation. The City benefits from revenue sharing funds from the Counties for commercial development outside the city where city utility services are provided.

City Council and City Management continue to explore opportunities and establish priorities as the guiding principles to move the City forward while establishing collaborative partnerships between City organizations, (the Franklin Southampton Economic Development Inc., School Board, Advisory Committees, etc.) and neighboring jurisdictions to further advance the objectives of the City as well as its partners.

Bond Rating

The City maintained the AA credit rating from Standard & Poor's (S & P) bond rating agency received in April 2014. S & P referred to the City's strong reserves, strong cash position to cover debt service, and sound budgetary and financial management practices for support of the rating. The City holds an Aa1 rating from Moody's Investors Services.

Financial Information and Significant Financial Policies

Minimum Fund Balance Policy

One of the financial policies closely monitored is the City's minimum fund balance policy which indicates the ability of the City to cope with unexpected financial challenges or emergencies. This policy enables the City to (1) survive potential financial emergencies and adverse fluctuations in revenue cycles, (2) take advantage of unexpected opportunities and, (3) retain its sound financial position. The City has established by policy, the ratio of unassigned General Fund balance as a percentage of budgeted annual expenditures in the General Fund at a minimum of 15%. At June 30, 2018, the City's unassigned fund balance of \$4.19 million represented 17.22% of the budgeted annual expenditures (as revised) exceeding the minimum policy level.

The following table present the City's General Fund ratio of unassigned fund balance to total expenditures for the previous five fiscal years:

Fiscal Year	General Fund Unassigned Fund Balance	General Fund Budgeted Expenditures	Ratio
2018	\$ 4,189,190	\$24,322,449	17.22%
2017	\$ 5,055,159	\$23,324,065	21.67%
2016	\$ 5,035,674	\$23,884,309	21.08%
2015	\$ 5,123,487	\$23,831,556	21.50%
2014	\$ 4,071,412	\$23,731,890	17.16%
2013	\$ 3,648,940	\$23,875,210	15.28%

Internal Control and Budget Accounting

The City is responsible for establishing and maintain an internal control structure designed to ensure the assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. 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 will be free from material misstatement. The City's control environment reflects the attitude of fiscal responsibility of the City's resources amongst all departments. City Finance abides by the Government Finance Officers Association Code of Ethics. Budget controls ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Additional controls are exercised administratively amongst City departments. As a recipient of federal financial assistance, the City also is responsible for maintaining an adequate internal control structure. This structure allows the City to ensure and document compliance with the U.S. Office of Management and Budget for major federal award programs. These reports are available in the Compliance (Single Audit) section of this report.

The keystone to the City's ability to maintain its fiscal responsibility is the continuing dedication of the City Council, which is evidenced by the City Council's adoption of sound financial policies. These policies relate primarily to cash and debt management and budget operations as a means of ensuring prudent and responsible monitoring, spending, and reporting of the City's resources. From time to time, the City Council evaluates these policies and makes amendments as needed to address changing economic conditions and management practices.

The legal level of budgetary control (level at which expenditures cannot exceed the appropriated amount) takes place at the department level. City Council may authorize supplemental appropriations based on the availability of financial resources. Any revisions that alter total appropriations must be approved by City Council. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Although encumbered amounts lapse at year-end, the outstanding encumbrances are reviewed and generally reappropriated as part of the following year's budget provided there is availability of funding at year end. City Council approves transfers between departments at the level not authorized by the City Manager.

Financial Advisor

The City uses Financial Advisors to guide it through the long-term financial planning needed to address capital improvement planning and related debt service structuring. The efforts of Davenport & Company LLC have helped the City achieve long-term cost savings associated with debt service.

Independent Audit

The City of Franklin's financial statements have been audited by Creed, Jones & Alga, P.C. 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, 2018 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 unmodified opinion that the City of Franklin's financial statements for the fiscal year ended June 30, 2018, are fairly presented in conformity with GAAP. The independent auditor's report is presented in the Financial Section of this report.

Single Audit

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.

Financial Outlook

The financial outlook for Fiscal Year 2018-19 remains stable, with minimum revenue growth expected and continued cost-saving efforts planned. The City has been consistently able to achieve a balanced budget in recent years without eliminating direct services to Franklin residents and with the minimum responsible impact to the real estate tax rate. This has been accomplished in the wake of fiscal challenges which to some extent were beyond the City's control (i.e. rising cost of regional jail administration in which the City is a member jurisdiction along with Isle of Wight and Suffolk). We feel that current management initiatives, along with prudent long-range strategic and comprehensive planning, will enable the City to continue to generate sufficient resources to meet future service demands, maintain a stable financial position, protect the City's good credit rating, and maintain realistic and affordable tax burdens on the citizens of the City.

Other Accomplishments for FY 2018

We are pleased to report some significant accomplishments and initiatives undertaken during the year ended June 30, 2018:

General Government Administration

- ❖ Achieved a 99.5% collection rate on delinquent real estate taxes and 99.1% on delinquent personal property taxes; reduced the amount of outstanding delinquent taxes on the City's books from March 2010 to November 2017 by over \$935,645.

Public Safety

- ❖ Continued progress by the City's Employee Safety Committee with VML Risk Management Guidelines to reduce worker's compensation claims/losses.
- ❖ Worked with city leaders and council to increase Advanced Life Support (ALS) pay for certified employees in an effort to reduce the attrition rate.
- ❖ Implemented a cancer reduction plan for all volunteer and career staff.
- ❖ Received a USDA grant to assist in finding a replacement police patrol vehicle.

Community Development & Neighborhood Services

- ❖ Managed and implemented the 3rd year of a \$1.6 million multi-year CDBG grant for the Madison Street Neighborhood Revitalization project. As of the date of this report, fifteen (15) homes are complete, under construction, or under contract and ready to begin rehabilitation. In addition, two (2) homes are in review and will go out to bid prior to the end of the current fiscal year.
- ❖ Managed the completion of six (6) housing rehabilitation projects; two (2) of which were housing replacement projects. These projects were for low and moderate income owner occupied households to Housing Quality Standards from grant funds totaling approximately \$295,000 through the Western Tidewater HOME Consortium program.
- ❖ Worked with the Planning Commission and City Council to adopt and amend various zoning ordinances to implement the Comprehensive Plan and City Council's vision for removing development barriers and to sustain managed growth.
- ❖ Continued staff training in the Community Rating System (CRS) program through FEMA seeking to lead to inclusion of Franklin in the CRS program. In addition, worked with VDEM and FEMA to address issues raised during the City's Community Assistance Visit (CAV). This is the initial qualifying step for participation in the CRS.
- ❖ Participated with VDEM to implement the Crisis Track software to streamline on-site damage assessment following a declared disaster.
- ❖ Continued work with the Hampton Roads Planning District Commission as part of a coastal resiliency work group. Began work with the Hampton Roads Transportation Planning Organization on a corridor study for US 58, covering an area from Suffolk to US 58's intersection with I-85.
- ❖ The Inspections Department received a Building Code Effectiveness Grading System (BCEGS) rating from ISO of "3" for one and two family construction and a "3" for all other construction for both the City and Southampton County. This rating places the City in the top 5% of the approximately 144 localities in Virginia that participate.
- ❖ Managed approval of one new telecommunications tower in Franklin near the hospital and the construction of three new towers in the County to improve telecommunication capabilities of all who live, work and travel in the area.
- ❖ County adopted Voluntary Agriculture and Forestry District regulations in June 2017. Since that time, approved districts and current applications will protect 102,887 acres/161 square miles of agricultural and forestry land for the next ten years.
- ❖ Facilitated acquisition of sixteen (16) acres of riverfront property from IP and Franklin properties to allow development of River Walk Park as funding is available. Completed preparation of construction plan for future park.

Parks & Recreation

- ❖ A new playground with various play equipment for youth with an estimated cost of \$108,000 was built through a combined project of International Paper Foundation, Dominion Energy Services, Inc., Dominion Foundation & the City of Franklin in October 2017.

Public Works

- ❖ The City continued its annual street resurfacing activities focused on major thoroughfares by completing College Drive from Steward Drive to Clay Street
- ❖ Continuation of Spring Amnesty Days cleanup efforts for the convenience of citizens which helps beautify the community.
- ❖ The City continue to rehabilitate its aging storm sewer system using trenchless technology by lining pipes with CIPP.

Other Funds

- ❖ The Electric Department continues its in house LED street lighting replacement project to improve vehicular and pedestrian safety and overall lighting levels which is expected to have significant public safety benefits while lowering maintenance cost and energy consumption.
- ❖ The Water & Sewer Division and other Public Works staff have continued efforts to comply with a consent order issued by DEQ concerning maintenance and compliance requirements at the City's Wastewater Treatment Plant. The City has successfully received its ten-year Groundwater Withdrawal permit from DEQ. The City lined 10,113 L.F of sanitary sewer by CIPP. The City replaced the College Drive Well Pump.
- ❖ Airport enhancements in progress include continued construction of the Partial Parallel Taxiway to Runway 27 which is 98% state and federal funded with minimal support from local revenue sources.

As stated, this is a condensed listing of several major items addressed in FY 18. As evidenced, the City continued its history of (1) seeking grant funds for public safety and community improvements, (2) utilizing resources to provide quality governmental services to Franklin Citizens, (3) expanding technology to improve operational efficiencies and control costs, (4) promoting safety and wellness throughout all City departments, (5) maintaining sound financial management and (6) improving activities and programs to enhance overall quality of life. These highlights and accomplishments are in sync with the priorities established by City Council.

Awards and Recognition

Comprehensive Annual Financial Report

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Franklin, Virginia for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This is the sixth consecutive year that the City has applied for and received this prestigious award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded the Certificate of Achievement for Excellence in Financial Reporting, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States and applicable legal requirements. The City is proud of this accomplishment. A Certificate of Achievement is valid for one year. The City believes its CAFR continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the Finance Department and all departments who played a role in achieving a favorable year-end audit. We also express sincere appreciation to City Council whose oversight of the financial affairs of the City has resulted in the City's strong financial position. Council is commended for their interest and support in the strategic planning for the City's future and for conducting the operations of the City of Franklin in a responsible and progressive manner.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Clarence Monday", written over a horizontal line.

Clarence Monday
Interim City Manager

A handwritten signature in black ink, appearing to read "Tracy Gregory", written in a cursive style.

Tracy Gregory, CPA
Interim Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Franklin
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

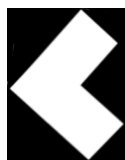
June 30, 2017

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION





INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2018, and the related notes to the financial statements, which collectively comprise the City of Franklin, Virginia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13 and budgetary comparison information, schedule of changes in the political subdivision's net pension liability and related ratios, schedule of employer's share of net pension liability VRS Teacher Retirement Plan, schedule of employer contributions, notes to RSI, schedule of employer's share of net OPEB liability – GLI, schedule of employer contributions - GLI, notes to RSI – GLI, schedule of changes in the political subdivision's net HIC OPEB liability and related ratios, schedule of employer contributions – HIC, notes to RSI – HIC, schedule of employer's share of net OPEB liability – LODA, schedule of employer contributions - LODA, notes to RSI – LODA, schedule of employer's share of net OPEB liability – VLDP, schedule of employer contributions - VLDP, notes to RSI – VLDP, schedule of changes in the political subdivision's total OPEB liability and related ratios, and schedule of employer contributions on pages 126–160 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 required supplementary information 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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, component unit financial statements, schedule of revenues and expenses—budget to actual, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, component unit financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund statements, component unit financial statements, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018, 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 solely 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 effectiveness of City of Franklin, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Franklin, Virginia's internal control over financial reporting and compliance.

Creedle, Jones & Alga, P.C.

Creedle Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
November 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year July 1, 2017 – June 30, 2018

This section of the City of Franklin, Virginia's (the City's) annual financial report presents an overall review of the City's financial activities for the fiscal year ended June 30, 2018. To enhance your understanding of the City's financial performance, please read this discussion and analysis in conjunction with the transmittal letter in the front of this report, the City's basic financial statements, and supplementary information following this section.

Financial Highlights

General Fund

- The City's real estate tax rate remained at .99 cents per \$100 of assessed valuation.
- Overall, General Fund revenues (less transfers) increased by \$430,178 from FY 2017 from \$20,822,393 to \$21,252,571.
- At the close of FY 2018, unassigned fund balance for the General Fund was \$4,189,190. At the close of FY 2017, the unassigned fund balance of the General Fund was \$5,055,159. This represents a decrease of \$865,969 or 17.1%.
- The composition of the \$5,498,427 fund balance at the end of the year was 76.19% unassigned, 17.64% nonspendable, and 6.17% assigned.
- The General Fund, on a current financial resources basis, reported revenues and other financing sources of \$(1,076,629) under expenditures and financing uses. This is after making a \$5,037,395 payment to Franklin City Schools, \$153,725 payment to the Airport Fund (Enterprise), \$803,192 to Special Revenue Funds, \$372,445 to Capital Projects Fund, and \$1,131,090 to the Debt Service Fund. Expenditures increased by \$998,566 when compared to FY 2017.

Governmental Activities

- At the close of the fiscal year, the assets and deferred outflows of resources of the City's governmental activities exceeded its liabilities and deferred inflows of resources by \$12,405,349. Of this amount, \$(1,059,512) is unrestricted and \$2,561,938 is restricted for debt service. The residual \$10,902,923 relates to net investment in capital assets and is not available for expenditure.
- The City's total net position increased by \$3,641,591 from the prior year. Of this amount, an increase of \$71,944 is related to governmental activities and an increase of \$3,569,647 is attributed to business-type activities, exclusive of restatement of net position.
- The City's total outstanding general obligation debt (including premiums) at June 30, 2018 was \$18,387,404. This includes \$3,201,762 in business-activity debt and \$15,185,642 in general government activities.

Overview of the Financial Statements

This Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical, and financial compliance reports for federal funds. The financial section consists of three (3) sections: management's discussion and analysis, basic financial statements, and supplementary information. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The *Statement of Net Position* presents information on all City assets and liabilities with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, other non-financial factors will need to be considered, such as changes in the City's property tax base and condition of the City's infrastructure. The *Statement of Activities* presents information identifying how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

In the ***Statement of Net Position*** and the ***Statement of Activities***, the City is divided into the following:

- Governmental activities – The City's basic municipal services are reported here and include general government administration, judicial administration, public safety, highways and streets, community development, public health, and cultural and recreation. These activities are mainly supported by taxes and intergovernmental revenue.
- Business-type activities – The City charges user fees to customers to help offset all or most of the cost of the services provided. The business-type activities of the City reported in this section include Water and Sewer Utility, Electric Utility, Solid Waste, and Airport operations. While the Solid Waste, Water and Sewer, and Electric Utility Funds are self-supporting, the City provides general fund support for operation of the Airport.
- Component Units – The government-wide financial statements include not only the City itself (known as the Primary Government), but also the following legally separate component units for which the City is financially accountable for providing operating and capital funding, the City of Franklin Public Schools and the City of Franklin Industrial Development Authority. Financial information for these component units is reported separately from the financial information presented for the primary government and can be found in the "Other Supplementary Information" section of this report.

Fund Financial Statements

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

- **Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The focus here is on (1) inflows and outflows of cash and other financial resources that can be readily converted into cash and (2) the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating whether there are more or fewer resources that can be spent in the short term to finance City operations. Because this information does not address the long-term focus of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Virginia Public Assistance, 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 City adopts an annual budget for its various funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided.

- **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, solid waste, 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.
- **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.

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.

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 and Industrial Development Authority component units. Supplementary information follows the Notes to the Financial Statements.

Government-Wide Financial Statements Analysis

Over time, net position 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 and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$23,972,711.

Summary of Net Position
As of June 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets						
Current and other assets	\$ 10,438,798	\$ 10,553,350	\$ 6,343,557	\$ 3,971,418	\$ 16,782,355	\$ 14,524,768
Capital assets (net)	<u>26,075,644</u>	<u>26,573,661</u>	<u>12,019,630</u>	<u>11,270,345</u>	<u>38,095,274</u>	<u>37,844,006</u>
Total Assets	36,514,442	37,127,011	18,363,187	15,241,763	54,877,629	52,368,774
Deferred Outflows of Resources	<u>2,002,474</u>	<u>1,685,366</u>	<u>418,379</u>	<u>369,004</u>	<u>2,420,853</u>	<u>2,054,370</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 38,516,916</u>	<u>\$ 38,812,377</u>	<u>\$ 18,781,566</u>	<u>\$ 15,610,767</u>	<u>\$ 57,298,482</u>	<u>\$ 54,423,144</u>
Liabilities						
Current and other liabilities	\$ 1,109,822	\$ 965,368	\$ 2,187,103	\$ 2,070,298	\$ 3,296,925	\$ 3,035,666
Long-term liabilities	<u>24,219,175</u>	<u>23,314,338</u>	<u>4,871,516</u>	<u>5,357,365</u>	<u>29,090,691</u>	<u>28,671,703</u>
Total Liabilities	25,328,997	24,279,706	7,058,619	7,427,663	32,387,616	31,707,369
Deferred Inflows of Resources	782,570	124,095	155,585	38,481	938,155	162,576
Net Position						
Net investment in capital assets	10,902,923	10,732,282	8,410,799	7,563,748	19,313,722	18,296,030
Restricted	<u>2,561,938</u>	<u>3,264,640</u>	-	-	<u>2,561,938</u>	<u>3,264,640</u>
Unrestricted	<u>(1,059,512)</u>	<u>411,654</u>	<u>3,156,563</u>	<u>580,875</u>	<u>2,097,051</u>	<u>992,529</u>
Total Net Position	<u>12,405,349</u>	<u>14,408,576</u>	<u>11,567,362</u>	<u>8,144,623</u>	<u>23,972,711</u>	<u>22,553,199</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 38,516,916</u>	<u>\$ 38,812,377</u>	<u>\$ 18,781,566</u>	<u>\$ 15,610,767</u>	<u>\$ 57,298,482</u>	<u>\$ 54,423,144</u>

The largest portion of the City's total net position of \$23,972,711 is its \$19,313,722 net 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 position is comprised of \$2,097,051 in unrestricted net position, which may be used to meet the City's ongoing obligations, and \$2,561,938 in restricted assets for debt service.

The City's financial position includes \$2,097,051, or 8.75% of the net position, as unrestricted net position comprised of \$(1,059,512) from governmental activities and \$3,156,563 from business-type activities are available to allow the City to provide obligations to citizens and creditors.

Statement of Activities

The following table indicates the changes in the net position of the governmental and business-type activities:

Summary of Changes in Net Position

For the Fiscal Years Ended June 30, 2018 and 2017

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues						
Program Revenues						
Charges for services	\$ 1,718,108	\$ 1,923,563	\$ 20,704,221	\$ 19,370,025	\$ 22,422,329	\$ 21,293,588
Operating grants and contributions	4,519,994	4,224,244	1,511,106	125,114	6,031,100	4,349,358
General Revenues						
Real estate and personal property taxes	7,506,067	7,223,791	-	-	7,506,067	7,223,791
Other local taxes	5,688,011	5,577,423	-	-	5,688,011	5,577,423
Revenue sharing from counties	782,345	785,799	-	-	782,345	785,799
Grants and contributions not restricted to specific programs	1,610,034	1,628,216	-	-	1,610,034	1,628,216
Unrestricted revenues from use of money and property	620,141	445,878	2,673	1,341	622,814	447,219
Miscellaneous	912,927	745,336	23,216	26,244	936,143	771,580
Total Revenues	23,357,627	22,554,250	22,241,216	19,522,724	45,598,843	42,076,974
Expenses						
General government administration	3,003,717	2,846,060	-	-	3,003,717	2,846,060
Judicial administration	344,563	357,168	-	-	344,563	357,168
Public safety	7,723,020	7,653,661	-	-	7,723,020	7,653,661
Public works	3,122,262	2,214,262	-	-	3,122,262	2,214,262
Health and welfare	2,471,638	1,845,518	-	-	2,471,638	1,845,518
Education	5,279,390	5,085,157	-	-	5,279,390	5,085,157
Parks, recreation, and cultural	747,262	899,851	-	-	747,262	899,851
Community development	1,822,617	1,821,402	-	-	1,822,617	1,821,402
Interest and fees on long-term debt	307,416	405,480	-	-	307,416	405,480
Water and sewer	-	-	3,012,357	2,854,187	3,012,357	2,854,187
Electric	-	-	12,474,698	12,697,183	12,474,698	12,697,183
Solid waste	-	-	1,106,538	1,209,202	1,106,538	1,209,202
Airport	-	-	541,774	583,462	541,774	583,462
Total Expenses	24,821,885	23,128,559	17,135,367	17,344,034	41,957,252	40,472,593
Excess (Deficiency) Before Transfers	(1,464,258)	(574,309)	5,105,849	2,178,690	3,641,591	1,604,381
Transfers	1,536,202	1,467,807	(1,536,202)	(1,467,807)	-	-
Increase in Net Position	71,944	893,498	3,569,647	710,883	3,641,591	1,604,381
Beginning Net Position	14,408,576	13,515,078	8,144,623	7,433,740	22,553,199	20,948,818
Beginning Net Position (Restated)	12,333,405	13,515,078	7,997,715	7,433,740	20,331,120	20,948,818
Ending Net Position	<u>\$12,405,349</u>	<u>\$14,408,576</u>	<u>\$11,567,362</u>	<u>\$ 8,144,623</u>	<u>\$23,972,711</u>	<u>\$22,553,199</u>

Government Activities

Real estate and personal property tax revenue, the City's largest revenue source, totaled \$7,357,887, an increase from the previous year at \$7,249,980. The City's real estate tax rate remained at .99 cents per hundred dollars of assessed valuation. Personal property was taxed at \$4.50 per \$100 of assessed value and, represents \$1,668,777 of total general property taxes (excludes tax relief portion of \$1,048,897). Other local tax revenues, which totaled \$5,688,011, consist primarily of local option sales, consumer utility, business license, motor vehicle license, lodging, and meals taxes.

Revenue Sharing from Counties of \$782,345 represents revenue sharing payments received from Isle of Wight and Southampton Counties as part of annexation and service providing agreements. This is a decrease from FY 2017 revenue sharing payments of \$785,799. Charges for services represent revenue received primarily from ambulance services and administration reimbursements from certain General Fund costs of the Enterprise Funds.

The City's expenses for governmental activities cover a wide range of services as seen in the above table. Overall, expenses for governmental activities increased \$1,693,326. The table below provides an overview of program expenses and related revenues.

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2018 and 2017

	<u>2018</u>		<u>2017</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 3,003,717	\$ (2,051,404)	\$ 2,846,060	\$ (1,676,053)
Judicial administration	344,563	(334,653)	357,168	(349,844)
Public safety	7,723,020	(6,444,155)	7,653,661	(6,712,578)
Public works	3,122,262	(1,311,305)	2,214,262	278,616
Health and welfare	2,471,638	(616,563)	1,845,518	(587,869)
Education	5,279,390	(5,279,390)	5,085,157	(5,085,157)
Parks, recreation, and cultural	747,262	(734,946)	899,851	(888,325)
Community development	1,822,617	(1,503,951)	1,821,402	(1,554,062)
Interest on long-term debt	<u>307,416</u>	<u>(307,416)</u>	<u>405,480</u>	<u>(405,480)</u>
Total	<u>\$ 24,821,885</u>	<u>\$ (18,583,783)</u>	<u>\$ 23,128,559</u>	<u>\$ (16,980,752)</u>

Business-Type Activities

Business-type activities are made up of the electric, solid waste, water and sewer, and airport fund activities.

Business-type activities increased the City's net position by \$3,569,647. Total operating revenues for business-type activities increased from FY 2017 by \$2,717,160. Total business-type operating expenses decreased by \$168,884.

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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$8,931,958, compared to \$9,349,895 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, the combined fund balance totaled \$5,498,427, which reflects a \$1,076,629 decrease over the prior year ending fund balance of \$6,575,056. Of this balance, \$4,189,190, or 76.19%, represents unassigned funds, which are available for operations of the government. The remaining \$1,309,237 is allocated among nonspendable and assigned fund balances. The 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, 2018, this percentage totaled 17.44%, a decrease over the previous year.
- **Capital Projects Fund.** The capital projects fund accounts for all general government, including schools, construction projects, excluding capital projects related to business-type activities which are accounted for elsewhere. At the end of the current fiscal year, the restricted fund balance totaled \$692.
- **Debt Service Fund.** The debt service fund has a restricted fund balance of \$2,561,938, which represents funds purposed to pay future debt service obligations.
- **Proprietary Funds.** The City's Proprietary 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, solid waste, municipal electric, and airport operations. Total net position of the enterprise funds at the end of the current fiscal year totaled \$11,567,362, an increase of \$3,569,647 (excludes restatement of net position of \$146,908) over the prior balance of \$8,144,623.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the year, City Council revised the budget on several occasions to include the appropriation of prior year reserves, grants, donations, and other revenues. Actual expenditures varied from the final budgeted amount for the General Fund. The actual contribution to the local school board was \$5,037,395 at the close of the fiscal year.

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

Budgetary Comparison

General Fund

For the Fiscal Years Ended June 30, 2018 and 2017

	<u>2018</u>			<u>2017</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues						
Taxes	\$ 7,457,635	\$ 7,457,635	\$ 7,357,887	\$ 7,478,693	\$ 7,478,693	\$ 7,249,980
Other	9,479,858	9,513,168	9,439,907	8,910,715	9,150,868	9,244,942
Intergovernmental	<u>4,071,122</u>	<u>4,277,603</u>	<u>4,454,777</u>	<u>4,000,232</u>	<u>4,326,015</u>	<u>4,327,471</u>
Total	<u>21,008,615</u>	<u>21,248,406</u>	<u>21,252,571</u>	20,389,640	20,955,576	20,822,393
Expenditures	<u>21,200,550</u>	<u>21,889,189</u>	<u>21,558,675</u>	<u>20,430,069</u>	<u>21,302,831</u>	<u>20,560,109</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(191,935)</u>	<u>(640,783)</u>	<u>(306,104)</u>	(40,429)	(347,255)	262,284
Other Financing Sources (Uses)						
Transfers in	1,691,698	1,689,927	1,689,927	1,603,196	1,603,196	1,603,196
Transfers (out)	<u>(2,008,506)</u>	<u>(2,433,260)</u>	<u>(2,460,452)</u>	<u>(2,017,182)</u>	<u>(2,021,234)</u>	<u>(2,052,929)</u>
Total	<u>(316,808)</u>	<u>(743,333)</u>	<u>(770,525)</u>	<u>(413,986)</u>	<u>(418,038)</u>	<u>(449,733)</u>
Net Change in Fund Balance Before Transfer from Surplus	<u>(508,743)</u>	<u>(1,384,116)</u>	<u>(1,076,629)</u>	(454,415)	(765,293)	(187,449)
Transfer from Surplus Funds	<u>508,743</u>	<u>1,382,979</u>	<u>-</u>	<u>454,415</u>	<u>765,293</u>	<u>-</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ (1,137)</u>	<u>\$ (1,076,629)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (187,449)</u>

The difference between the original budget and the final amended budget for the City's General Fund expenditures was approximately \$688,639 representing an increase in appropriations. One major variance is due to the following appropriation and anticipated expenditure made during FY 2018:

- \$355,895 appropriation to Capital Projects fund for pay-as-you go projects.
- \$205,000 appropriation for E911 generator.

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, 2018, totaled \$38,095,274 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. Net capital assets decreased \$498,017 in the governmental activities and increased \$749,285 in the proprietary activities. Additional details on school board capital assets can be located in the notes to the financial statements. See Note 7 – Capital Assets.

The following table summarizes capital assets, net of depreciation:

Change in Capital Assets

Primary Government

Governmental Activities

	<u>Balance July 1, 2017</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2018</u>
Land	\$ 5,109,209	\$ 171,953	\$ 5,281,162
Buildings	18,360,787	23,360	18,384,147
Improvements other than buildings	3,319,766	(11,106)	3,308,660
Machinery and equipment	10,587,427	20,712	10,608,139
School joint tenancy assets	4,888,086	-	4,888,086
Infrastructure	18,677,644	567,104	19,244,748
Total Capital Assets	60,942,919	772,023	61,714,942
Less: Accumulated depreciation and amortization	(34,369,258)	(1,270,040)	(35,639,298)
Total Capital Assets, Net	<u>\$ 26,573,661</u>	<u>\$ (498,017)</u>	<u>\$ 26,075,644</u>

Business-Type Activities

	<u>Balance July 1, 2017</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2018</u>
Land	\$ 179,258	\$ -	\$ 179,258
Construction in progress	92,756	1,444,898	1,537,654
Infrastructure	36,862,555	(838,580)	36,023,975
Buildings and improvements	1,449,418	(800)	1,448,618
Machinery and equipment	6,742,277	(269,622)	6,472,655
Total Capital Assets	45,326,264	335,896	45,662,160
Less: Accumulated depreciation and amortization	(34,055,919)	413,389	(33,642,530)
Total Capital Assets, Net	<u>\$ 11,270,345</u>	<u>\$ 749,285</u>	<u>\$ 12,019,630</u>

Component Unit

School Board

	<u>Balance July 1, 2017</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2018</u>
Land and land improvements	\$ 151,010	\$ -	\$ 151,010
Buildings and improvements	13,463,083	-	13,463,083
Infrastructure	4,719,662	-	4,719,662
Joint tenancy assets	(4,888,086)	-	(4,888,086)
Furniture, equipment, and vehicles	4,182,695	410,588	4,593,283
Total Capital Assets	17,628,364	410,588	18,038,952
Less: Accumulated depreciation and amortization	(8,241,666)	(391,377)	(8,633,043)
Total Capital Assets, Net	<u>\$ 9,386,698</u>	<u>\$ 19,211</u>	<u>\$ 9,405,909</u>

Debt Administration. The City's total outstanding general obligation debt at June 30, 2018 was \$17,936,676, which is considered to be tax supported debt. Other general fund long-term liabilities are also provided. Additional details on the long-term debt activity can be located in Note 8, Long-Term Obligations.

	<u>Balance July 1, 2017</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2018</u>
Governmental Activities			
General obligation bonds	\$ 15,325,946	\$ (567,270)	\$ 14,758,676
Capital leases	370,847	(114,503)	256,344
Compensated absences	<u>722,447</u>	<u>8,744</u>	<u>731,191</u>
	16,419,240	(673,029)	15,746,211
Add: Premiums	<u>454,167</u>	<u>(27,201)</u>	<u>426,966</u>
Total Governmental Activities	<u>\$ 16,873,407</u>	<u>\$ (700,230)</u>	<u>\$ 16,173,177</u>
Business-Type Activities			
General obligation bonds	\$ 3,686,000	\$ (508,000)	\$ 3,178,000
Capital leases	66,180	(21,530)	44,650
Compensated absences	<u>98,315</u>	<u>13,504</u>	<u>111,819</u>
	3,850,495	(516,026)	3,334,469
Add: Premiums	<u>27,722</u>	<u>(3,960)</u>	<u>23,762</u>
Total Business-Type Activities	<u>\$ 3,878,217</u>	<u>\$ (519,986)</u>	<u>\$ 3,358,231</u>

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 City's ratio of net general bonded debt to assessed value totals 3.34%.

	<u>FY 2018</u>	<u>FY 2017</u>
General Government Activities		
Bonds payable - general	\$ 6,925,000	\$ 7,119,000
School related bonds and notes	<u>7,833,676</u>	<u>8,206,946</u>
Total Tax Supported Debt	14,758,676	15,325,946
Business-Type Activities	<u>3,178,000</u>	<u>3,686,000</u>
Total Long-Term Debt	<u>\$ 17,936,676</u>	<u>\$ 19,011,946</u>
Total Per Capita Tax Supported Debt	<u>\$ 2,194</u>	<u>\$ 2,289</u>

RECLASSIFICATIONS

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The June 30, 2018 unemployment rate for the City of Franklin, Virginia was 5.5% compared to 3.8% for Virginia and the national rate of 4.4%. The June 30, 2017 unemployment rate for the City of Franklin, Virginia was 6.1%, compared to the state's unemployment rate of 4.1% and the average national rate of 4.9%.
- In FY 18-19, the City's adopted budget anticipates the general fund budget to be \$23,913,533, an increase of \$704,477 or 3.04% over prior year's original budget.

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 this report or requests for additional information should be directed to the City of Franklin, Director of Finance, 207 West Second Avenue, Franklin, Virginia 23851.

BASIC FINANCIAL STATEMENTS



City of Franklin, Virginia
Statement of Net Position
At June 30, 2018

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total Primary Government	School Board	Industrial Development Authority
Assets					
Cash and cash equivalents	\$ 5,040,807	\$ 4,569,633	\$ 9,610,440	\$ 1,893,506	\$ 14,317
<i>Receivables (net of allowance for uncollectibles)</i>					
Property taxes receivable	690,640	-	690,640	-	-
Accounts receivable	506,362	2,315,116	2,821,478	19,988	-
Notes receivable	45,000	-	45,000	-	-
Internal balances	969,874	(969,874)	-	-	-
Due from primary government	-	-	-	-	-
Due from other governmental units	617,692	416,571	1,034,263	413,918	-
Inventories	-	12,111	12,111	15,040	-
Restricted Assets					
<i>Temporarily restricted</i>					
Cash and cash equivalents	2,561,938	-	2,561,938	-	-
<i>Other assets</i>					
Prepays	6,485	-	6,485	-	-
Capital Assets					
Land and construction in progress	5,281,162	1,716,912	6,998,074	-	-
Other capital assets, net	20,794,482	10,302,718	31,097,200	9,405,909	-
Capital assets, net	26,075,644	12,019,630	38,095,274	9,405,909	-
Total Assets	36,514,442	18,363,187	54,877,629	11,748,361	14,317
Deferred Outflows of Resources					
VRS pension	714,322	145,214	859,536	1,516,342	-
OPEB plans	1,018,887	210,333	1,229,220	986,472	-
Deferred outflows - loss on refunding	269,265	62,832	332,097	-	-
Total Deferred Outflows of Resources	2,002,474	418,379	2,420,853	2,502,814	-
Total Assets and Deferred Outflows of Resources	\$ 38,516,916	\$ 18,781,566	\$ 57,298,482	\$ 14,251,175	\$ 14,317
Liabilities					
Accounts payable and accrued liabilities	\$ 849,177	\$ 1,456,148	\$ 2,305,325	\$ 1,479,415	\$ -
Customers' deposits	-	682,116	682,116	-	-
Accrued interest payable	161,810	48,839	210,649	-	-
Due to component unit school board	-	-	-	-	-
Deposits held in escrow	98,835	-	98,835	-	-
Long-Term Liabilities					
<i>OPEB liabilities</i>					
Retiree health insurance	2,175,408	445,565	2,620,973	701,071	-
VRS group life	509,620	104,380	614,000	660,000	-
VRS line of duty act (LODA)	857,000	-	857,000	-	-
VRS Virginia Local Disability Program (VLDP)	3,000	-	3,000	5,000	-
VRS health insurance credit	-	-	-	1,227,606	-
<i>Due within one year</i>					
Long-term liabilities	2,055,545	648,145	2,703,690	62,289	-
<i>Due in more than one year</i>					
Compensated absences	353,274	11,689	364,963	155,276	-
Capital lease obligations	141,009	44,650	185,659	-	-
Bonds, loans, and premiums	13,623,349	2,653,747	16,277,096	-	-
Net pension liability	4,500,970	963,340	5,464,310	11,758,301	-
Total Liabilities	25,328,997	7,058,619	32,387,616	16,048,958	-
Deferred Inflows of Resources					
VRS pension	544,215	134,006	678,221	2,325,659	-
VRS group life	68,060	13,940	82,000	92,000	-
VRS health insurance credit	-	-	-	56,856	-
VRS Virginia Local Disability Program (VLDP)	1,000	-	1,000	-	-
VRS line of duty act (LODA)	132,000	-	132,000	-	-
Retiree health insurance	37,295	7,639	44,934	14,232	-
Total Deferred Inflows of Resources	782,570	155,585	938,155	2,488,747	-
Net Position					
Net investment in capital assets	10,902,923	8,410,799	19,313,722	9,405,909	-
Restricted for					
Debt service	2,561,938	-	2,561,938	-	-
Capital projects	-	-	-	-	-
Community development	-	-	-	-	-
Public safety and parks, recreation, and cultural, health and welfare	-	-	-	-	-
Unrestricted (deficit)	(1,059,512)	3,156,563	2,097,051	(13,692,439)	14,317
Total Net Position (Deficit)	12,405,349	11,567,362	23,972,711	(4,286,530)	14,317
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 38,516,916	\$ 18,781,566	\$ 57,298,482	\$ 14,251,175	\$ 14,317

The accompanying 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, 2018

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>				
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Business-Type Activities</u>	<u>Total</u>	<u>School Board</u>	<u>Industrial Development Authority</u>
Primary Government									
Governmental Activities									
General government administration	\$ 3,003,717	\$ 763,125	\$ 189,188	\$ -	\$ (2,051,404)		\$ (2,051,404)		
Judicial administration	344,563	9,910	-	-	(334,653)		(334,653)		
Public safety	7,723,020	706,782	572,083	-	(6,444,155)		(6,444,155)		
Public works	3,122,262	230,475	1,580,482	-	(1,311,305)		(1,311,305)		
Health and welfare	2,471,638	-	1,855,075	-	(616,563)		(616,563)		
Education	5,279,390	-	-	-	(5,279,390)		(5,279,390)		
Parks, recreation, and cultural	747,262	7,816	4,500	-	(734,946)		(734,946)		
Community development	1,822,617	-	318,666	-	(1,503,951)		(1,503,951)		
Interest on long-term debt	307,416	-	-	-	(307,416)		(307,416)		
Total Governmental Activities	24,821,885	1,718,108	4,519,994	-	(18,583,783)		(18,583,783)		
Business-Type Activities									
Water and sewer	3,012,357	3,250,423	91,653	-		\$ 329,719	329,719		
Solid waste	1,106,538	1,293,890	-	-		187,352	187,352		
Electric	12,474,698	16,024,281	-	-		3,549,583	3,549,583		
Airport	541,774	135,627	1,419,453	-		1,013,306	1,013,306		
Total Business-Type Activities	17,135,367	20,704,221	1,511,106	-		5,079,960	5,079,960		
Total Primary Government	<u>\$ 41,957,252</u>	<u>\$ 22,422,329</u>	<u>\$ 6,031,100</u>	<u>\$ -</u>			(13,503,823)		
Component Units									
School Board	\$ 15,230,218	\$ 42,147	\$ 10,814,965	\$ -				\$ (4,373,106)	\$ -
Industrial Development Authority	-	-	-	-				-	-
Total - Component Units	<u>\$ 15,230,218</u>	<u>\$ 42,147</u>	<u>\$ 10,814,965</u>	<u>\$ -</u>				(4,373,106)	-
General Revenues									
General property taxes					7,506,067	-	7,506,067	-	-
Local sales and use taxes					1,854,694	-	1,854,694	-	-
Consumers' utility taxes					544,306	-	544,306	-	-
Business license taxes					973,005	-	973,005	-	-
Motor vehicle license taxes					187,023	-	187,023	-	-
Cigarette taxes					298,773	-	298,773	-	-
Lodging taxes					170,060	-	170,060	-	-
Restaurant food taxes					1,522,481	-	1,522,481	-	-
Other local taxes					137,669	-	137,669	-	-
Unrestricted revenues from use of property					552,783	-	552,783	11,415	-
Investment earnings					67,358	2,673	70,031	36	1
Revenue sharing from counties					782,345	-	782,345	-	-
Miscellaneous					912,927	23,216	936,143	413,952	-
Contribution from City of Franklin, Virginia					-	-	-	5,279,390	-
Grants and contributions not restricted to specific programs					1,610,034	-	1,610,034	-	-
Transfers in (out)					1,536,202	(1,536,202)	-	-	-
Total General Revenues and Transfers					<u>18,655,727</u>	<u>(1,510,313)</u>	<u>17,145,414</u>	<u>5,704,793</u>	<u>1</u>
Change in Net Position					71,944	3,569,647	3,641,591	1,331,687	1
Net Position (Deficit) - Beginning of Year (Restated)					<u>12,333,405</u>	<u>7,997,715</u>	<u>20,331,120</u>	<u>(5,618,217)</u>	<u>14,316</u>
Net Position (Deficit) - End of Year					<u>\$ 12,405,349</u>	<u>\$ 11,567,362</u>	<u>\$ 23,972,711</u>	<u>\$ (4,286,530)</u>	<u>\$ 14,317</u>

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

City of Franklin, Virginia
 Balance Sheet
 Governmental Funds
 At June 30, 2018

	<u>General Fund</u>	<u>Virginia Public Assistance</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 4,395,139	\$ 304,958	\$ 692	\$ -	\$ 440,336	\$ 5,141,125
<i>Receivables - net of allowance for uncollectibles</i>						
Property taxes receivable	690,640	-	-	-	-	690,640
Accounts receivable	405,776	-	-	-	100,586	506,362
Notes receivable	-	-	-	-	45,000	45,000
Other current assets - prepaid expenses	6,485	-	-	-	-	6,485
Due from other funds	969,874	930	-	-	-	970,804
Due from other governmental units	450,448	128,216	-	-	39,028	617,692
<i>Restricted assets</i>						
Cash and cash equivalents	-	-	-	2,561,938	-	2,561,938
Total Assets	<u>\$ 6,918,362</u>	<u>\$ 434,104</u>	<u>\$ 692</u>	<u>\$ 2,561,938</u>	<u>\$ 624,950</u>	<u>\$ 10,540,046</u>
Liabilities						
Pooled cash deficit	\$ -	\$ -		\$ -	\$ 100,318	\$ 100,318
Accounts payable and accrued liabilities	792,177	13,640	-	-	43,360	849,177
Due to other funds	930	-	-	-	-	930
Deposits held in escrow	68,000	-	-	-	30,835	98,835
Total Liabilities	861,107	13,640	-	-	174,513	1,049,260
Deferred Inflows of Resources	558,828	-	-	-	-	558,828
Fund Balances						
<i>Nonspendable</i>						
Long-term receivables - airport	969,874	-	-	-	-	969,874
<i>Restricted</i>						
Public safety	-	-	-	-	31,932	31,932
Health and welfare	-	420,464	-	-	26,885	447,349
Parks, recreation, and cultural	-	-	-	-	185,707	185,707
Community development	-	-	-	-	225,135	225,135
Debt service	-	-	-	2,561,938	-	2,561,938
Capital projects	-	-	692	-	-	692
<i>Assigned</i>	339,363	-	-	-	-	339,363
<i>Unassigned</i>	4,189,190	-	-	-	(19,222)	4,169,968
Total Fund Balances	<u>5,498,427</u>	<u>420,464</u>	<u>692</u>	<u>2,561,938</u>	<u>450,437</u>	<u>8,931,958</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 6,918,362</u>	<u>\$ 434,104</u>	<u>\$ 692</u>	<u>\$ 2,561,938</u>	<u>\$ 624,950</u>	<u>\$ 10,540,046</u>

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

City of Franklin, Virginia

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

At June 30, 2018

Total Fund Balances for Governmental Funds \$ 8,931,958

Total net position reported for governmental activities in the Statement of Net Position is different because:

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

Land and construction in progress	\$ 5,281,162
Buildings and improvements, net of accumulated depreciation	11,694,636
Infrastructure, net of accumulated depreciation	4,715,303
School joint tenancy assets	1,833,342
Furniture, equipment, and vehicles, net of accumulated depreciation	<u>2,551,201</u>

Total Capital Assets 26,075,644

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

Unavailable revenue - taxes and licenses	558,828
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	714,322
Deferred outflows of resources related to OPEB liabilities	1,018,887
Deferred inflows of resources related to OPEB liabilities	(238,355)
Deferred inflows of resources related to pensions	<u>(544,215)</u>

Total Deferred Outflows and Inflows of Resources 950,639

Liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.

Balances of long-term liabilities affecting net position are as follows:

Bonds, capital leases, and notes payable with related premiums	(15,441,986)
Deferred outflows - refunding on debt	269,265
Accrued interest payable on debt	(161,810)
OPEB obligations	(3,545,028)
Net VRS pension liability	(4,500,970)
Compensated absences	<u>(731,191)</u>

Total (24,111,720)

Total Net Position of Governmental Activities \$ 12,405,349

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

City of Franklin, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2018

	General Fund	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues						
General property taxes	\$ 7,357,887	\$ -	\$ -	\$ -	\$ -	\$ 7,357,887
Other local taxes	5,688,011	-	-	-	-	5,688,011
Permits, privilege fees, and regulatory licenses	200,195	-	-	-	-	200,195
Fines and forfeitures	29,209	-	-	-	-	29,209
Revenue from the use of money and property	431,035	-	616	65,226	123,904	620,781
Charges for services	1,488,704	-	-	-	-	1,488,704
Miscellaneous	1,331,218	300	-	-	363,754	1,695,272
Recovered costs	271,535	-	-	-	-	271,535
<i>Intergovernmental</i>						
Revenue from the Commonwealth of Virginia	4,214,990	422,894	-	-	52,594	4,690,478
Revenue from the Federal Government	239,787	881,097	-	-	318,666	1,439,550
Total Revenues	21,252,571	1,304,291	616	65,226	858,918	23,481,622
Expenditures						
Current						
General government administration	2,629,856	-	-	-	-	2,629,856
Judicial administration	344,563	-	-	-	-	344,563
Public safety	7,804,108	-	-	-	123,293	7,927,401
Public works	3,178,555	-	-	-	-	3,178,555
Health and welfare	695,461	1,603,615	-	-	159,073	2,458,149
Education	5,037,395	-	144,233	-	-	5,181,628
Parks, recreation, and cultural	732,536	-	-	-	5,713	738,249
Community development	1,110,461	-	-	-	880,074	1,990,535
<i>Debt service</i>						
Principal retirement	25,740	-	-	567,244	-	592,984
Interest and other fiscal charges	-	-	-	393,841	-	393,841
Total Expenditures	21,558,675	1,603,615	144,233	961,085	1,168,153	25,435,761
Excess (Deficiency) of Revenues Over (Under) Expenditures	(306,104)	(299,324)	(143,617)	(895,859)	(309,235)	(1,954,139)
Other Financing Sources (Uses)						
Transfers in	1,689,927	497,434	372,445	1,131,090	305,758	3,996,654
Transfers (out)	(2,460,452)	-	-	-	-	(2,460,452)
Total Other Financing Sources (Uses)	(770,525)	497,434	372,445	1,131,090	305,758	1,536,202
Net Change in Fund Balances	(1,076,629)	198,110	228,828	235,231	(3,477)	(417,937)
Fund Balances (Deficit) - Beginning of Year	6,575,056	222,354	(228,136)	2,326,707	453,914	9,349,895
Fund Balances - End of Year	\$ 5,498,427	\$ 420,464	\$ 692	\$ 2,561,938	\$ 450,437	\$ 8,931,958

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

City of Franklin, Virginia

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

Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (417,937)

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

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

Capital asset additions	\$ 1,244,061	
Capital asset disposals	(640)	
Depreciation expense	<u>(1,741,438)</u>	(498,017)

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the fund statements.	148,180
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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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The following is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	567,270	
Deferred outflows - refunding of debt	(40,316)	
Lease payments	114,503	
Premium on bond issue and interest charges	<u>37,952</u>	
Net Adjustment		679,409

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. Changes in the following accounts are as follows:

Compensated absences	(8,744)	
Net pension liability	1,234,886	
Deferred inflows - VRS pension	(420,120)	
Deferred outflows - VRS pension	(661,463)	
Deferred outflows - OPEB	(17,190)	
Other postemployment benefits	<u>32,940</u>	
Net Adjustment		160,309

Change in Net Position of Governmental Activities	<u>\$ 71,944</u>
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The accompanying notes to the financial statements are an integral part of this statement.

City of Franklin, Virginia

Statement of Net Position

Proprietary Funds

At June 30, 2018

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Electric Fund</u>	<u>Airport Fund</u>	<u>Total</u>
Assets					
Current Assets					
Cash and cash equivalents	\$ 1,719,038	\$ 211,529	\$ 2,644,759	\$ 200	\$ 4,575,526
Receivables, net	440,375	168,778	1,703,130	2,833	2,315,116
Due from other governments	-	-	-	416,571	416,571
Inventories	-	-	-	12,111	12,111
Total Current Assets	2,159,413	380,307	4,347,889	431,715	7,319,324
Noncurrent Assets					
Capital assets, net	3,598,129	663,380	3,089,159	4,668,962	12,019,630
Total Noncurrent Assets	3,598,129	663,380	3,089,159	4,668,962	12,019,630
Other Assets					
	-	-	-	-	-
Total Assets	5,757,542	1,043,687	7,437,048	5,100,677	19,338,954
Deferred Outflows of Resources					
Deferred outflows of resources - pension	54,210	25,482	56,979	8,543	145,214
Deferred outflows of resources - OPEB	74,234	37,117	86,608	12,374	210,333
Deferred outflows - loss on refunding	28,936	-	33,896	-	62,832
Total Deferred Outflows of Resources	157,380	62,599	177,483	20,917	418,379
Total Assets and Deferred Outflows of Resources	<u>\$ 5,914,922</u>	<u>\$ 1,106,286</u>	<u>\$ 7,614,531</u>	<u>\$ 5,121,594</u>	<u>\$ 19,757,333</u>
Liabilities					
Current Liabilities					
Pooled cash deficit	\$ -	\$ -	\$ -	\$ 5,893	\$ 5,893
Accounts payable and accrued liabilities	239,244	35,875	751,149	429,880	1,456,148
Customers' deposits	-	-	682,116	-	682,116
Accrued interest payable	29,898	2,973	15,968	-	48,839
Due to other funds	-	-	-	969,874	969,874
Current portion of long-term liabilities	339,723	11,100	290,495	6,827	648,145
Total Current Liabilities	608,865	49,948	1,739,728	1,412,474	3,811,015
Noncurrent Liabilities, Net of Current Portion					
Pension liability	341,224	142,530	425,512	54,074	963,340
OPEB liability	194,098	97,049	226,448	32,350	549,945
Compensated absences	671	3,300	5,689	2,029	11,689
Capital lease obligations	-	-	44,650	-	44,650
Long-term notes and bonds and premiums	1,631,086	248,000	774,661	-	2,653,747
Total Noncurrent Liabilities	2,167,079	490,879	1,476,960	88,453	4,223,371
Total Liabilities	2,775,944	540,827	3,216,688	1,500,927	8,034,386
Deferred Inflows of Resources					
OPEB liabilities	7,617	3,808	8,885	1,269	21,579
VRS pension	48,333	13,867	65,237	6,569	134,006
Total Deferred Inflows of Resources	55,950	17,675	74,122	7,838	155,585
Net Position					
Net investment in capital assets	1,691,362	415,380	2,060,346	4,243,711	8,410,799
Unrestricted	1,391,666	132,404	2,263,375	(630,882)	3,156,563
Total Net Position	3,083,028	547,784	4,323,721	3,612,829	11,567,362
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 5,914,922</u>	<u>\$ 1,106,286</u>	<u>\$ 7,614,531</u>	<u>\$ 5,121,594</u>	<u>\$ 19,757,333</u>

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

City of Franklin, Virginia

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

Year Ended June 30, 2018

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Electric Fund</u>	<u>Airport Fund</u>	<u>Total</u>
Operating Revenues					
Charges for services	\$ 3,250,423	\$ 1,293,890	\$ 16,024,281	\$ 135,627	\$ 20,704,221
Miscellaneous	2,238	-	20,914	64	23,216
Operating grants - state	91,653	-	-	119,045	210,698
Operating grants - federal	-	-	-	1,300,408	1,300,408
Total Operating Revenues	3,344,314	1,293,890	16,045,195	1,555,144	22,238,543
Operating Expenses					
Salaries and wages	517,369	165,560	771,337	79,442	1,533,708
Fringe benefits	184,295	79,737	226,519	27,814	518,365
Contractual services	328,399	-	250,767	-	579,166
Repairs and maintenance	123,674	57,568	89,381	14,154	284,777
Utilities	234,431	-	38,301	26,545	299,277
Insurance	70,280	7,343	18,665	9,191	105,479
Materials and supplies	505,144	71,776	165,631	4,200	746,751
Other charges	76,626	413,160	9,999,916	54,435	10,544,137
Payment to general fund for services and taxes	324,246	212,962	483,019	27,235	1,047,462
Depreciation and amortization	576,835	91,984	387,957	298,758	1,355,534
Total Operating Expenses	2,941,299	1,100,090	12,431,493	541,774	17,014,656
Operating Income	403,015	193,800	3,613,702	1,013,370	5,223,887
Nonoperating Revenues (Expenses)					
Interest income	2,673	-	-	-	2,673
Interest expense	(71,058)	(6,448)	(43,205)	-	(120,711)
Total Nonoperating Revenues (Expenses)	(68,385)	(6,448)	(43,205)	-	(118,038)
Income Before Transfers	334,630	187,352	3,570,497	1,013,370	5,105,849
Transfers in	-	-	-	153,725	153,725
Transfers (out)	(138,189)	(112,345)	(1,439,393)	-	(1,689,927)
Total Nonoperating Revenues (Expenses)	(138,189)	(112,345)	(1,439,393)	153,725	(1,536,202)
Change in Net Position	196,441	75,007	2,131,104	1,167,095	3,569,647
Total Net Position - Beginning of Year (Restated)	2,886,587	472,777	2,192,617	2,445,734	7,997,715
Total Net Position - End of Year	\$ 3,083,028	\$ 547,784	\$ 4,323,721	\$ 3,612,829	\$ 11,567,362

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

City of Franklin, Virginia
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018

	Water and Sewer Fund	Solid Waste Fund	Electric Fund	Airport Fund	Total
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 3,263,610	\$ 1,274,972	\$ 15,719,969	\$ 137,976	\$ 20,396,527
Operating grants	91,653	-	-	1,002,882	1,094,535
Payments to suppliers for goods and services	(1,738,470)	(773,271)	(11,111,808)	(165,050)	(13,788,599)
Payments to and on behalf of employees	<u>(696,098)</u>	<u>(253,180)</u>	<u>(1,016,482)</u>	<u>(110,454)</u>	<u>(2,076,214)</u>
Net Cash Provided by Operating Activities	920,695	248,521	3,591,679	865,354	5,626,249
Cash Flows from Noncapital Financing Activities					
Transfers from other funds	-	-	-	153,725	153,725
Transfers (to) other funds	<u>(138,189)</u>	<u>(112,345)</u>	<u>(1,439,393)</u>	<u>-</u>	<u>(1,689,927)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	(138,189)	(112,345)	(1,439,393)	153,725	(1,536,202)
Cash Flows from Capital and Related Financing Activities					
Purchase of fixed assets	(466,989)	(158,851)	(34,080)	(1,019,079)	(1,678,999)
Payment on long-term debt	(294,000)	-	(235,530)	-	(529,530)
Interest paid on capital debt	<u>(72,262)</u>	<u>(6,448)</u>	<u>(41,168)</u>	<u>-</u>	<u>(119,878)</u>
Net Cash Used in Capital and Related Financing Activities	(833,251)	(165,299)	(310,778)	(1,019,079)	(2,328,407)
Cash Flows from Investing Activities					
Interest income	<u>2,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,673</u>
Net Cash Provided by Investing Activities	<u>2,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,673</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(48,072)	(29,123)	1,841,508	-	1,764,313
Cash and Cash Equivalents - Beginning of Year	<u>1,767,110</u>	<u>240,652</u>	<u>803,251</u>	<u>200</u>	<u>2,811,213</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,719,038</u>	<u>\$ 211,529</u>	<u>\$ 2,644,759</u>	<u>\$ 200</u>	<u>\$ 4,575,526</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating income	\$ 403,015	\$ 193,800	\$ 3,613,702	\$ 1,013,370	\$ 5,223,887
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</i>					
Depreciation expense	576,835	91,984	387,957	298,758	1,355,534
(Increase) decrease in accounts receivable	10,949	(18,918)	(156,545)	(414,286)	(578,800)
(Increase) decrease in inventories	-	-	-	10,004	10,004
(Increase) decrease in deferred outflows - VRS	48,919	17,251	76,320	7,995	150,485
(Increase) decrease in deferred outflows - OPEB	(2,336)	(1,168)	(2,726)	(391)	(6,621)
Increase (decrease) in accounts payable and accrued liabilities	(75,673)	(10,462)	(66,128)	(264)	(152,527)
Increase (decrease) in pooled cash deficit	-	-	-	(39,030)	(39,030)
Increase (decrease) in compensated absences	6,319	(236)	7,551	(130)	13,504
Increase (decrease) in net pension liability	(91,274)	(32,189)	(142,403)	(14,916)	(280,782)
Increase (decrease) in deferred inflows - VRS	31,052	10,951	48,447	5,075	95,525
Increase (decrease) in OPEB liability	(12,600)	(6,300)	(14,700)	(2,100)	(35,700)
Increase (decrease) in deferred inflows - OPEB	7,617	3,808	8,885	1,269	21,579
Increase (decrease) in customer deposits	<u>17,872</u>	<u>-</u>	<u>(168,681)</u>	<u>-</u>	<u>(150,809)</u>
Net Cash Provided by Operating Activities	<u>\$ 920,695</u>	<u>\$ 248,521</u>	<u>\$ 3,591,679</u>	<u>\$ 865,354</u>	<u>\$ 5,626,249</u>

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

City of Franklin, Virginia

Statement of Fiduciary Net Position

Agency Funds

Year Ended June 30, 2018

	<u>All Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 93,721
Total Assets	<u>\$ 93,721</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 4,165
Amounts held for others	<u>89,556</u>
Total Liabilities	<u>\$ 93,721</u>

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

City of Franklin, Virginia

Notes to the Financial Statements

Year Ended June 30, 2018

1 Summary of Significant Accounting Policies

Narrative Profile

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 City engages in a comprehensive range of municipal services, including general government administration, judicial administration, public safety, public works, health and welfare, education, parks, recreation, and cultural, and community development.

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 Position

The Statement of Net Position 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 Position and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net position of the government is broken down into three categories – 1) Net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Included in direct expenses are certain indirect costs that have been allocated to the various programs. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

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.

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, Capital Projects Fund, Water and Sewer Fund, Solid Waste, Electric Fund, Airport Fund, and Special Revenue Funds. However, the Consolidated Grant Funds and Fiduciary Funds are excluded from the annual operating budget.

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.

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 Position, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

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

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 Position and Statement of Activities and all proprietary funds and trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

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

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

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

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

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

- **Governmental Funds**

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

- **General Fund**

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

- **Special Revenue Funds**

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

- *Virginia Public Assistance Fund* – accounts for revenues and expenditures related to services provided by the Department of Social Services. Most revenues are derived from the Commonwealth of Virginia and the federal government. This fund is considered a major fund.
- *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.
- *Regional Fire Training Grounds Fund* – accounts for revenues and expenditures related to maintenance of the Regional Fire Training Grounds. Most revenues are derived from rental income for use by other localities.
- *Foundation Grants Fund* – accounts for revenues and expenditures related to local grants. Revenues are derived from local grants.
- *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.
- *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.
- *Madison Street Project Fund* – accounts for revenues and expenses related to the Madison Street Community Improvement Project Fund.
- *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 Program Fund* – accounts for a federal grant and the related expenditures. The grant is to be used for community development.
- *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.
- *Police Federal Forfeiture Fund* – accounts for revenues and expenditures related to police forfeitures. Revenues are derived from entitlement funds received from the federal government.
- *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.
- *Camp Homestead Fund* – accounts for revenues and expenditures related to the maintenance and upkeep of the Camp family home on Homestead Lane.
- *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.
- *Willie Camp Younts Fund* – accounts for revenues and expenditures related to the maintenance of the Willie Camp Younts cemetery.
- *Southview Cemetery Trust Fund* – accounts for revenues and expenditures of the Southview Cemetery.
- *Cemetery Perpetual Care Trust Fund* – accounts for revenues and expenditures of the Cemetery.
- *Charles Smith Cemetery Trust Fund* – accounts for revenues and expenditures of the Charles Smith Cemetery.

- **Debt Service Fund**

The Debt Service Fund accounts for and reports resources that are restricted, committed or assigned to expenditure for principal and interest, reports financial resources being accumulated for future debt service, and accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The Debt Service Fund is considered a major governmental fund.

- **Capital Projects Fund**

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

- **Proprietary Fund**

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the primary government's business activities are accounted for through proprietary funds. The measurement focus is on the determination of net income, financial position, and cash flows. Proprietary Funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Proprietary Funds are charges for services. Operating expenses include cost of sales and services, personnel, contractual services, and depreciation. The City applies all current GASB pronouncements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The City's proprietary funds consist of only enterprise funds.

- *Enterprise Funds*

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

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

- **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 – 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.
- *Smart Beginnings Fund* – 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.
- *Fire and Rescue Volunteers Fund* – accounts for revenues and expenditures related to the activities of the fire and rescue volunteers.
- *Special Welfare Fund* – This fund accounts for monies provided primarily through private donors for assistance of children in foster care, needy senior citizens, and others. This fund is also used to account for monies received from other governments and individuals (i.e., social security and child support) to be paid to special welfare recipients.
- *Children’s Center Fund* – accounts for revenues and expenditures related to activities dealing with the Children’s Center Fund.

- **Discretely Presented Component Units**

- *City of Franklin Public Schools*

The City of Franklin Public Schools (School Board) is responsible for elementary and secondary education within the City. The Schools are fiscally dependent upon the City because the City Council approves the annual budget of the Schools, levies the necessary taxes to finance the Schools’ operations, and approves the borrowing of money. The School Board is reported in a separate column to emphasize that it is legally separate from the City. During the current year, the City contributed \$5,181,628 to the School Board from the General Fund, exclusive of debt service. The School Board does not issue separate financial statements.

- *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. The City is involved in the day-to-day operations of the IDA, including the determination of its operating budget. Financial statements of the IDA are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the other supplementary information section. The IDA does not issue separate financial statements.

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 hearings must appear in a local newspaper not less than seven days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted before July 1. If City Council does not adopt the proposed budget before July 1, the budget as submitted is automatically adopted.
- Additional appropriations may be made by City Council only if there is an undesignated fund balance or additional funding becomes available.
- The City Manager is authorized to transfer budgeted amounts within departments up to \$20,000. Expenditures over this amount 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, Special Revenue Funds, the Debt Service Fund, Capital Projects Fund, and the Proprietary Funds.

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

E. Allowance for Uncollectible Amounts

The City calculates its allowance for uncollectible property taxes, refuse collection, and utility service charges using historical collection data. At June 30, 2018, the allowance attributed to the General Fund amounted to \$103,370 and Enterprise Fund in the amount of \$934,898.

F. Cash and Cash Equivalents

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

G. Inventories

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

H. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Depreciation is recorded using the straight-line method over the capital assets' estimated useful lives 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 capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. 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>Asset Description</u>	<u>Estimated Lives</u>
Buildings	40 years
Improvements other than buildings	20-50 years
Machinery and equipment	3-50 years
Infrastructure	10-30 years

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. Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. The Virginia Retirement System (VRS) Teacher Employee Retirement Plan is a multiple employer, cost-sharing plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and Virginia Retirement System (VRS) Teacher Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement Plan's and VRS Teacher Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. Health Insurance Credit

The Political Subdivision Health Insurance Credit Program is a multiple-employer, agent defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. The Political Subdivision Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. For purposes of measuring the net Political Subdivision Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Health Insurance Credit Program OPEB, and the Political Subdivision Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Political Subdivision Health Insurance Credit Program; and the additions to/deductions from the VRS Political Subdivision Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Teacher Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit Program is a multiple-employer, cost-sharing plan. The Teacher Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Teacher Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For purposes of measuring the net Teacher Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Teacher Employee Health Insurance Credit Program OPEB, and the Teacher Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit Program; and the additions to/deductions from the VRS Teacher Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Line of Duty Act Program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The Line of Duty Act Program was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Line of Duty Act Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net Line of Duty Act Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Line of Duty Act Program OPEB, and Line of Duty Act Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Line of Duty Act Program OPEB Plan and the additions to/deductions from the VRS Line of Duty Act Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Political Subdivision Employee Virginia Local Disability Program

The Virginia Retirement System (VRS) Political Subdivision Employee Virginia Local Disability Program is a multiple-employer, cost-sharing plan. For purposes of measuring the net Political Subdivision Employee Virginia Local Disability Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee Virginia Local Disability Program OPEB, and the Political Subdivision Employee Virginia Local Disability Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Political Subdivision Employee Virginia Local Disability Program; and the additions to/deductions from the VRS Political Subdivision Employee Virginia Local Disability Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Teacher Employee Virginia Local Disability Program

The Virginia Retirement System (VRS) Teacher Employee Virginia Local Disability Program is a multiple-employer, cost-sharing plan. For purposes of measuring the net Teacher Employee Virginia Local Disability Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Teacher Employee Virginia Local Disability Program OPEB, and the Teacher Employee Virginia Local Disability Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Teacher Employee Virginia Local Disability Program; and the additions to/deductions from the VRS Teacher Employee Virginia Local Disability Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an expense or expenditures until that time. In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as revenue until that time.

R. 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.

S. 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.

T. Prepaid Expenses

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

U. Credit Risk

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 13.65% and 11.68% of the City's real estate and personal property tax base, respectively. Concentration of credit risk with respect to receivables is limited due to the large number of citizens comprising the City's taxpayer base.

V. Net Position

Net position in the government-wide financial statements are classified as Net Investment in Capital Assets; restricted; and unrestricted. Restricted net position represents 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.

W. Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's Enterprise Funds' functions. Elimination of these charges would distort costs and program revenues reported for the various functions concerned.

X. 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 cannot be expended as they are either: (a) in nonspendable form; or, (b) legally or contractually required to be maintained intact by the governmental entity. Items in a nonspendable form include inventories and prepaid items. The corpus of an endowment is an example of an amount that is legally or contractually required to be maintained intact and is not available for expenditure;
- Restricted fund balance – amounts that are legally constrained for a specific purpose by external parties, constitutional provisions, bond indenture, or enabling legislation. External parties include creditors, grantors, contributors or laws and regulations. Enabling legislation includes any act of law or regulation that authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the enabling legislation. An act of law can originate external to the government or be self-imposed through the enactment of an ordinance by the governmental body. The expenditure of resources restriction must originate within the enabling legislation; whereas funds restricted outside originating legislation will be considered committed or assigned.
- Committed fund balance – amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation;
- Assigned fund balance – amounts constrained for a specific purpose by the City Manager. Assignments shall not create a deficit in any fund or segment of fund balance;
- Unassigned fund balance – amounts not classified as nonspendable, restricted, committed, or assigned as noted above. The General Fund is the only fund that would report a positive unassigned fund balance.

When fund balance resources are available for a specific purpose in more than one classification, it is the Council's 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 a 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). The City's Fund Balance Policy adopted by the Governing Body delegates the authority to assign fund balances for specific purposes to the City Manager.

Assignment within the General Fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City.

It is the City Council's policy that there shall be retained in the General Fund an unassigned fund balance of 15% to 25% of the following year's projected expenditures.

Y Property Taxes

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

Z. New GASB Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several new accounting pronouncements that will impact future fiscal years' financial statement presentations. Management has not yet determined what impacts, if any, that the implementation of the following GASB statements will have on the City.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. GASB Statement No. 83 will be effective for the City beginning with year ending June 30, 2019.
- GASB Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 will be effective for the City beginning with year ending June 30, 2020.
- GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 85 will be for the City beginning with year ending June 30, 2018.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. GASB Statement No. 86 will be for the City beginning with year ending June 30, 2018.
- GASB Statement No. 87, *Leases*. GASB Statement No. 87 will be effective for the City beginning with year ending June 30, 2021.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. GASB Statement No. 88 will be effective for the City beginning with year ending June 30, 2019.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. GASB Statement No. 89 will be effective for the City beginning with year ending June 30, 2021.
- GASB Statement No. 90, *Majority Equity Interests-an Amendment of GASB Statements No. 14 and No. 61*. GASB Statement No. 90 will be effective for the City beginning with year ending June 30, 2020.

2 Deposits and Investments

Deposits

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

Investments

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

The City’s investment policy authorizes the City to purchase investments consistent with obligations permitted by statutes of the Commonwealth of Virginia. The policy requires that all investments shall be held by the City or purchased by a third-party custodial agent who may not otherwise be a counterparty to the investment transaction.

Credit Risk of Debt Securities

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

Interest Rate Risk

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

3 Interfund Receivables and Payables

Interfund balances at June 30, 2018 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Funds		
General	\$ 969,874	\$ 930
Social Services	930	-
Proprietary Funds		
Airport	-	<u>969,874</u>
Total	<u>\$ 970,804</u>	<u>\$ 970,804</u>
Component Unit - School Board		
Operating Fund to Cafeteria Fund	\$ 1,725	\$ 1,725
Operating Fund to Textbook Fund	<u>82,094</u>	<u>82,094</u>
Total	<u>\$ 83,819</u>	<u>\$ 83,819</u>

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

Interfund transfers for the year ended June 30, 2018 were as follows:

	<u>Purpose - Funding for:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
City of Franklin, Virginia			
General Fund			
Transfers between General Fund and Electric Fund	Services provided by general fund	\$ 1,439,393	\$ -
Transfers between General Fund and Solid Waste Fund	Services provided by general fund	112,345	-
Transfers between General Fund and Water and Sewer Fund	Services provided by general fund	138,189	-
Transfers between General Fund and Airport Fund	Airport support	-	153,725
From General Fund to Capital Projects Fund	Support of Pay-As-You-Go Projects	-	372,445
From General Fund to Nonmajor Governmental Funds	Support of special revenue programs	-	305,758
From General Fund to Virginia Public Assistance Fund	Support of VPA fund	-	497,434
From General Fund to Debt Service Fund	Support of debt service fund	-	1,131,090
Nonmajor Governmental Funds			
From General Fund to nonmajor governmental funds	Support of special revenue programs	305,758	-
Capital Projects			
From General Fund to Capital Projects Fund	Support of Pay-As-You-Go Projects	372,445	-
Virginia Public Assistance Fund			
From General Fund to Virginia Public Assistance Fund	Support of VPA fund	497,434	-
Debt Service Fund			
From General Fund to Debt Service Fund	Payment of City debt	<u>1,131,090</u>	<u>-</u>
Subtotal - Governmental Funds		3,996,654	2,460,452
Proprietary Funds			
Transfers between General Fund and Electric Fund	Services provided by general fund	-	1,439,393
Transfers between General Fund and Solid Waste Fund	Services provided by general fund	-	112,345
Transfers between General Fund and Water and Sewer Fund	Services provided by general fund	-	138,189
Transfers between General Fund and Airport Fund	Airport support	<u>153,725</u>	<u>-</u>
Subtotal - Proprietary Funds		<u>153,725</u>	<u>1,689,927</u>
		<u>\$ 4,150,379</u>	<u>\$ 4,150,379</u>

4 Transfer to Component Units/Transfer from Primary Government

Details of the primary government due to component units as of June 30, 2018 are as follows:

		<u>Transfers In</u>	<u>Transfers Out</u>
City of Franklin, Virginia to Component Units			
Primary Government - City of Franklin, Virginia			
To Component Unit - School Board	Support of local school system	\$ -	\$ 5,037,395
Component Unit - School Board			
From Primary Government - City of Franklin, Virginia	Support of local school system	<u>5,037,395</u>	<u>-</u>
Within Component Unit - School Board			
To Textbook Fund from School Board Operating Fund to support operations	Support of local school system	<u>\$ 33,613</u>	<u>\$ 33,613</u>

5 Receivables

Receivables in the fund statements at June 30, 2018 are as follows:

Primary Government

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Business- type Activities</u>	<u>Total</u>
Revenues				
Property taxes	\$ 794,010	\$ -	\$ -	\$ 794,010
Accounts receivable	<u>405,776</u>	<u>100,586</u>	<u>3,250,014</u>	<u>3,756,376</u>
Total Receivables	1,199,786	100,586	3,250,014	4,550,386
Less: Allowance for Uncollectible Accounts				
Property taxes	103,370	-	-	103,370
Utility and other service charges	<u>-</u>	<u>-</u>	<u>934,898</u>	<u>934,898</u>
Total Receivables	<u>103,370</u>	<u>-</u>	<u>934,898</u>	<u>1,038,268</u>
Receivables, Net				
Property taxes	690,640	-	-	690,640
Accounts receivable	<u>405,776</u>	<u>100,586</u>	<u>2,315,116</u>	<u>2,821,478</u>
Receivables, Net	<u>\$1,096,416</u>	<u>\$ 100,586</u>	<u>\$2,315,116</u>	<u>\$3,512,118</u>

The remainder of this page is left blank intentionally.

6 Due from Other Governments

Due from other governments consists of the following at June 30, 2018:

Primary Government

	<u>General</u>	<u>Virginia Public Assistance</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>	<u>Component Unit - School Board</u>
Commonwealth of Virginia					
State and local sales taxes	\$ 318,423	\$ -	\$ -	\$ 318,423	\$ 180,519
Communications tax	81,561	-	-	81,561	-
Auto rental tax	2,290	-	-	2,290	-
Compensation Board	13,313	-	-	13,313	-
Recordation tax	2,078	-	-	2,078	-
Comprehensive services	-	-	5,842	5,842	-
911 funds	7,783	-	-	7,783	-
Other state funds	-	-	-	-	7,290
Public assistance	-	128,216	-	128,216	-
	<u>425,448</u>	<u>128,216</u>	<u>5,842</u>	<u>559,506</u>	<u>187,809</u>
Federal Government					
Title VIB Flow-Through and Preschool	-	-	-	-	26,710
Title VI Rural and Low Income	-	-	-	-	-
Carl Perkins	-	-	-	-	15,003
21st Century funds	-	-	-	-	50,537
Title II	-	-	-	-	12,139
Title III	-	-	-	-	22
Title I	-	-	-	-	67,325
Other federal funds	-	-	-	-	5,715
Opportunity Inc.	-	-	-	-	17,576
Adult Basic Education	-	-	-	-	11,595
School Improvement Program	-	-	-	-	19,487
USDA police grant	25,000	-	-	25,000	-
Community Development Block Grant	-	-	33,186	33,186	-
School food program	-	-	-	-	-
	<u>25,000</u>	<u>-</u>	<u>33,186</u>	<u>58,186</u>	<u>226,109</u>
	<u>\$ 450,448</u>	<u>\$ 128,216</u>	<u>\$ 39,028</u>	<u>\$ 617,692</u>	<u>\$ 413,918</u>

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7 Capital Assets

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

Governmental Activities

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets Not Being Depreciated				
Land	\$ 5,109,209	\$ 171,953	\$ -	\$ 5,281,162
Total Capital Assets Not Being Depreciated	5,109,209	171,953	-	5,281,162
Capital Assets Being Depreciated				
Buildings	18,360,787	23,360	-	18,384,147
Improvements other than buildings	3,319,766	-	11,106	3,308,660
Machinery, equipment, other	10,587,427	481,644	460,932	10,608,139
School joint tenancy assets	4,888,086	-	-	4,888,086
Infrastructure	18,677,644	567,104	-	19,244,748
Total Capital Assets Being Depreciated	55,833,710	1,072,108	472,038	56,433,780
Less: Accumulated depreciation				
Buildings	7,015,630	473,198	-	7,488,828
Improvements other than buildings	2,398,104	122,345	11,106	2,509,343
Machinery, equipment, other	7,992,622	524,608	460,292	8,056,938
School joint tenancy assets	2,956,982	97,762	-	3,054,744
Infrastructure	14,005,920	523,525	-	14,529,445
Total Accumulated Depreciation	34,369,258	1,741,438	471,398	35,639,298
Subtotal Capital Assets, Net	21,464,452	(669,330)	640	20,794,482
Total Capital Assets, Governmental Activities, Net	\$ 26,573,661	\$ (497,377)	\$ 640	\$ 26,075,644

Legislation enacted during the year ended June 30, 2002, Section 15.2-1800.1 of the Code of Virginia 1950, as amended, has changed the reporting of local capital assets and related debt for financial statement purposes. Historically, debt incurred by local governments "on-behalf" of school boards was reported in the school board's discrete column along with the related capital assets. Under the law, local governments have a "tenancy in common" with the school board whenever the locality incurs any financial obligations for any school property which is payable over more than one year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt. The effect on the City of Franklin, Virginia for the year ended June 30, 2018 is that school financed assets in the amount of \$1,833,342 net are reported in the Primary Government for financial reporting purposes.

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

General governmental administration	\$ 413,931
Public safety	439,388
Public works	573,927
Health and welfare	44,912
Parks, recreation, and cultural	160,202
Community development	11,316
Education	<u>97,762</u>
Total	<u>\$ 1,741,438</u>

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

Business-Type Activities

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Water and Sewer Fund				
Other Capital Assets				
Infrastructure	\$ 16,804,576	\$ 368,343	\$ 692,222	\$ 16,480,697
Machinery and equipment	<u>2,286,965</u>	<u>98,647</u>	<u>210,119</u>	<u>2,175,493</u>
Total Other Capital Assets	19,091,541	466,990	902,341	18,656,190
Less: Accumulated depreciation				
Infrastructure	14,128,193	412,654	692,222	13,848,625
Machinery and equipment	<u>1,255,374</u>	<u>164,181</u>	<u>210,119</u>	<u>1,209,436</u>
Total Accumulated Depreciation	<u>15,383,567</u>	<u>576,835</u>	<u>902,341</u>	<u>15,058,061</u>
Subtotal Capital Assets, Net	<u>3,707,974</u>	<u>(109,845)</u>	<u>-</u>	<u>3,598,129</u>
Total Water and Sewer Fund	<u>\$ 3,707,974</u>	<u>\$ (109,845)</u>	<u>\$ -</u>	<u>\$ 3,598,129</u>
Solid Waste Fund				
Other Capital Assets				
Infrastructure	\$ 223,500	\$ -	\$ -	\$ 223,500
Machinery and equipment	<u>1,543,031</u>	<u>158,851</u>	<u>145,063</u>	<u>1,556,819</u>
Total Other Capital Assets	1,766,531	158,851	145,063	1,780,319
Less: Accumulated depreciation				
Infrastructure	220,332	3,168	-	223,500
Machinery and equipment	<u>949,686</u>	<u>88,816</u>	<u>145,063</u>	<u>893,439</u>
Total Accumulated Depreciation	<u>1,170,018</u>	<u>91,984</u>	<u>145,063</u>	<u>1,116,939</u>
Subtotal Capital Assets, Net	<u>596,513</u>	<u>66,867</u>	<u>-</u>	<u>663,380</u>
Total Solid Waste Fund	<u>\$ 596,513</u>	<u>\$ 66,867</u>	<u>\$ -</u>	<u>\$ 663,380</u>

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Electric Fund				
Other Capital Assets				
Infrastructure	\$ 13,252,098	\$ -	\$ 506,923	\$ 12,745,175
Buildings and improvements	34,966	-	-	34,966
Machinery and equipment	2,558,286	34,080	186,695	2,405,671
Total Other Capital Assets	15,845,350	34,080	693,618	15,185,812
Less: Accumulated depreciation				
Infrastructure	10,334,130	299,488	506,923	10,126,695
Buildings and improvements	34,966	-	-	34,966
Machinery and equipment	2,033,218	88,469	186,695	1,934,992
Total Accumulated Depreciation	12,402,314	387,957	693,618	12,096,653
Subtotal Capital Assets, Net	3,443,036	(353,877)	-	3,089,159
Total Electric Fund	\$ 3,443,036	\$ (353,877)	\$ -	\$ 3,089,159
Airport Fund				
Capital Assets Not Being Depreciated				
Land	\$ 179,258	\$ -	\$ -	\$ 179,258
Construction in progress	92,756	1,444,898	-	1,537,654
Total Capital Assets Not Being Depreciated	272,014	1,444,898	-	1,716,912
Other Capital Assets				
Infrastructure	6,582,381	-	7,778	6,574,603
Buildings and improvements	1,414,452	-	800	1,413,652
Machinery and equipment	353,995	-	19,323	334,672
Total Other Capital Assets	8,350,828	-	27,901	8,322,927
Less: Accumulated depreciation				
Infrastructure	3,492,982	252,319	7,778	3,737,523
Buildings and improvements	1,273,960	39,703	800	1,312,863
Machinery and equipment	333,078	6,736	19,323	320,491
Total Accumulated Depreciation	5,100,020	298,758	27,901	5,370,877
Subtotal Capital Assets, Net	3,250,808	(298,758)	-	2,952,050
Total Airport Fund	\$ 3,522,822	\$ 1,146,140	\$ -	\$ 4,668,962

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Total Business-Type Activities				
Capital Assets Not Being Depreciated				
Land	\$ 179,258	\$ -	\$ -	\$ 179,258
Construction in progress	92,756	1,444,898	-	1,537,654
Total Capital Assets Not Being Depreciated	272,014	1,444,898	-	1,716,912
Other Capital Assets				
Infrastructure	36,862,555	368,343	1,206,923	36,023,975
Buildings and improvements	1,449,418	-	800	1,448,618
Machinery and equipment	6,742,277	291,578	561,200	6,472,655
Total Other Capital Assets	45,054,250	659,921	1,768,923	43,945,248
Less: Accumulated depreciation	34,055,919	1,355,534	1,768,923	33,642,530
Total Capital Assets, Net	10,998,331	(695,613)	-	10,302,718
Business-Type Activities	\$ 11,270,345	\$ 749,285	\$ -	\$ 12,019,630

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

Component Unit - School Board

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Other Capital Assets				
Land improvement	\$ 151,010	\$ -	\$ -	\$ 151,010
Buildings	13,463,083	-	-	13,463,083
Infrastructure	4,719,662	-	-	4,719,662
School joint tenancy assets	(4,888,086)	-	-	(4,888,086)
Machinery and equipment	4,182,695	410,588	-	4,593,283
Total Other Capital Assets	17,628,364	410,588	-	18,038,952
Less: Accumulated depreciation				
Land improvement	109,155	4,370	-	113,525
Buildings	7,064,766	233,827	-	7,298,593
Infrastructure	822,757	95,462	-	918,219
School joint tenancy assets	(2,956,982)	(97,762)	-	(3,054,744)
Machinery and equipment	3,201,970	155,480	-	3,357,450
Total Accumulated Depreciation	8,241,666	391,377	-	8,633,043
Other Capital Assets, Net	9,386,698	19,211	-	9,405,909
Total Capital Assets, Net	\$ 9,386,698	\$ 19,211	\$ -	\$ 9,405,909

8 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, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Due Within</u> <u>One Year</u>
Primary Government					
Governmental Activities					
General obligations bonds	\$ 15,325,946	\$ -	\$ 567,270	\$ 14,758,676	\$ 1,535,092
Capital lease obligations	370,847	-	114,503	256,344	115,335
Premium on bond issuance	454,167	-	27,201	426,966	27,201
Compensated absences	<u>722,447</u>	<u>566,860</u>	<u>558,116</u>	<u>731,191</u>	<u>377,917</u>
Total Governmental Activities	16,873,407	566,860	1,267,090	16,173,177	2,055,545
Business-Type Activities					
General obligation bonds	3,686,000	-	508,000	3,178,000	522,000
Capital lease obligations	66,180	-	21,530	44,650	22,055
Premium on bond issuance	<u>27,722</u>	<u>-</u>	<u>3,960</u>	<u>23,762</u>	<u>3,960</u>
Total Bonds and Loan	3,779,902	-	533,490	3,246,412	548,015
Compensated absences	<u>98,315</u>	<u>135,026</u>	<u>121,522</u>	<u>111,819</u>	<u>100,130</u>
Total Business-Type Activities	<u>3,878,217</u>	<u>135,026</u>	<u>655,012</u>	<u>3,358,231</u>	<u>648,145</u>
Total Primary Government	<u>\$ 20,751,624</u>	<u>\$ 701,886</u>	<u>\$ 1,922,102</u>	<u>\$ 19,531,408</u>	<u>\$ 2,703,690</u>
Component Unit - School Board					
Compensated absences	<u>\$ 203,628</u>	<u>\$ 163,685</u>	<u>\$ 149,748</u>	<u>\$ 217,565</u>	<u>\$ 62,289</u>
Total School Board	<u>\$ 203,628</u>	<u>\$ 163,685</u>	<u>\$ 149,748</u>	<u>\$ 217,565</u>	<u>\$ 62,289</u>

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

General obligation debt of the governmental activities at June 30, 2018 is comprised of the following:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2018</u>
Primary Government					
Governmental Obligations					
<i>General Obligation Bonds</i>					
Public Improvement Series 1999A	05/28/99	07/15/19	3.97	\$2,041,330	\$ 202,247
Virginia General Obligation Qualified Zone Academy Bond, Series 2003	12/31/03	12/31/17	-	1,000,000	1,000,000
Virginia General Obligation Qualified Zone Academy Bond, Series 2005	12/29/05	12/20/20	-	2,214,429	2,214,429
Public Improvement Series 2008	02/15/08	01/15/18	3.56	400,000	-
Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	5,235,000	680,000
General Obligation Refunding Bond, Series 2013	04/04/13	10/01/38	3.65	2,075,000	1,825,000
General Obligation School Bonds, Series 2013A	04/12/13	07/15/33	3.05-5.05	1,695,000	1,465,000
Virginia General Obligation Qualified Zone Academy Bond, Series 2014	12/30/14	12/01/24	0.0	1,816,000	1,566,000
Tax-Exempt GO Bond Refunding Series 2015A	10/09/15	10/09/30	2.60	2,568,000	2,451,000
Tax-Exempt GO Bond Refunding Series 2015B	10/09/15	10/09/31	3.90	3,549,000	3,355,000
Southampton County Debt Assumed*	01/01/96	06/30/14	N/A	N/A	-
Total General Obligation Bonds					14,758,676
<i>Capital Lease Obligations</i>					
Fire truck	06/13/11	08/20/20	3.74	217,020	71,777
Telephone system	07/01/15	07/01/20	0.0	461,417	184,567
Total Capital Lease Obligations					256,344
Premium on bond issuance					426,966
Compensated absences					731,191
Total General Long-Term Obligations					16,173,177

*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.

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2018</u>
Proprietary Funds					
<i>Water and Sewer Fund</i>					
General Obligation Bonds - Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	3,435,000	295,000
Taxable General Obligation Refunding Bond, Series 2012A	12/20/12	01/15/24	3.05	1,387,000	1,268,000
Tax Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B	12/20/12	01/15/23	3.05	907,000	357,000
Premium on bond issuance					15,703
Compensated absences					35,777
Total Water and Sewer Fund					1,971,480
<i>Electric Fund</i>					
General Obligation Bonds - Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	3,435,000	565,000
Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B	12/20/12	01/15/23	3.05	844,000	445,000
Premium on bond issuance					8,059
Capital lease obligation (Bucket Truck)	10/22/12	10/22/19	2.00	147,297	44,650
Compensated absences					52,786
Total Electric Fund					1,115,495
<i>Airport Fund</i>					
Compensated absences					8,856
Total Airport Fund					8,856
<i>Solid Waste Funds</i>					
GO Bond Refinancing Series 2015A	10/09/15	10/09/32	2.60	248,000	248,000
Compensated absences					14,400
Total Solid Waste Funds					262,400
Total Proprietary Funds					3,358,231
Total Primary Government					\$ 19,531,408

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

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Leases		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,535,092	\$ 372,585	\$115,335	\$ 2,688	\$ 1,650,427	\$ 375,273
2020	652,155	355,203	116,198	1,825	768,353	357,028
2021	2,804,429	339,366	24,811	929	2,829,240	340,295
2022	800,400	325,627	-	-	800,400	325,627
2023	3,955,800	1,281,704	-	-	3,955,800	1,281,704
2024-2028	3,965,800	603,023	-	-	3,965,800	603,023
2029-2033	790,000	126,849	-	-	790,000	126,849
2034-2038	255,000	11,897	-	-	255,000	11,897
	<u>\$ 14,758,676</u>	<u>\$ 3,416,254</u>	<u>\$256,344</u>	<u>\$ 5,442</u>	<u>\$15,015,020</u>	<u>\$3,421,696</u>

Long-Term Liabilities – Business-Type Activities

Long-term obligations of the business-type activities at June 30, 2018 are comprised of the following:

Fiscal Year Ending June 30,	Water and Sewer Fund		General Obligation Bonds Electric Fund		Solid Waste Fund		Total		Capital Leases Electric Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 302,000	\$ 64,053	\$ 220,000	\$ 33,652	\$ -	\$ 6,448	\$ 522,000	\$ 104,153	\$ 22,055	\$ 1,089
2020	311,000	55,086	222,000	27,234	-	6,448	533,000	88,768	22,595	551
2021	321,000	44,869	234,000	19,254	-	6,448	555,000	70,571	-	-
2022	333,000	33,825	241,000	10,780	600	6,448	574,600	51,053	-	-
2023	343,000	22,375	93,000	2,037	46,200	29,546	482,200	53,958	-	-
2024-2028	310,000	10,963	-	-	201,200	23,582	511,200	34,545	-	-
	<u>\$1,920,000</u>	<u>\$231,171</u>	<u>\$1,010,000</u>	<u>\$ 92,957</u>	<u>\$ 248,000</u>	<u>\$ 78,920</u>	<u>\$ 3,178,000</u>	<u>\$ 403,048</u>	<u>\$ 44,650</u>	<u>\$ 1,640</u>

General Obligation Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property as the amount of general obligation borrowing which may be issued by the City. As of June 30, 2018, the City's Legal Debt Margin is as follows:

Total Assessed Value of Taxed Assessed Value	
Assessed value of real estate	<u>\$ 550,853,846</u>
Debt Limit - 10% of Total Assessed Value	\$ 55,085,385
Amount of Debt Applicable to Debt Limit	
General Obligation Debt	
Primary Government	\$ 14,758,676
Business-Type	<u>3,178,000</u>
Total General Obligation Debt	<u>17,936,676</u>
Legal Debt Margin	<u>\$ 37,148,709</u>

Note: The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2018.

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

<u>Debt Issuance</u>	<u>Reason for Debt Issuance</u>
Governmental Activities	
Public Improvement and Refunding Series 2010	Schools Realignment and Gym, Social Services Building, King Center, City Buildings
Public Improvement Series 1999A	School Roofs
Public Improvement Series 2004	Bleachers - Armory Field/Athletic Field FHS
Public Improvement Series 2008	Cemetery Expansion - Poplar Springs
Virginia General Obligation Qualified Zone Academy Bond, Series 2005	Capital School Improvements
Virginia Public School Authority Series 1995A	Franklin High School Air Conditioning and Band Room
Virginia General Obligation Qualified Zone Academy Bond, Series 2003	Capital School Improvement Projects
Southampton County Debt Assumed*	Phase II Annexation
Taxable General Obligation Refunding Bond, Series 2012A	Refinancing of existing indebtedness; Capital Projects, including building repairs, computer systems upgrades, vehicle and equipment purchases, HVAC repair, and water main improvement
Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B	Refinancing of existing indebtedness; Capital Projects, including building repairs, computer systems upgrades, vehicle and equipment purchases, and HVAC repair
General Obligation Refunding Bond, Series 2013	Refunding of 2002 RD Loan
General Obligation School Bonds, Series 2013A	Capital Projects, including building repairs, bleacher replacements, school bus purchases, HVAC repairs, oven replacements, and track resurfacing
Virginia General Obligation Qualified Zone Academy Bond, Series 2014	Technology improvements for all schools; energy/HVAC improvements, roof repairs
Tax-Exempt GO Bond Refunding Series 2015A	Refunding of existing indebtedness; capital projects as shown in Taxable GO Refunding Bond, Series 2012A
Tax-Exempt GO Bond Refunding Series 2015B	Refunding of existing indebtedness; capital projects as shown in Tax Exempt GO Public Improvement and Refunding Bond Series 2012B

Debt Issuance

Reason for Debt Issuance

Business-Type Activities

Water and Sewer Fund

General Obligation Bonds - Public Improvement and Refunding Series 2010	Water/Sewer Line Extensions, Hunterdale Pump Station
Taxable General Obligation Refunding Bond, Series 2012A	Refinancing of existing indebtedness; Capital Projects, including water main improvement
Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B	Refinancing of existing indebtedness; Capital Projects, including water main improvement

Electric Fund

General obligation bonds - Public Improvement and Refunding Series 2010	Generation and Distribution Facilities Improvements
Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B	Refinancing of existing indebtedness; Capital Projects, including refurbishment of building to house City's electric department
Tax-Exempt GO Bond Refunding Series 2015B	Refunding of existing indebtedness; equipment and other capital improvements

Solid Waste Fund

Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B	Garbage Truck
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9 **Net Investment in Capital Assets**

The "net investment in capital assets" amount reported on the government-wide Statement of Net Position as of June 30, 2018 is determined as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Unit - School Board</u>
Net Investment in Capital Assets			
Cost of Capital Assets	\$ 61,714,942	\$ 45,662,160	\$ 18,038,952
Less: Accumulated depreciation	<u>(35,639,298)</u>	<u>(33,642,530)</u>	<u>(8,633,043)</u>
Book value	26,075,644	12,019,630	9,405,909
Less: Capital related debt	(14,758,676)	(3,178,000)	-
Less: Capital leases	(256,344)	(44,650)	-
Less: Nondebt capital related payables	-	(425,251)	-
Add: Loss on refunding	269,265	62,832	-
Less: Bond premiums	<u>(426,966)</u>	<u>(23,762)</u>	<u>-</u>
Net Investment in Capital Assets	<u>\$ 10,902,923</u>	<u>\$ 8,410,799</u>	<u>\$ 9,405,909</u>

10 **Compensated Absences**

City employees earn annual leave at the rate of 17 to 29 days per year depending on length of service. A maximum of 34 to 58 days of annual leave, depending on length of service, may be carried over to succeeding years and may be paid if not used prior to termination.

The governmental and business-type activities have outstanding accrued vacation totaling \$731,191 and \$111,819, respectively, as of June 30, 2018. The general fund has normally been used in prior years to liquidate the liability for compensated absences.

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, 2018, accumulated unpaid vacation amounted to \$217,565. Sick leave is not recorded, as the pay out of sick leave is only upon retirement of employees which is determinable.

11 Appropriation to School from Governmental Funds

Following is a summary of adjustments made to the local school appropriation when converting from fund financial statements to government-wide financial statements:

	<u>School Board</u>
Appropriation from City General Fund	\$5,037,395
Outlays paid by Capital Projects Fund	<u>144,233</u>
Total from Governmental Funds	5,181,628
Adjustment for expenses paid by City not capitalized	-
Depreciation expense on school joint tenancy buildings	<u>97,762</u>
Appropriation to School Fund by Government-Wide Statements	<u>\$5,279,390</u>

12 Deferred Inflows of Resources

Deferred inflows of resources from unavailable property taxes and other local taxes and licenses are comprised of the following:

Governmental Funds

General Fund

Delinquent taxes not collected within 60 days	<u>\$558,828</u>
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Total Deferred Inflows of Resources - Governmental Funds	<u><u>\$558,828</u></u>
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13 Pension Plan

Plan Description

All full-time, salaried permanent employees of the Political Subdivision are automatically covered by VRS Retirement Plan upon employment. In addition, all full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees and employees in the VRS Teacher Retirement Plan – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

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RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula.

Eligible Members

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

PLAN 2

About Plan 2

Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula.

Eligible Members

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.

- The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees*
- School division employees
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 - April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

**Non-Eligible Members*

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

PLAN 1

Retirement Contributions

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service

Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Vesting

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

PLAN 2

Retirement Contributions

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.

Creditable Service

Same as Plan 1.

Vesting

Same as Plan 1.

HYBRID RETIREMENT PLAN

Retirement Contributions

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

Defined Benefit Component:

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component:

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component:

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

PLAN 1

Calculating the Benefit

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members and school division members is 1.70%.

Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

PLAN 2

Calculating the Benefit

See definition under Plan 1.

Average Final Compensation

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members and school division members, the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.

HYBRID RETIREMENT PLAN

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70 1/2.

Calculating the Benefit

Defined Benefit Component:

See definition under Plan 1.

Defined Contribution Component:

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation

Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Defined Benefit Component:

The retirement multiplier for the defined benefit component is 1.00%.

For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1

Normal Retirement Age

VRS: Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Political subdivisions hazardous duty employees:
Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility

VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Political subdivisions hazardous duty employees:
Age 50 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

Eligibility:

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

PLAN 2

Normal Retirement Age

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

VRS: Age 60 with at least five years (60 months) of creditable service.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Eligibility:

Same as Plan 1

**HYBRID
RETIREMENT PLAN**

Normal Retirement Age

Defined Benefit Component:

VRS: Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

VRS: Age 60 with at least five years (60 months) of creditable service.

Political subdivisions hazardous duty employees:
Not applicable

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:

Same as Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

Exceptions to COLA Effective Dates:

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

PLAN 2

Exceptions to COLA Effective Dates:

Same as Plan 1

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.

Purchase of Prior Service

Same as Plan 1

HYBRID RETIREMENT PLAN

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

Disability Coverage

Employees of political subdivisions and school divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component:

Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Primary Government - City</u>	<u>School Board - General Employees</u>
	<u>Number</u>	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	119	14
Inactive members:		
Vested inactive members	31	1
Non-vested inactive members	41	4
Inactive members active elsewhere in VRS	<u>69</u>	<u>10</u>
Total inactive members	141	15
Active members	<u>174</u>	<u>19</u>
Total covered employees	<u>434</u>	<u>48</u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00%-member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00%-member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00%-member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

If the employer used the certified rate: The political subdivision's contractually required contribution rate for the year ended June 30, 2018 was 11.97% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The rate for the school board – general employees was 7.11%.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$837,601 and \$824,531 for the years ended June 30, 2018 and June 30, 2017, respectively.

For the school board – general employees, employer contributions were \$29,278 and \$30,483 for the years ended June 30, 2018 and June 30, 2017, respectively.

Each school division's contractually required contribution rate for the year ended June 30, 2018 was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the school division were \$1,150,064 and \$1,246,206 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivisions net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016 using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Net Pension Liability – Teacher Employee Retirement Plan

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

Teacher Employee Retirement Plan

	Teacher Employee Retirement Plan
Total Pension Liability	\$45,417,520
Plan Fiduciary Net Position	<u>33,119,545</u>
Employer's Net Pension Liability (Asset)	<u>\$12,297,975</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.92%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Actuarial Assumptions – General Employees and School Division – Teachers

The total pension liability for General Employees in the Political Subdivision's Retirement Plan and the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2016 using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

	General Employees	Teachers
Inflation	2.5 percent	2.5 percent
Salary increases, including inflation	3.5 percent - 5.35 percent	3.5 percent - 5.95 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*	7.0 percent, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Political Subdivisions

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related.

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020: males set forward 3 years; females 1.0% increase compounded from ages 70-90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related.

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

School Divisions – Teachers

Mortality rates:

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020: males 1.0% increase compounded from ages 70-90; and females set back 3 years with 1.5% increase compounded from ages 65-70 and 2% increase compounded from ages 75-90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with hazardous duty benefits in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent - 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related.

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant rates at ages 81 and older projected with a scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) – Hazardous Duty; 45% of deaths are assumed to be service related.

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Political Subdivision Retirement Plan and school division for the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers and school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

Primary Government - City

	<u>Increase (Decrease)</u>		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 37,101,298	\$ 30,121,319	\$ 6,979,979
Changes for the Year			
Service cost	925,511	-	925,511
Interest	2,527,090	-	2,527,090
Changes of assumptions	(105,527)	-	(105,527)
Differences between expected and actual experience	(69,781)	-	(69,781)
Contributions - employer	-	811,984	(811,984)
Contributions - employee	-	373,063	(373,063)
Net investment income	-	3,632,479	(3,632,479)
Benefit payments, including refunds of employee contributions	(1,999,992)	(1,999,992)	-
Administrative expenses	-	(21,347)	21,347
Other changes	-	(3,217)	3,217
Net Changes	<u>1,277,301</u>	<u>2,792,970</u>	<u>(1,515,669)</u>
Balances at June 30, 2017	<u>\$ 38,378,599</u>	<u>\$ 32,914,289</u>	<u>\$ 5,464,310</u>

**Component Unit School Board -
General Employees**

		<u>Total Pension Liability (a)</u>	<u>Increase (Decrease) Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balances at June 30, 2016	\$	1,796,227	\$ 1,720,856	\$ 75,371
Changes for the Year				
Service cost		47,678	-	47,678
Interest		122,651	-	122,651
Changes of assumptions		(12,055)	-	(12,055)
Differences between expected and actual experience		(38,551)	-	(38,551)
Contributions - employer		-	28,347	(28,347)
Contributions - employee		-	19,721	(19,721)
Net investment income		-	208,126	(208,126)
Benefit payments, including refunds of employee contributions		(88,152)	(88,152)	-
Administrative expenses		-	(1,217)	1,217
Other changes		-	(184)	184
Net Changes		<u>31,571</u>	<u>166,641</u>	<u>(135,070)</u>
Balances at June 30, 2017	\$	<u>1,827,798</u>	\$ <u>1,887,497</u>	\$ <u>(59,699)</u>

Sensitivity of the Political Subdivision's and School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the political subdivision's and school division's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the political subdivision's and school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Primary Government - City			
Political subdivision's Net Pension Liability	\$ <u>10,088,635</u>	\$ <u>5,464,310</u>	\$ <u>1,593,374</u>
Component Unit School Board - General Employees			
	\$ <u>143,152</u>	\$ <u>(59,699)</u>	\$ <u>(231,533)</u>
School Division's Proportionate Share of the VRS Teacher			
Employee Retirement Plan Net Pension Liability	\$ <u>17,649,000</u>	\$ <u>11,818,000</u>	\$ <u>6,995,000</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City's political subdivision recognized pension expense of \$636,980.

For the year ended June 30, 2018, the school board – general employees recognized pension expense of \$(41,650).

At June 30, 2018, the school division reported a liability of \$11,818,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was .09610% as compared to .10034% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of \$678,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the political subdivision and school division – teachers reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Primary Government - City's Political Subdivision		
Differences between expected and actual experience	\$ 21,935	\$ 147,172
Change in assumptions	-	71,265
Net difference between projected and actual earnings on pension plan investments	-	459,784
Employer contributions subsequent to the measurement date	<u>837,601</u>	<u>-</u>
Total	<u>\$ 859,536</u>	<u>\$ 678,221</u>
Component Unit School Board - General Employees		
Differences between expected and actual experience	\$ -	\$ 47,165
Change in assumptions	-	7,174
Net difference between projected and actual earnings on pension plan investments	-	27,320
Employer contributions subsequent to the measurement date	<u>29,278</u>	<u>-</u>
Total	<u>\$ 29,278</u>	<u>\$ 81,659</u>

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Component Unit School Board - Teachers		
Differences between expected and actual experience	\$ -	\$ 837,000
Change in assumptions	172,000	-
Net difference between projected and actual earnings on pension plan investments	-	429,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	165,000	978,000
Employer contributions subsequent to the measurement date	<u>1,150,064</u>	<u>-</u>
Total	<u>\$ 1,487,064</u>	<u>\$ 2,244,000</u>

\$837,601 for the City's political subdivision, \$29,278 for School Board General Employees and \$1,150,064 for the Teacher VRS Pool reported as deferred outflows of resources related to pensions resulting from the political subdivision and school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

**Year Ended
June 30,**

**Primary Government -
City's Political Subdivision**

2019	\$ (402,039)
2020	54,215
2021	2,210
2022	(310,674)
2023	-
Thereafter	-

**Component Unit School
Board - General Employees**

2019	\$ (62,374)
2020	(1,538)
2021	75
2022	(17,822)
2023	-
Thereafter	-

**Year Ended
June 30,**

**Component Unit School
Board - Teachers**

2019	\$ (658,000)
2020	(280,000)
2021	(358,000)
2022	(508,000)
2023	(103,000)
Thereafter	-

Pension Plan Fiduciary Net Position

Detailed information about the VRS Political Subdivision's and Teacher Retirement Plans' Virginia Retirement System's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

14 **Group Life Insurance**

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEF plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS

Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts

The benefits payable under the Group Life Insurance Program have several components.

- **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.
- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - Accidental dismemberment benefit
 - Safety belt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - Accelerated death benefit option

Reduction in Benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were \$94,115 and \$98,581 for the years ended June 30, 2018 and June 30, 2017, respectively.

For the school board – general employees, contributions were \$2,142 and \$2,237 for the years ended June 30, 2018 and June 30, 2017, respectively.

For the school board – teachers, contributions were \$36,851 and \$39,763 for the years ended June 30, 2018 and June 30, 2017, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the entities reported a liability of \$614,000 for the City's political subdivision, \$36,000 for the school board – general employees, and \$624,000 for the school board - teacher for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .04081% for the City's political subdivision, .00233% for the school board – general employees, and .04145% for the school board – teacher proportionate share as compared to .04178% for the City's political subdivision, .00233% for the school board – general employees, and .04269% for the school board – teacher proportionate share at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$4,000 for the City's political subdivision, \$-0- for the school board – general employees, and \$4,000 for the school board – teacher proportionate share. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

Primary Government - City's Political Subdivision

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 13,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	23,000
Change in assumptions	-	32,000
Changes in proportion	-	14,000
Employer contributions subsequent to the measurement date	<u>39,713</u>	<u>-</u>
Total	<u><u>\$ 39,713</u></u>	<u><u>\$ 82,000</u></u>

Component Unit School Board - General Employees

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	1,000
Change in assumptions	-	2,000
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	<u>2,142</u>	<u>-</u>
Total	<u>\$ 2,142</u>	<u>\$ 4,000</u>

Component Unit School Board - Teachers

Differences between expected and actual experience	\$ -	\$ 14,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	23,000
Change in assumptions	-	32,000
Changes in proportion	-	19,000
Employer contributions subsequent to the measurement date	<u>36,851</u>	<u>-</u>
Total	<u>\$ 36,851</u>	<u>\$ 88,000</u>

\$94,115 for the City's political subdivision, \$2,142 for the School Board general employees, and \$36,851 for the Teacher pool reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

**Year Ended
June 30,**

**Primary
Government -
City's Political
Subdivision**

2019	\$ (17,000)
2020	(17,000)
2021	(17,000)
2022	(17,000)
2023	(10,000)
Thereafter	(4,000)

**Component Unit
School Board -
General
Employees**

2019	\$ (1,000)
2020	(1,000)
2021	(1,000)
2022	(1,000)
2023	-
Thereafter	-

**Component Unit
School Board -
Teachers**

2019	\$ (17,000)
2020	(17,000)
2021	(17,000)
2022	(17,000)
2023	(11,000)
Thereafter	(9,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation -	
General state employees	3.5 percent - 5.35 percent
Teachers	3.5 percent - 5.95 percent
SPORS employees	3.5 percent - 4.75 percent
VaLORS employees	3.5 percent - 4.75 percent
JRS employees	4.5 percent
Locality - General employees	3.5 percent - 5.35 percent
Locality - Hazardous Duty employees	3.5 percent - 4.75 percent
Investment rate of return	7.0 percent, net of investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$	2,942,426
Plan Fiduciary Net Position		<u>1,437,586</u>
Employers' Net GLI OPEB Liability (Asset)	\$	<u><u>1,504,840</u></u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a lognormal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Primary Government - City			
Employer's Proportionate Share of the Group Life Insurance Program			
Net OPEB Liability	\$ 794,000	\$ 614,000	\$ 468,000
Component Unit School Board - General Employees			
	\$ 46,000	\$ 36,000	\$ 27,000
Component Unit School Board - Teacher			
	\$ 807,000	\$ 624,000	\$ 475,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

15 Health Insurance Credit Program

Plan Description

All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision Health Insurance Credit Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
Eligible Employees The Political Subdivision Retiree Health Insurance Credit Program was established July 1, 1993 for retired political subdivision employees of political subdivision employees who elect the benefit and who retire with at least 15 years of service credit. Eligible employees of participating are enrolled automatically upon employment. They include: • Full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan.
Benefit Amounts The political subdivision's Retiree Health Insurance Credit Program provided the following benefits for eligible employees: • <u>At Retirement</u> – For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. • <u>Disability Retirement</u> – For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.
Health Insurance Credit Program Notes: • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • No health insurance credit for premiums paid and qualified under LODA, however, the employee may receive the credit for the premiums paid for other qualified health plans. • Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>School Board Number</u>
Inactive members or their beneficiaries currently receiving benefits	5
Inactive members:	
Vested	-
Non-vested	-
Active elsewhere in VRS	<u>-</u>
Total inactive members	-
Active members	<u>19</u>
Total covered employees	<u><u>24</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-1402(E) of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. The political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was .21% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the political subdivision to the Political Subdivision Health Insurance Credit Program were \$865 and \$900 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net HIC OPEB Liability

The political subdivision's net Health Insurance Credit OPEB liability was measured as of June 30, 2017. The total Health Insurance Credit OPEB liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	
Locality - General Employees	3.5 percent - 5.35 percent
Locality - Hazardous Duty Employees	3.5 percent - 4.75 percent
Investment rate of return	7.0 percent, net of investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a lognormal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the HIC OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

Changes in Net HIC OPEB Liability:

	Total HIC OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (a) - (b)
Component Unit School Board - General Employees			
Balances at June 30, 2016	\$ 34,167	\$ 31,002	\$ 3,165
Changes for the Year			
Service cost	608	-	608
Interest	2,331	-	2,331
Benefit changes	-	-	-
Changes of assumptions	(929)	-	(929)
Differences between expected and actual experience	-	-	-
Contributions - employer	-	900	(900)
Net investment income	-	3,542	(3,542)
Benefit payments	(1,720)	(1,720)	-
Administrative expenses	-	(56)	56
Other changes	-	183	(183)
Net Changes	290	2,849	(2,559)
Balances at June 30, 2017	\$ 34,457	\$ 33,851	\$ 606

Sensitivity of the Political Subdivision Health Insurance Credit Net OPEB Liability to Changes in the Discount Rate

The following presents the Political Subdivision Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the Political subdivision's net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
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**Component Unit School Board -
General Employees**

Net HIC OPEB Liability	\$ 3,548	\$ 606	\$ (1,950)
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Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Health Insurance Credit Program OPEB

For the year ended June 30, 2018, the political subdivision recognized Health Insurance Credit Program OPEB expense \$197, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Health Insurance Credit Program from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Component Unit School Board - General Employees		
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	739
Net difference between projected and actual earnings on HIC OPEB plan investments	-	1,117
Employer contributions subsequent to the measurement date	<u>865</u>	<u>-</u>
Total	<u>\$ 865</u>	<u>\$ 1,856</u>

\$865 reported as deferred outflows of resources related to the HIC OPEB resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

**Year Ended
June 30,
Component Unit School Board -
General Employees**

2019	\$ (469)
2020	(469)
2021	(469)
2022	(449)
2023	-
Thereafter	-

Health Insurance Credit Program Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Program is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

16 Teacher Employee Health Insurance Credit Program

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the Teacher Health Insurance Credit Program OPEB, including eligibility, coverage, and benefits is set out in the table below:

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
Eligible Employees The Teacher Employee Retiree Health Insurance Credit Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include: • Full-time permanent (professional) salaried employees of public school divisions covered under VRS.
Benefit Amounts The Teacher Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees: • <u>At Retirement</u> – For Teacher and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. • <u>Disability Retirement</u> – For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either: ○ \$4.00 per month, multiplied by twice the amount of service credit, or ○ \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.
Health Insurance Credit Program Notes: • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • Employees who retire after being on long-term disability under VLDP must have at least 15 year of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1401(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee Health Insurance Credit Program were \$86,702 and \$84,712 for the years ended June 30, 2018 and June 30, 2017, respectively.

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Teacher Employee Health Insurance Credit Program OPEB

At June 30, 2018, the school division reported a liability of \$1,227,000 for its proportionate share of the VRS Teacher Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS Teacher Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion of the VRS Teacher Employee Health Insurance Credit Program was .09670% as compared to .10033% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized VRS Teacher Employee Health Insurance Credit Program OPEB expense of \$94,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Teacher Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	2,000
Change in assumptions	-	13,000
Changes in proportionate share	-	40,000
Employer contributions subsequent to the measurement date	86,702	-
Total	\$ 86,702	\$ 55,000

\$86,702 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

**Year Ended
June 30,**

2019	\$ (8,000)
2020	(8,000)
2021	(8,000)
2022	(8,000)
2023	(8,000)
Thereafter	(15,000)

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation - Teacher Employees	3.5 percent - 5.95 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Teacher Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

**Teacher
Employee
HIC OPEB Plan**

Total Teacher Employee HIC OPEB Liability	\$	1,364,702
Plan Fiduciary Net Position		<u>96,091</u>
Teacher Employee Net HIC OPEB Liability (Asset)	\$	<u><u>1,268,611</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability		7.04%

The total Teacher Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by each school division for the VRS Teacher Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the VRS Teacher Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
School Division's Proportionate Share of the VRS Teacher Employee HIC OPEB Plan			
Net HIC OPEB Liability	<u>\$ 1,369,000</u>	<u>\$ 1,227,000</u>	<u>\$ 1,106,000</u>

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

17 Line of Duty Act Program

Plan Description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

The specific information for Disability Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS
Eligible Employees The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS).
Benefit Amounts The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals: Death – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date. an additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001. Health Insurance – The Line of Duty Act program provides health insurance benefits. Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program. Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the entity were \$36,879 and \$35,177 for the years ended June 30, 2018 and June 30, 2017, respectively.

Line of Duty Act Program (LODA) OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB

At June 30, 2018, the entity reported a liability of \$857,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was .32616% as compared to .34299% at June 30, 2016.

For the year ended June 30, 2018, the entity recognized LODA OPEB expense of \$70,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the agency reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on LODA OPEB plan investments	-	1,000
Change in assumptions	-	89,000
Changes in proportion	-	42,000
Employer contributions subsequent to the measurement date	<u>36,879</u>	<u>-</u>
Total	<u>\$ 36,879</u>	<u>\$ 132,000</u>

\$36,879 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

**Year Ended
June 30,**

2019	\$ (16,000)
2020	(16,000)
2021	(16,000)
2022	(16,000)
2023	(16,000)
Thereafter	(52,000)

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation -	
General state employees	3.5 percent - 5.35 percent
SPORS employees	3.5 percent - 4.75 percent
VaLORS employees	3.5 percent - 4.75 percent
Locality employees	3.5 percent - 4.75 percent
Medical cost trend rates assumption -	
Under age 65	7.75 percent - 5.00 percent
Ages 65 and older	5.75 percent - 5.00 percent
Investment rate of return	3.56 percent, net of OPEB plan Investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – Largest Ten Locality Employers With Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality rates – Non-Largest Ten Locality Employers With Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

Net LODA OPEB Liability

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Line of Duty Act Program (LODA) is as follows (amounts expressed in thousands):

	<u>Line of Duty Act Program</u>
Total LODA OPEB Liability	\$ 266,252
Plan Fiduciary Net Position	<u>3,461</u>
Employer's Net OPEB Liability (Asset)	<u>\$ 262,791</u>
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%

The total LODA OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

	<u>1.00% Decrease (2.56%)</u>	<u>Current Discount Rate (3.56%)</u>	<u>1.00% Increase (4.56%)</u>
Covered Employer's Proportionate Share of the Total LODA			
Net OPEB Liability	<u>\$ 972,000</u>	<u>\$ 857,000</u>	<u>\$ 761,000</u>

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the Line of Duty Act Program (LODA) contains a provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

1.00% Decrease (6.75% decreasing to <u>4.00%</u>)	Health Care Trend Rates (7.75% decreasing to <u>5.00%</u>)	1.00% Increase (8.75% decreasing to <u>6.00%</u>)
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Covered Employer's Proportionate Share of the Total LODA

Net OPEB Liability	\$ <u>728,000</u>	\$ <u>857,000</u>	\$ <u>1,018,000</u>
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LODA OPEB Plan Fiduciary Net Position

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

18 Political Subdivision Employee Virginia Local Disability Program

Plan Description

All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee Virginia Local Disability Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP).

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP) PLAN PROVISIONS

Eligible Employees

The Political Subdivision Employee Virginia Local Disability Program was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits

Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:

- Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.

Benefit Amounts

The Political Subdivision Employee Virginia Disability Local Program (VLDP) provides the following benefits for eligible employees:

Short-Term Disability –

- The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer.
- During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability.
- Once the eligibility period is satisfied, employees are eligible for higher income replacement levels

Long-Term Disability –

- The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.
- Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

Virginia Local Disability Program Notes:

- Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible.
- VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VRS Political Subdivision Employee Virginia Local Disability Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the political subdivision to the VRS Political Subdivision Employee Virginia Local Disability Program were \$9,492 and \$6,306 for the years ended June 30, 2018 and June 30, 2017, respectively.

For the school board – general employees, contributions to the VRS Political Subdivision Employee Virginia Local Disability Program were \$920 and \$1,038 for the years ended June 30, 2018 and June 30, 2017, respectively.

Political Subdivision Employee Virginia Local Disability Program OPEB Liabilities, Political Subdivision Employee Virginia Local Disability Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Political Subdivision Employee Virginia Local Disability Program OPEB

At June 30, 2018, the political subdivision reported a liability of \$3,000 and \$1,000 school board – general employees for its proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB Liability. The Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was measured as of June 30, 2017 and the total VRS Political Subdivision Employee Virginia Local Disability Program OPEB liability used to calculate the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was determined by an actuarial valuation as of that date. The political subdivision's proportion of the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was based on the political subdivision's actuarially determined employer contributions to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the political subdivision's proportion of the VRS Political Subdivision Employee Virginia Local Disability Program was .57235% and .09421% school board – general employees as compared to .53195% and .11891% school board – general employees at June 30, 2016.

For the year ended June 30, 2018, the political subdivision recognized VRS Political Subdivision Employee Virginia Local Disability Program OPEB expense of \$6,000 and \$1,000 school board – general employees. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB from the following sources:

Primary Government - City's Political Subdivision

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on VLDP OPEB plan investments	-	-
Change in assumptions	-	1,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	<u>9,492</u>	<u>-</u>
Total	<u><u>\$ 9,492</u></u>	<u><u>\$ 1,000</u></u>

**Component Unit - School Board
General Employees**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on VLDP OPEB plan investments	-	-
Change in assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	<u>920</u>	<u>-</u>
Total	<u>\$ 920</u>	<u>\$ -</u>

\$9,492 for the City's political subdivision and \$920 for the component unit – school board general employees reported as deferred outflows of resources related to the Political Subdivision Employee VLDP OPEB resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Political Subdivision Employee VLDP OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee VLDP OPEB will be recognized in the Political Subdivision Employee VLDP OPEB expense in future reporting periods as follows:

**Year Ended
June 30,**

**Primary
Government -
City's Political
Subdivision**

2019	\$(1,000)
2020	-
2021	-
2022	-
2023	-
Thereafter	-

**Component Unit -
School Board
General
Employees**

2019	\$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	-

Actuarial Assumptions

The total Political Subdivision Employee VLDP OPEB liability for the VRS Political Subdivision Employee Virginia Local Disability Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation - Political subdivision employees	3.5 percent - 5.35 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

Mortality rates – Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality rates – Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Net Political Subdivision Employee VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision Employee Virginia Local Disability Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Political Subdivision Employee Virginia Local Disability Program is as follows (amounts expressed in thousands):

Political Subdivision Employee VLDP OPEB Plan

Total Political Subdivision VLDP OPEB Liability	\$	914
Plan Fiduciary Net Position		<u>351</u>
Political Subdivision net VLDP OPEB Liability (Asset)	\$	<u><u>563</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability		38.40%

The total Political Subdivision Employee VLDP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Political Subdivision Employee VLDP OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Political Subdivision Employee VLDP OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the political subdivision for the VRS Political Subdivision Employee Virginia Local Disability Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Political Subdivision Employee VLDP OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Political Subdivision Employee VLDP OPEB liability.

Sensitivity of the Political Subdivision's Proportionate Share of the Political Subdivision Employee VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the political subdivision's proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program net VLDP OPEB liability using the discount rate of 7.00%, as well as what the political subdivision's proportionate share of the net VLDP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political Subdivision's Proportionate Share of the VRS Political Subdivision VLDP OPEB Plan			
Net VLDP OPEB Liability	\$ <u>4,000</u>	\$ <u>3,000</u>	\$ <u>3,000</u>
	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political Subdivision's Proportionate Share of the VRS School Board General Employees VLDP OPEB Plan			
Net VLDP OPEB Liability	\$ <u>1,000</u>	\$ <u>1,000</u>	\$ <u>1,000</u>

Political Subdivision Employee VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision Employee Virginia Local Disability Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

19 **Teacher Employee Virginia Local Disability Program**

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Teacher Employee Virginia Local Disability Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. School divisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP).

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

TEACHER EMPLOYEE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP) PLAN PROVISIONS

Eligible Employees

The Teacher Employee Virginia Local Disability Program was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits

Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:

- Teachers and other full-time permanent (professional) salaried employees of public school divisions covered under VRS.

Benefit Amounts

The Teacher Employee Virginia Disability Local Program (VLDP) provides the following benefits for eligible employees:

Short-Term Disability –

- The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer.
- During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability.
- Once the eligibility period is satisfied, employees are eligible for higher income replacement levels

Long-Term Disability –

- The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.
- Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

Virginia Local Disability Program Notes:

- Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible.
- VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 0.31% of covered employee compensation for employees in the VRS Teacher Employee Virginia Local Disability Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee Virginia Local Disability Program were \$7,264 and \$6,244 for the years ended June 30, 2018 and June 30, 2017, respectively.

Teacher Employee Virginia Local Disability Program OPEB Liabilities, Teacher Employee Virginia Local Disability Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Teacher Employee Virginia Local Disability Program OPEB

At June 30, 2018, the school division reported a liability of \$4,000 for its proportionate share of the VRS Teacher Employee Virginia Local Disability Program Net OPEB Liability. The Net VRS Teacher Employee Virginia Local Disability Program OPEB Liability was measured as of June 30, 2017 and the total VRS Teacher Employee Virginia Local Disability Program OPEB liability used to calculate the Net VRS Teacher Employee Virginia Local Disability Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee Virginia Local Disability Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee Virginia Local Disability Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion of the VRS Teacher Employee Virginia Local Disability Program was .71370% as compared to .86156% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized VRS Teacher Employee Virginia Local Disability Program OPEB expense of \$4,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Teacher Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Virginia Local Disability Program OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on Teacher VLDP OPEB plan investments	-	-
Change in assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	<u>7,264</u>	<u>-</u>
Total	<u>\$ 7,264</u>	<u>\$ -</u>

\$7,264 reported as deferred outflows of resources related to the Teacher Employee VLDP OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee VLDP OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee VLDP OPEB will be recognized in the Teacher Employee VLDP OPEB expense in future reporting periods as follows:

**Year Ended
June 30,**

2019	\$	-
2020		-
2021		-
2022		-
2023		-
Thereafter		-

Actuarial Assumptions

The total Teacher Employee VLDP OPEB liability for the VRS Teacher Employee Virginia Local Disability Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation - Teacher employees	3.5 percent - 5.95 percent
Investment rate of return	7.00 percent, net of plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Net Teacher Employee VLDP OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee Virginia Local Disability Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Teacher Employee Virginia Local Disability Program is as follows (amounts expressed in thousands):

Teacher Employee VLDP OPEB Plan

Total Teacher Employee VLDP OPEB Liability	\$ 873
Plan Fiduciary Net Position	<u>279</u>
Teacher Employee Net VLDP OPEB Liability (Asset)	<u>\$ 594</u>

Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee VLDP OPEB Liability	31.96%
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The total Teacher Employee VLDP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee VLDP OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Teacher Employee VLDP OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the school division for the VRS Teacher Employee Virginia Local Disability Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee VLDP OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee VLDP OPEB liability.

Sensitivity of the School Division's Proportionate Share of the Teacher Employee VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the VRS Teacher Employee Virginia Local Disability Program net VLDP OPEB liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net VLDP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
School Division's Proportionate Share of the VRS Teacher Employee VLDP OPEB Plan			
Net VLDP OPEB Liability	\$ <u>5,000</u>	\$ <u>4,000</u>	\$ <u>4,000</u>

Teacher Employee VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee Virginia Local Disability Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

20 Joint Ventures and Related Organizations

Blackwater Regional Library

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

Franklin-Southampton Economic Development Commission

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

Western Tidewater Regional Jail Authority

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

Western Tidewater Community Services Board

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

21 Contingent Liabilities

Federal programs in which the City participates were audited in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to these requirements, 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 \$3,178,000 have been recorded in the Enterprise Funds from which repayment is anticipated. The General Fund has a contingent liability for repayment of the aforementioned amounts should the Enterprise Funds be unable to pay.

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

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

The County of Isle of Wight (the County) entered into an agreement with the City on January 15, 1987 to share all local tax revenues within a defined “designated area”. This agreement provides for the County to pay to the City the City’s share of revenues collected by the County during the fiscal year (July 1 to June 30). The agreement allows the County to make adjustments in each subsequent year to account for refunds and abatements of prior years. In FY17, the County unsuccessfully defended itself against a lawsuit whereby the Plaintiff was awarded \$882,807.49 plus interest related to erroneous assessments on machinery and tools. The Plaintiff’s business is located within the “designated area”. The City’s estimated contingent liability for the revenue adjustment allowed by the County is in the range of \$650,000 to \$675,000.

22 Other Post-Employment Benefits Program

Background

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

City

A. Plan Description

Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan. The City Council has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. 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. A separate report was not issued for the plan.

C. Executive Summary

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2016, which is the date the actuarial valuation is performed. The Measurement Date is June 30, 2018, which is the date the City's total OPEB liability is determined. The Reporting Date is June 30, 2018, which is also the City's fiscal year end date.

Significant Changes

There have been no significant changes between the valuation date and fiscal year end.

D. Total OPEB Liability

Total OPEB Liability

June 30, 2018

Total OPEB Liability	\$	2,620,973
Covered Payroll		7,535,900
Total OPEB liability as a % of covered payroll		34.78%

The Total OPEB Liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 75.

E. Discount Rate

Discount Rate

Discount rate	3.87%
20 Year Tax-Exempt Municipal Bond Yield	3.87%

The discount rates are based on the Bond Buyer 20-Year Bond GO Index as of their respective measurement date.

F. Other Key Actuarial Assumptions

The demographic assumptions used are predominantly consistent with those used in the June 30, 2016 actuarial valuation of the Virginia Retirement System (VRS). Please see the July 1, 2016 OPEB valuation report for a complete summary of all the underlying assumptions used in the valuation.

Other Key Actuarial Assumptions

	<u>June 30, 2018</u>
Valuation Date	July 1, 2016
Measurement Date	June 30, 2018
Inflation	2.50%
Healthcare Trend Rates	Getzen Trend Model - 7.10% in 2016, 7.50% in 2017, then graded to 4.00% over 79 years
Actuarial Cost Method	Entry Age Normal, Level Percentage of Pay

June 30, 2018

Salary Increases, Including Inflation for Non-Law Officers

<u>Years of Service</u>	<u>Increase for Next Year</u>
1	5.35%
2	5.35%
3	4.75%
4	4.45%
5	4.45%
6	4.45%
7	4.35%
8	4.25%
9	4.00%
10	4.00%
11 to 19	3.65%
20 or More	3.50%

Salary Increases, Including Inflation for Law Officers

<u>Years of Service</u>	<u>Increase for Next Year</u>
1	4.75%
2	4.75%
3	4.75%
4	4.75%
5	4.65%
6	4.40%
7	4.40%
8	4.40%
9	4.40%
10	4.00%
11 to 19	4.00%
20 or More	3.50%

G. Changes in Total OPEB Liability

	Increase (Decrease) Total OPEB Liability
Balance as of June 30, 2017	\$ 2,713,968
Changes for the Year	
Service cost	100,083
Interest on total OPEB liability	94,478
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effects of assumptions changes or inputs	(56,168)
Benefit payments	<u>(231,388)</u>
Net Changes	<u>(92,995)</u>
Balance as of June 30, 2018	<u>\$ 2,620,973</u>

H. Sensitivity Analysis

The following presents the City's total OPEB liability, calculated using the discount rate of 3.87%. It also presents what the City's total OPEB liability would be if it were calculated using a discount rate one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate.

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Political subdivision's			
Total OPEB liability	\$2,775,759	\$ 2,620,973	\$2,475,993

The following presents the City's total OPEB liability, calculated using the current healthcare trend rates. It also presents what the City's total OPEB liability would be if it were calculated using healthcare trend rates that are one percentage point lower or one percentage point higher than the current rate.

	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate
Political subdivision's			
Total OPEB liability	\$2,390,487	\$ 2,620,973	\$2,881,795

I. Deferred Outflows/Inflows of Resources

As of June 30, 2018, the deferred outflows and inflows of resources are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	44,934
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	<u>1,143,136</u>	<u>-</u>
Total	<u>\$ 1,143,136</u>	<u>\$ 44,934</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows:

**Year Ended
June 30,**

2019	\$ (11,234)
2020	(11,234)
2021	(11,234)
2022	(11,232)
2023	-
Thereafter	-

School Board

A. Plan Description

The School Board administers a single-employer defined benefit Healthcare Benefits Plan. The City Council has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. 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. A separate report was not issued for the plan.

C. Executive Summary

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2016, which is the date the actuarial valuation is performed. The Measurement Date is June 30, 2018, which is the date as of which the total OPEB liability is determined. The Reporting Date is June 30, 2018. This is the plan's and/or employer's fiscal year ending date.

Significant Changes

There have been no significant changes between the valuation date and fiscal year end.

Participant Data as of July 1, 2016

	<u>Number</u>
Actives	178
Retirees	8
Beneficiaries	-
Spouses of Retirees	<u>2</u>
Total	<u><u>188</u></u>

D. Total OPEB Liability

Total OPEB Liability

June 30, 2018

Total OPEB Liability	\$	701,071
Covered Payroll		6,647,800
Total OPEB liability as a % of covered payroll		10.55%

The Total OPEB Liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 74 and 75.

E. Discount Rate

Discount Rate

Discount rate	3.87%
20 Year Tax-Exempt Municipal Bond Yield	3.87%

The discount rates are based on the Bond Buyer General Obligation 20-Bond Municipal Index.

F. Other Key Actuarial Assumptions

The plan has not had a formal actuarial experience study performed.

Other Key Actuarial Assumptions

	<u>June 30, 2018</u>
Valuation Date	July 1, 2016
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Medical Trend Rate	10.50% - 4.30% over 58 years

F. Changes in Total OPEB Liability

	<u>Increase (Decrease) Total OPEB Liability</u>
Balance as of June 30, 2017	\$ 710,885
Changes for the Year	
Service cost	38,938
Interest on total OPEB liability	25,284
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effects of assumptions changes or inputs	(18,679)
Benefit payments	<u>(55,357)</u>
Net Changes	<u>(9,814)</u>
Balance as of June 30, 2018	<u>\$ 701,071</u>

G. Sensitivity Analysis

The following presents the total OPEB liability of the Schools, calculated using the discount rate of 3.87%, as well as what the Schools' total OPEB liability would be if it were calculated using a discount rate one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate.

	<u>1% Decrease (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
Schools'			
Total OPEB liability	\$ 752,645	\$ 701,071	\$ 653,053

The following presents the total OPEB liability of the Schools, calculated using the current healthcare cost trend rates as well as what the Schools' total OPEB liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Schools'			
Total OPEB liability	\$ 620,641	\$ 701,071	\$ 796,213

H. Deferred Outflows/Inflows of Resources

As of June 30, 2018, the deferred outflows and inflows of resources are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	14,232
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	851,728	-
Total	<u>\$ 851,728</u>	<u>\$ 14,232</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	
2019	\$ (4,447)
2020	(4,447)
2021	(4,447)
2022	(891)
2023	-
Thereafter	-

23 Tax Abatement Disclosures

The City negotiates property tax abatement agreements on an individual basis. The City has no tax abatement agreements with any entities as of June 30, 2018.

24 Annexations

Southampton County

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

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 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, 2018, the City received \$62,345 in tax revenue from the County under this agreement.

County of Isle of Wight

On March 11, 1986, the City entered into an agreement with the County of Isle of Wight whereby the City waived any and all of its rights and power to seek annexation of the County of Isle of Wight's territory within a designated area adjacent to the City. The agreement became effective when approved by the Court on April 13, 1987. In return, the County of Isle of Wight agreed to share with the City all local tax revenues collected within the designated area using the following percentages:

<u>Fiscal Year Ending</u>	<u>Percentage</u>
1986	5%
1987	10%
1988-1995	20%
1996 and thereafter	¹ 17.23%

¹As adjusted by formula

The local revenues are payable to the City by the County of Isle of Wight on August 1, following the end of the fiscal year. During the year ended June 30, 2018, the City received \$720,000 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2017.

25 Fund Balances

Portions of the General Fund balance are as follows:

- Fund balance in the amount of \$969,874 is nonspendable due to Airport Fund.
- Fund balance in the amount of \$339,363 is assigned for fiscal year 2019 budgets.
- Fund balance in the amount of \$4,189,190 is unassigned and available for subsequent expenditures.

Portions of the Capital Projects Fund are as follows:

- Fund balance in the amount of \$692 is assigned for expenditures for school-related capital outlays.

26 Expenditures in Excess of Appropriations

No funds had expenditures in excess of appropriations at June 30, 2018.

27 Risk Management

The City and School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Surety bonds of the City of Franklin, Virginia are as follows:

Division of Risk Management Surety

Commonwealth Funds

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

28 Litigation

At June 30, 2018, there were no matters of litigation involving the City which would materially affect the City's financial position should any court decisions or pending matters not be favorable to such entities.

29 Legal Compliance

The Virginia Public Finance Act contains state law for issuance of long-term and short-term debt. The Act states, in part, that no municipality may issue bonds or other interest-bearing obligations, including existing indebtedness, which will at any time exceed 10 percent of the assessed valuation on real estate as shown by the last preceding assessment for taxes. Short-term revenue anticipation bonds/notes, general obligation bonds approved in a referendum, revenue bonds, and contract obligations for publically owned or regional projects should not be included in the debt limitation.

30 Restatement of Net Position

The net position has been restated to reflect the cumulative effect resulting from the implementation of GASB Statement #75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The following reflects the effect of implementation of this new accounting standard.

Governmental Activities

Net Position - Beginning of Year	
As Previously Reported June 30, 2017	\$14,408,576
VRS OPEB group life insurance	(524,908)
VRS OPEB VLDP (VA local disability program)	4,307
VRS OPEB line of duty act (LODA)	(919,823)
OPEB retiree health insurance	<u>(634,747)</u>
Net Position - Beginning of Year	
Restated July 1, 2017	<u>\$12,333,405</u>

<u>Business-Type (Proprietary Funds)</u>	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Electric Fund</u>	<u>Airport Fund</u>	<u>Total Business- Type Funds</u>
Net Position - Beginning of Year As Previously Reported June 30, 2017	\$ 2,946,179	\$ 493,172	\$2,246,472	\$2,458,800	\$8,144,623
VRS OPEB group life insurance	(37,945)	(18,973)	(44,269)	(6,324)	(107,511)
OPEB retiree health insurance	<u>(21,647)</u>	<u>(1,422)</u>	<u>(9,586)</u>	<u>(6,742)</u>	<u>(39,397)</u>
Net Position - Beginning of Year Restated July 1, 2017	<u>\$ 2,886,587</u>	<u>\$ 472,777</u>	<u>\$2,192,617</u>	<u>\$2,445,734</u>	<u>\$7,997,715</u>

School Board Component Unit

Net Position - Beginning of Year As Previously Reported June 30, 2017	\$ (3,958,386)
VRS OPEB group life insurance	(788,000)
VRS OPEB health insurance credit	(1,276,165)
VRS OPEB VLDP (VA local disability program)	(4,000)
OPEB retiree health insurance	<u>408,334</u>
Net Position - Beginning of Year Restated July 1, 2017	<u>\$ (5,618,217)</u>

31 Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2018 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2018. Management has performed their analysis through November 14, 2018.

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.

City of Franklin, Virginia

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

Year Ended June 30, 2018

General Fund

	<u>Budgeted Amounts</u>			<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
General property taxes	\$ 7,457,635	\$ 7,457,635	\$ 7,357,887	\$ (99,748)
Other local taxes	5,543,300	5,543,300	5,688,011	144,711
Permits, privilege fees, and regulatory licenses	547,604	547,604	200,195	(347,409)
Fines and forfeitures	37,000	37,000	29,209	(7,791)
Revenue from use of money and property	243,496	225,447	431,035	205,588
Charges for services	1,433,821	1,433,821	1,488,704	54,883
Miscellaneous	1,270,237	1,321,596	1,331,218	9,622
Recovered costs	404,400	404,400	271,535	(132,865)
Intergovernmental				
Commonwealth	4,029,527	4,204,888	4,214,990	10,102
Federal	41,595	72,715	239,787	167,072
Total Revenues	21,008,615	21,248,406	21,252,571	4,165
Expenditures				
Current				
General government administration	2,816,247	2,934,856	2,629,856	305,000
Judicial administration	335,403	348,403	344,563	3,840
Public safety	7,821,120	8,161,301	7,804,108	357,193
Public works	3,181,199	3,309,687	3,178,555	131,132
Health and welfare	199,106	199,106	695,461	(496,355)
Education	5,037,395	5,037,395	5,037,395	-
Parks, recreation, and cultural	735,224	735,478	732,536	2,942
Community development	1,074,856	1,137,223	1,110,461	26,762
Debt service	-	25,740	25,740	-
Total Expenditures	21,200,550	21,889,189	21,558,675	330,514
Excess (Deficiency) of Revenues Over (Under) Expenditures	(191,935)	(640,783)	(306,104)	334,679
Other Financing Sources (Uses)				
Transfers to debt service	(1,103,898)	(1,103,898)	(1,131,090)	(27,192)
Transfers in	1,691,698	1,689,927	1,689,927	-
Transfers (out)	(904,608)	(1,329,362)	(1,329,362)	-
Total Other Financing Sources (Uses)	(316,808)	(743,333)	(770,525)	(27,192)
Net Change in Fund Balances Before Transfer from Surplus	(508,743)	(1,384,116)	(1,076,629)	307,487
From Surplus	508,743	1,382,979	-	(1,382,979)
Net Change in Fund Balances	\$ -	\$ (1,137)	(1,076,629)	\$ (1,075,492)
Fund Balance - Beginning of Year			6,575,056	
Fund Balance - End of Year			\$ 5,498,427	

Virginia Public Assistance Fund

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ -	\$ 12,553	\$ 300	\$ (12,253)
Intergovernmental				
Commonwealth	493,795	519,463	422,894	(96,569)
Federal	<u>806,143</u>	<u>781,722</u>	<u>881,097</u>	<u>99,375</u>
Total Revenues	1,299,938	1,313,738	1,304,291	(9,447)
Expenditures				
Current				
Health and welfare	<u>1,797,143</u>	<u>1,830,273</u>	<u>1,603,615</u>	<u>226,658</u>
Total Expenditures	<u>1,797,143</u>	<u>1,830,273</u>	<u>1,603,615</u>	<u>226,658</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(497,205)	(516,535)	(299,324)	217,211
Other Financing Sources (Uses)				
Transfers in (out)	<u>497,205</u>	<u>497,434</u>	<u>497,434</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>497,205</u>	<u>497,434</u>	<u>497,434</u>	<u>-</u>
Net Change in Fund Balances Before Transfer from Surplus	-	(19,101)	198,110	217,211
From Surplus	<u>-</u>	<u>19,101</u>	<u>-</u>	<u>(19,101)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	198,110	<u>\$ 198,110</u>
Fund Balance - Beginning of Year			<u>222,354</u>	
Fund Balance - End of Year			<u>\$ 420,464</u>	

City of Franklin, Virginia

Schedule of Changes in the Political Subdivision's Net Pension Liability
and Related Ratios (Continued)

	<u>Primary Government</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 925,511	\$ 971,564	\$ 970,766	\$ 960,215
Interest	2,527,091	2,442,204	2,330,900	2,227,952
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(69,781)	(225,106)	129,805	-
Changes in assumptions	(105,527)	-	-	-
Benefit Payments, including refunds of employee contributions	(1,999,992)	(1,951,971)	(1,730,880)	(1,704,071)
Net change in total pension liability	1,277,302	1,236,691	1,700,591	1,484,096
Total pension liability - beginning	37,101,298	35,864,607	34,164,016	32,679,920
Total pension liability - ending (a)	\$ 38,378,600	\$ 37,101,298	\$ 35,864,607	\$ 34,164,016
 Plan fiduciary net position				
Contributions - employer	\$ 811,984	\$ 816,294	\$ 814,427	\$ 813,748
Contributions - employee	373,063	369,825	372,766	374,515
Net investment income	3,632,479	512,886	1,343,739	4,072,505
Benefit Payments, including refunds of employee contributions	(1,999,992)	(1,951,971)	(1,730,880)	(1,704,071)
Administrative expense	(21,347)	(19,122)	(18,654)	(22,183)
Other	(3,217)	(221)	(286)	214
Net change in plan fiduciary net position	2,792,970	(272,309)	781,112	3,534,728
Plan fiduciary net position - beginning	30,121,319	30,393,628	29,612,516	26,077,788
Plan fiduciary net position - ending (b)	\$ 32,914,289	\$ 30,121,319	\$ 30,393,628	\$ 29,612,516
 Political subdivision's net pension liability - ending (a) - (b)	\$ 5,464,311	\$ 6,979,979	\$ 5,470,979	\$ 4,551,500
 Plan fiduciary net position as a percentage of the total pension liability	85.76%	81.19%	84.75%	86.68%
 Covered payroll	\$ 7,507,194	\$ 7,368,240	\$ 7,586,380	\$ 7,460,063
 Political subdivision's net pension liability as a percentage of covered payroll	72.79%	94.73%	72.12%	61.01%

City of Franklin, Virginia

Schedule of Changes in the Political Subdivision's Net Pension Liability
and Related Ratios

	School Board General Employees			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 47,678	\$ 47,491	\$ 48,778	\$ 47,021
Interest	122,651	122,398	118,981	114,045
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(38,551)	(77,469)	(29,062)	-
Changes in assumptions	(12,055)	-	-	-
Benefit Payments, including refunds of employee contributions	(88,152)	(89,460)	(90,309)	(90,796)
Net change in total pension liability	31,571	2,960	48,388	70,270
Total pension liability - beginning	1,796,227	1,793,267	1,744,879	1,674,609
Total pension liability - ending (a)	<u>\$ 1,827,798</u>	<u>\$ 1,796,227</u>	<u>\$ 1,793,267</u>	<u>\$ 1,744,879</u>
 Plan fiduciary net position				
Contributions - employer	\$ 28,347	\$ 43,846	\$ 41,701	\$ 46,023
Contributions - employee	19,721	19,491	18,929	19,200
Net investment income	208,126	29,837	75,954	230,671
Benefit Payments, including refunds of employee contributions	(88,152)	(89,460)	(90,309)	(90,796)
Administrative expense	(1,217)	(1,071)	(1,055)	(1,253)
Other	(184)	(13)	(15)	12
Net change in plan fiduciary net position	166,641	2,630	45,205	203,857
Plan fiduciary net position - beginning	1,720,856	1,718,226	1,673,021	1,469,164
Plan fiduciary net position - ending (b)	<u>\$ 1,887,497</u>	<u>\$ 1,720,856</u>	<u>\$ 1,718,226</u>	<u>\$ 1,673,021</u>
 Political subdivision's net pension liability - ending (a) - (b)	<u>\$ (59,699)</u>	<u>\$ 75,371</u>	<u>\$ 75,041</u>	<u>\$ 71,858</u>
 Plan fiduciary net position as a percentage of the total Pension liability	103.27%	95.80%	95.82%	95.88%
 Covered payroll	\$ 428,732	\$419,188	\$391,523	\$384,283
 Political subdivision's net pension liability as a percentage of covered payroll	-13.92%	17.98%	19.17%	18.70%

City of Franklin, Virginia

Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan

Years Ended June 30, 2018, 2017, 2016, and 2015*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's Proportion of the Net Pension Liability (Asset)	0.09610%	0.10034%	0.10104%	0.10813%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 11,818,000	\$ 14,062,000	\$ 12,717,000	\$ 13,067,000
Employer's Covered Payroll	\$ 7,636,068	\$ 7,645,748	\$ 6,781,114	\$ 7,889,430
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its covered payroll	154.766%	183.919%	187.536%	165.627%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.92%	68.28%	70.68%	70.88%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, there are only four years of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date of the previous fiscal year end.

City of Franklin, Virginia

Schedule of Employer Contributions - VRS Pension

For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
Primary Government					
2018	\$ 837,601	\$ 837,601	\$ -	\$ 7,630,497	10.98%
2017	824,531	824,531	-	7,507,194	10.98%
2016	815,838	815,838	-	7,368,240	11.07%
2015	814,427	814,427	-	7,586,380	10.74%
2014	N/A	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A
Component Unit School Board - General Employees					
2018	\$ 29,278	\$ 29,278	\$ -	\$ 411,802	7.11%
2017	30,483	30,483	-	428,732	7.11%
2016	44,719	44,719	-	419,188	10.67%
2015	41,697	41,697	-	391,523	10.65%
2014	N/A	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A
Component Unit School Board - Teachers					
2018	\$ 1,150,064	\$ 1,150,064	\$ -	\$ 7,048,968	16.32%
2017	1,246,206	1,246,206	-	7,636,068	16.32%
2016	1,068,615	1,068,615	-	7,645,748	13.98%
2015	1,081,012	1,081,012	-	6,781,114	15.94%
2014	N/A	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A

Note: This schedule should present 10 years of data; however, the information prior to fiscal year 2015 is not available.

For Reference Only:

Column 1 - Employer contribution rate multiplied by the employer's covered payroll

Column 2 - Actual employer contribution remitted to VRS

Column 4 - Employer's covered payroll amount for the fiscal year

City of Franklin, Virginia

Notes to Required Supplementary Information

For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%

School Division

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

City of Franklin, Virginia

Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018*

2018

Primary Government - City

Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.04081%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 39,141
Employer's Covered Payroll	\$ 7,527,197
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	0.52%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

Component Unit School Board - General Employees

Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.00233%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 2,237
Employer's Covered Payroll	\$ 430,203
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	0.52%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

Component Unit - Teachers

Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.04145%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 39,763
Employer's Covered Payroll	\$ 7,646,683
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	0.52%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

*Schedule is intended to show information for 10 years.
Since 2018 is the first year of presentation, only one year of data is available. However, additional years will be included as they become available.*

*The amounts presented have a measurement date of the previous fiscal year end.

City of Franklin, Virginia

Schedule of Employer Contributions for GLI OPEB

For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
Primary Government					
2018	\$ 39,713	\$ 39,713	\$ -	\$ 7,637,206	0.52%
2017	39,141	39,141	-	7,527,197	0.52%
2016	39,792	39,792	-	7,507,921	0.53%
2015	39,507	39,507	-	7,454,105	0.53%
2014	39,317	39,317	-	7,418,210	0.53%
2013	36,558	36,558	-	6,897,674	0.53%
2012	29,840	29,840	-	6,781,911	0.44%
2011	29,468	29,468	-	6,697,347	0.44%
2010	23,824	23,824	-	6,617,853	0.36%
2009	24,832	24,832	-	6,897,833	0.36%
Component Unit School Board - General Employees					
2018	\$ 2,142	\$ 2,142	\$ -	\$ 411,802	0.52%
2017	2,237	2,237	-	430,203	0.52%
2016	2,222	2,222	-	419,188	0.53%
2015	2,077	2,077	-	391,874	0.53%
2014	2,036	2,036	-	384,283	0.53%
2013	2,007	2,007	-	378,677	0.53%
2012	1,623	1,623	-	368,949	0.44%
2011	1,870	1,870	-	425,048	0.44%
2010	1,603	1,603	-	445,375	0.36%
2009	1,721	1,721	-	477,979	0.36%
Component Unit School Board - Teachers					
2018	\$ 36,851	\$ 36,851	\$ -	\$ 7,095,851	0.52%
2017	39,763	39,763	-	7,646,683	0.52%
2016	40,663	40,663	-	7,672,284	0.53%
2015	39,863	39,863	-	7,521,373	0.53%
2014	42,098	42,098	-	7,943,035	0.53%
2013	39,632	39,632	-	7,477,751	0.53%
2012	32,558	32,558	-	7,399,629	0.44%
2011	26,966	26,966	-	7,490,491	0.36%
2010	31,966	31,966	-	7,265,046	0.44%
2009	27,747	27,747	-	7,707,414	0.36%

Note: This schedule should present 10 years of data; however, the information prior to fiscal year 2018 is not available.

For Reference Only

Column 1 – Employer contribution rate multiplied by the employer's covered payroll
Column 2 – Actual employer contribution remitted to VRS
Column 4 – Employer's covered payroll amount for the fiscal year

City of Franklin, Virginia

Notes to Required Supplementary Information – GLI OPEB

For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

Teachers

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

JRS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

City of Franklin, Virginia

Schedule of Changes in the Political Subdivision's Net HIC OPEB Liability and Related Ratios - School Board General Employees

	<u>2017</u>
School Board - General Employees	
Total HIC OPEB liability	
Service cost	\$ 608
Interest	2,331
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	(929)
Benefit payments	<u>(1,720)</u>
Net change in total HIC OPEB liability	290
Total HIC OPEB liability - beginning	<u>34,167</u>
Total HIC OPEB liability - ending (a)	<u><u>\$ 34,457</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 900
Net investment income	3,542
Benefit payments	(1,720)
Administrative expense	(56)
Other	<u>183</u>
Net change in plan fiduciary net position	2,849
Plan fiduciary net position - beginning	<u>31,002</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 33,851</u></u>
 Political subdivision's net HIC OPEB liability - ending (a) - (b)	 <u><u>\$ 606</u></u>
 Plan fiduciary net position as a percentage of the total HIC OPEB liability	 98.24%
 Covered payroll	 \$ 430,203
 Political subdivision's net HIC OPEB liability as a percentage of covered payroll	 0.14%

City of Franklin, Virginia

Schedule of Employer Contributions - HIC OPEB School Board General Employees

Last 10 Fiscal Years (as information becomes available)

Date	Contributions in Relation to			Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2018	\$ 865	\$ 865	-	\$ 411,802	0.21%
2017	903	903	-	430,203	0.21%
2016	964	964	-	419,188	0.23%
2015	901	901	-	391,874	0.23%
2014	1,076	1,076	-	384,283	0.28%
2013	1,057	1,057	-	377,456	0.28%
2012	1,299	1,299	-	371,177	0.35%
2011	1,488	1,488	-	425,048	0.35%
2010	3,652	3,652	-	445,375	0.82%
2009	3,919	3,919	-	477,979	0.82%

Note: This schedule should present 10 years of data; however, the information prior to fiscal year 2018 is not available.

For Reference Only

Column 1 – Employer contribution rate multiplied by the employer's covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer's covered payroll amount for the fiscal year

City of Franklin, Virginia

Notes to Required Supplementary Information – HIC OPEB School Board General Employees

For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

City of Franklin, Virginia

Schedule of Employer's Share of Net OPEB Liability Health Insurance Credit Program (HIC) Teacher For the Year Ended June 30, 2018*

2018

Employer's Proportion of the Net HIC OPEB Liability (Asset)	0.09670%
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset)	\$ 84,712
Employer's Covered Payroll	\$7,631,713
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	1.11%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	7.04%

Schedule is intended to show information for 10 years. Since 2018 is the first year of presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date of the previous fiscal year end.

City of Franklin, Virginia

Schedule of Employer Contributions for HIC OPEB Teacher

For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2018	\$ 86,702	\$ 86,702	\$ -	\$ 7,054,104	1.23%
2017	93,871	93,871	-	7,631,713	1.23%
2016	90,273	90,273	-	7,650,222	1.18%
2015	88,641	88,641	-	7,511,954	1.18%
2014	92,531	92,531	-	7,908,612	1.17%
2013	85,833	85,833	-	7,336,161	1.17%
2012	78,293	78,293	-	7,249,378	1.08%
2011	78,305	78,305	-	7,250,483	1.08%
2010	83,804	83,804	-	7,482,516	1.12%
2009	86,091	86,091	-	7,686,704	1.12%

Note: This schedule should present 10 years of data; however, the information prior to fiscal year 2018 is not available.

For Reference Only

Column 1 – Employer contribution rate multiplied by the employer's covered payroll
Column 2 – Actual employer contribution remitted to VRS
Column 4 – Employer's covered payroll amount for the fiscal year

City of Franklin, Virginia

Notes to Required Supplementary Information – HIC OPEB Teacher

For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

City of Franklin, Virginia

Schedule of Employer's Share of Net OPEB Liability
Line of Duty Act Program (LODA)
For the Year Ended June 30, 2018*

2018

Employer's Proportion of the Net LODA OPEB Liability (Asset)	0.32616%
Employer's Proportionate Share of the Net LODA OPEB Liability (Asset)	\$ 35,177
Covered - Employee Payroll	\$2,594,611
Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered Employee Payroll	1.36%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%

Schedule is intended to show information for 10 years. Since 2018 is the first year of presentation, only one year of data is available. However, additional years will be included as they become available.

Notes:

*The amounts presented have a measurement date of the previous fiscal year end.

**The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-payroll is misleading and, therefore, not applicable for disclosure. See GASB codification section P50.728-1 for related guidance.

City of Franklin, Virginia

Schedule of Employer Contributions for LODA OPEB

For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)**	Contributions as a % of Covered Employee Payroll (5)
2018	\$ 36,879	\$ 36,879	\$ -	\$ 2,594,611	1.42%
2017	N/A	N/A	N/A	N/A	N/A
2016	N/A	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A

Notes: This schedule should present 10 years of data; however, the information prior to fiscal year 2018 is not available.

*FY2011 was the first year for the Line of Duty Act Program (LODA), however there were no contributions.

**The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-payroll is misleading and, therefore, not applicable for disclosure. See GASB codification section P50.728-1 for

For Reference Only

Column 1 – Employer contribution rate multiplied by the employer's covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer's covered payroll amount for the fiscal year

City of Franklin, Virginia

Notes to Required Supplementary Information – LODA OPEB

For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

SPORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Employees in the Largest Ten Locality Employers With Public Safety Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Employees in the Non-Largest Ten Locality Employers With Public Safety Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

City of Franklin, Virginia

Schedule of Employer's Share of Net OPEB Liability Virginia Local Disability Program - VLDP - City For the Year Ended June 30, 2018*

2018

Employer's Proportion of the Net VLDP OPEB Liability (Asset)	0.57235%
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset)	\$ 3,000
Employer's Covered Payroll	\$1,050,992
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	0.29%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	38.40%

Schedule is intended to show information for 10 years. Since 2018 is the first year of presentation, only one year of data is available. However, additional years will be included as they become available.

Note:

*The amounts presented have a measurement date of the previous fiscal year end.

City of Franklin, Virginia

Schedule of Employer Contributions for VLDP OPEB - City

For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2018	\$ 9,492	\$ 9,492	\$ -	\$ 1,582,032	0.60%
2017	6,306	6,306	-	1,050,992	0.60%
2016	3,942	3,942	-	657,010	0.60%
2015	2,528	2,528	-	421,275	0.60%
2014	462	462	-	76,996	0.60%
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A

Note: This schedule should present 10 years of data; however, the information prior to fiscal year 2018 is not available.

For Reference Only

Column 1 – Employer contribution rate multiplied by the employer's covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer's covered payroll amount for the fiscal year

City of Franklin, Virginia

Schedule of Employer's Share of Net OPEB Liability Virginia Local Disability Program - VLDP - School Board General Employees For the Year Ended June 30, 2018*

2018

Employer's Proportion of the Net VLDP OPEB Liability (Asset)	0.09421%
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset)	\$ 1,000
Employer's Covered Payroll	\$ 173,005
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	0.58%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	38.40%

Schedule is intended to show information for 10 years. Since 2018 is the first year of presentation, only one year of data is available. However, additional years will be included as they become available.

Note:

*The amounts presented have a measurement date of the previous fiscal year end.

City of Franklin, Virginia

Schedule of Employer Contributions for VLDP OPEB - School Board General Employees

For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2018	\$ 920	\$ 920	\$ -	\$ 153,384	0.60%
2017	1,038	1,038	-	173,005	0.60%
2016	881	881	-	146,862	0.60%
2015	399	399	-	66,432	0.60%
2014	8	8	-	1,414	0.57%
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A

Note: This schedule should present 10 years of data; however, the information prior to fiscal year 2018 is not available.

For Reference Only

Column 1 – Employer contribution rate multiplied by the employer's covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer's covered payroll amount for the fiscal year

City of Franklin, Virginia

Notes to Required Supplementary Information – VLDP OPEB

For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

City of Franklin, Virginia

Schedule of Employer's Share of Net OPEB Liability Virginia Local Disability Program - VLDP Teacher For the Year Ended June 30, 2018*

2018

Employer's Proportion of the Net VLDP OPEB Liability (Asset)	0.71370%
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset)	\$ 4,000
Employer's Covered Payroll	\$2,014,073
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	0.20%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	31.96%

Schedule is intended to show information for 10 years. Since 2018 is the first year of presentation, only one year of data is available. However, additional years will be included as they become available.

Note:

*The amounts presented have a measurement date of the previous fiscal year end.

City of Franklin, Virginia

Schedule of Employer Contributions for VLDP OPEB Teacher

For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2018	\$ 7,264	\$ 7,264	\$ -	\$ 2,352,849	0.31%
2017	6,244	6,244	-	2,014,073	0.31%
2016	4,616	4,616	-	1,591,555	0.29%
2015	2,336	2,336	-	805,456	0.29%
2014	85	85	-	29,193	0.29%
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A

Note: This schedule should present 10 years of data; however, the information prior to fiscal year 2018 is not available.

For Reference Only

Column 1 – Employer contribution rate multiplied by the employer's covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer's covered payroll amount for the fiscal year

City of Franklin, Virginia

Notes to Required Supplementary Information – VLDP OPEB Teacher

For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

City of Franklin

Schedule of Changes in the Political Subdivision's Total OPEB Liability and Related Ratios - Retiree Health Insurance

2018

Total OPEB Liability

Service cost	\$ 100,083
Interest on total OPEB liability	94,478
Effect of plan changes	-
Effect of economic/demographic gains (losses)	-
Effect of assumption changes or inputs	(56,168)
Benefit payments	<u>(231,388)</u>

Net change in total OPEB liability

(92,995)

Total OPEB liability - beginning

2,713,968

Total OPEB liability - ending

\$ 2,620,973

Covered payroll

\$ 7,630,497

Total OPEB liability as a % of covered payroll

34.35%

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

City of Franklin, Virginia

Schedule of Employer Contributions for OPEB Retiree Health Insurance

For the Years Ended June 30, 2009 through 2018

Date	Contributions in Relation to			Contributions	
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	as a % of Covered Payroll (5)
2018	\$ 1,143,136	\$ 1,143,136	\$ -	\$ 7,630,497	14.98%
2017	N/A	N/A	N/A	N/A	N/A
2016	N/A	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

City of Franklin

Schedule of Changes in the Political Subdivision's Total OPEB Liability and Related Ratios - Retiree Health Insurance Schools

	<u>2018</u>
Schools	
Total OPEB Liability	
Service cost	\$ 38,938
Interest on total OPEB liability	25,284
Effect of plan changes	-
Effect of economic/demographic gains (losses)	-
Effect of assumption changes or inputs	(18,679)
Benefit payments	<u>(55,357)</u>
Net change in total OPEB liability	(9,814)
Total OPEB liability - beginning	<u>710,885</u>
Total OPEB liability - ending	<u><u>\$ 701,071</u></u>
Covered payroll	\$ 6,647,800
Total OPEB liability as a % of covered payroll	10.55%

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

City of Franklin, Virginia

Schedule of Employer Contributions - OPEB Retiree Health Insurance Schools

For the Years Ended June 30, 2009 through 2018

Date	Contributions in Relation to					Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)		
2018	\$ 851,728	\$ 851,728	\$ -	\$6,647,800		12.81%
2017	N/A	N/A	N/A	N/A		N/A
2016	N/A	N/A	N/A	N/A		N/A
2015	N/A	N/A	N/A	N/A		N/A
2014	N/A	N/A	N/A	N/A		N/A
2013	N/A	N/A	N/A	N/A		N/A
2012	N/A	N/A	N/A	N/A		N/A
2011	N/A	N/A	N/A	N/A		N/A
2010	N/A	N/A	N/A	N/A		N/A
2009	N/A	N/A	N/A	N/A		N/A

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

OTHER SUPPLEMENTARY INFORMATION



City of Franklin, Virginia

Combining Balance Sheet

Nonmajor Special Revenue Funds

Year Ended June 30, 2018

		Community Development																		
	Comprehensive Services Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Block Grant Fund	Downtown Grant Fund	Madison Street Project Fund	Western Tidewater Home Consortium Fund	Neighborhood Stabilization Program Fund	Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development Fund	Willie Camp Younts Fund	Southview Cemetery Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund		
Assets																			Total	
Cash and cash equivalents	\$ 41,729	\$ 10,880	\$ 29,620	\$ 100,662	\$ 23,914	\$ -	\$ -	\$ 20,096	\$ -	\$ 13,040	\$ 6,571	\$ 1,477	\$ 2,010	\$ 6,583	\$ 49,255	\$ 3,467	\$ 118,262	\$ 12,770	\$ 440,336	
Accounts receivable (net)	31	-	-	-	-	-	58,155	-	42,400	-	-	-	-	-	-	-	-	-	100,586	
Loan receivable	-	-	-	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,000	
Inventory	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Due from other governmental units	5,842	-	-	-	-	33,186	-	-	-	-	-	-	-	-	-	-	-	-	39,028	
Total Assets	\$ 47,602	\$ 10,880	\$ 29,620	\$ 145,662	\$ 23,914	\$ 33,186	\$ 58,155	\$ 20,096	\$ 42,400	\$ 13,040	\$ 6,571	\$ 1,477	\$ 2,010	\$ 6,583	\$ 49,255	\$ 3,467	\$ 118,262	\$ 12,770	\$ 624,950	
Liabilities and Fund Balances																				
Liabilities																				
Reconciled overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,514	\$ 36,101	\$ -	\$ 8,703	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,318	
Accounts payable and accrued expenses	20,717	36	4,934	-	-	531	48	-	-	-	-	-	57	17,037	-	-	-	-	43,360	
Deposits held in escrow	-	-	-	-	20,240	-	-	-	-	-	-	-	-	10,595	-	-	-	-	30,835	
Total Liabilities	20,717	36	4,934	-	20,240	56,045	36,149	-	8,703	-	-	-	57	27,632	-	-	-	-	174,513	
Fund Balances																				
Nonspendable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Restricted																				
Public safety	-	10,844	-	-	-	-	-	-	-	13,040	6,571	1,477	-	-	-	-	-	-	31,932	
Parks, recreation, and cultural	-	-	-	-	-	-	-	-	-	-	-	-	1,953	-	49,255	3,467	118,262	12,770	185,707	
Community development	-	-	-	145,662	3,674	-	22,006	20,096	33,697	-	-	-	-	-	-	-	-	-	225,135	
Health and welfare	26,885	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,885	
Unassigned	-	-	24,686	-	-	(22,859)	-	-	-	-	-	-	-	(21,049)	-	-	-	-	(19,222)	
Total Fund Balances (Deficit)	26,885	10,844	24,686	145,662	3,674	(22,859)	22,006	20,096	33,697	13,040	6,571	1,477	1,953	(21,049)	49,255	3,467	118,262	12,770	450,437	
Total Liabilities and Fund Balances	\$ 47,602	\$ 10,880	\$ 29,620	\$ 145,662	\$ 23,914	\$ 33,186	\$ 58,155	\$ 20,096	\$ 42,400	\$ 13,040	\$ 6,571	\$ 1,477	\$ 2,010	\$ 6,583	\$ 49,255	\$ 3,467	\$ 118,262	\$ 12,770	\$ 624,950	

City of Franklin, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year Ended June 30, 2018

	Comprehensive Services Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Block Grant Fund	Community Development Downtown Grant Fund	Madison Street Project Fund	Western Tidewater Home Consortium Fund	Neighborhood Stabilization Program Fund	Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development Fund	Willie Camp Younts Fund	Southview Cemetery Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
Revenues																			
Revenue from use of money and property	\$ -	\$ 6,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115,745	\$ 4	\$ -	\$ 2,147	\$ 8	\$ 123,904
Miscellaneous	2,731	-	96,100	-	-	649	260,669	-	-	290	-	-	-	3,315	-	-	-	-	363,754
Intergovernmental																			
Commonw ealth of Virginia	52,594	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	52,594
Federal	-	-	-	-	-	318,666	-	-	-	-	-	-	-	-	-	-	-	-	318,666
Total Revenues	55,325	6,000	96,100	-	-	319,315	260,669	-	-	290	-	-	-	119,060	4	-	2,147	8	858,918
Expenditures																			
Current																			
Public safety	-	1,294	120,649	-	-	-	-	-	-	-	1,350	-	-	-	-	-	-	-	123,293
Health and welfare	159,073	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	159,073
Parks, recreation, and cultural	-	-	-	-	-	-	-	-	-	-	-	-	4,419	-	1,264	15	15	-	5,713
Community development	-	-	-	475	-	267,011	260,036	-	-	-	-	-	-	352,552	-	-	-	-	880,074
Total Expenditures	159,073	1,294	120,649	475	-	267,011	260,036	-	-	-	1,350	-	4,419	352,552	1,264	15	15	-	1,168,153
Excess (Deficiency) of Expenditures Over (Under) Revenues	(103,748)	4,706	(24,549)	(475)	-	52,304	633	-	-	290	(1,350)	-	(4,419)	(233,492)	(1,260)	(15)	2,132	8	(309,235)
Other Financing Sources (Uses)																			
Transfers in (out)	104,663	-	15,800	-	-	-	-	-	-	-	-	-	-	185,295	-	-	-	-	305,758
Total Other Financing Sources (Uses)	104,663	-	15,800	-	-	-	-	-	-	-	-	-	-	185,295	-	-	-	-	305,758
Net Change in Fund Balances	915	4,706	(8,749)	(475)	-	52,304	633	-	-	290	(1,350)	-	(4,419)	(48,197)	(1,260)	(15)	2,132	8	(3,477)
Fund Balances (Deficit) - Beginning of Year	25,970	6,138	33,435	146,137	3,674	(75,163)	21,373	20,096	33,697	12,750	7,921	1,477	6,372	27,148	50,515	3,482	116,130	12,762	453,914
Fund Balances (Deficit) - End of Year	\$ 26,885	\$ 10,844	\$ 24,686	\$ 145,662	\$ 3,674	\$ (22,859)	\$ 22,006	\$ 20,096	\$ 33,697	\$ 13,040	\$ 6,571	\$ 1,477	\$ 1,953	\$ (21,049)	\$ 49,255	\$ 3,467	\$ 118,262	\$ 12,770	\$ 450,437

City of Franklin, Virginia

Combining Statement of Fiduciary Net Position

Agency Funds

June 30, 2018

	<u>Special Welfare - SSI Fund</u>	<u>Special Welfare Fund</u>	<u>Flexible Spending Fund</u>	<u>Employee Emergency Trust Fund</u>	<u>Smart Beginnings Fund</u>	<u>Fire and Rescue Volunteers Fund</u>	<u>Children's Center Fund</u>	<u>Total</u>
Assets								
Cash and cash equivalents	\$ 11,200	\$ 5,735	\$ 6,564	\$ 12,404	\$ 9,627	\$ 48,109	\$ 82	\$ 93,721
Total Assets	<u>\$ 11,200</u>	<u>\$ 5,735</u>	<u>\$ 6,564</u>	<u>\$ 12,404</u>	<u>\$ 9,627</u>	<u>\$ 48,109</u>	<u>\$ 82</u>	<u>\$ 93,721</u>
Liabilities								
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 4,165	\$ -	\$ -	\$ 4,165
Amounts held for others	<u>11,200</u>	<u>5,735</u>	<u>6,564</u>	<u>12,404</u>	<u>5,462</u>	<u>48,109</u>	<u>82</u>	<u>89,556</u>
Total Liabilities	<u>\$ 11,200</u>	<u>\$ 5,735</u>	<u>\$ 6,564</u>	<u>\$ 12,404</u>	<u>\$ 9,627</u>	<u>\$ 48,109</u>	<u>\$ 82</u>	<u>\$ 93,721</u>

City of Franklin, Virginia

Combining Statements of Changes in Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2018

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Special Welfare - SSI Fund				
Assets				
Cash and cash equivalents	\$ 10,931	\$ 300	\$ 31	\$ 11,200
Total Assets	<u>\$ 10,931</u>	<u>\$ 300</u>	<u>\$ 31</u>	<u>\$ 11,200</u>
Liabilities				
Amounts held for others	\$ 10,931	\$ 300	\$ 31	\$ 11,200
Total Liabilities	<u>\$ 10,931</u>	<u>\$ 300</u>	<u>\$ 31</u>	<u>\$ 11,200</u>
Special Welfare Fund				
Assets				
Cash and cash equivalents	\$ 12,198	\$ 2,216	\$ 8,679	\$ 5,735
Total Assets	<u>\$ 12,198</u>	<u>\$ 2,216</u>	<u>\$ 8,679</u>	<u>\$ 5,735</u>
Liabilities				
Amounts held for others	\$ 12,198	\$ 2,216	\$ 8,679	\$ 5,735
Total Liabilities	<u>\$ 12,198</u>	<u>\$ 2,216</u>	<u>\$ 8,679</u>	<u>\$ 5,735</u>
Flexible Spending Fund				
Assets				
Cash and cash equivalents	\$ 6,944	\$ 36,013	\$ 36,393	\$ 6,564
Total Assets	<u>\$ 6,944</u>	<u>\$ 36,013</u>	<u>\$ 36,393</u>	<u>\$ 6,564</u>
Liabilities				
Amounts held for others	\$ 6,944	\$ 36,013	\$ 36,393	\$ 6,564
Total Liabilities	<u>\$ 6,944</u>	<u>\$ 36,013</u>	<u>\$ 36,393</u>	<u>\$ 6,564</u>
Employee Emergency Trust Fund				
Assets				
Cash and cash equivalents	\$ 10,267	\$ 2,160	\$ 23	\$ 12,404
Total Assets	<u>\$ 10,267</u>	<u>\$ 2,160</u>	<u>\$ 23</u>	<u>\$ 12,404</u>
Liabilities				
Amounts held for others	\$ 10,267	\$ 2,160	\$ 23	\$ 12,404
Total Liabilities	<u>\$ 10,267</u>	<u>\$ 2,160</u>	<u>\$ 23</u>	<u>\$ 12,404</u>

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Smart Beginnings Fund				
Assets				
Cash and cash equivalents	\$ 29,394	\$140,328	\$ 160,095	\$ 9,627
Total Assets	<u>\$ 29,394</u>	<u>\$140,328</u>	<u>\$ 160,095</u>	<u>\$ 9,627</u>
Liabilities				
Accounts payable	\$ 2,874	\$ 67,755	\$ 66,464	\$ 4,165
Amounts held for others	26,520	72,573	93,631	5,462
Total Liabilities	<u>\$ 29,394</u>	<u>\$140,328</u>	<u>\$ 160,095</u>	<u>\$ 9,627</u>
Fire and Rescue Volunteers Fund				
Assets				
Cash and cash equivalents	\$ 33,530	\$ 19,823	\$ 5,244	\$ 48,109
Total Assets	<u>\$ 33,530</u>	<u>\$ 19,823</u>	<u>\$ 5,244</u>	<u>\$ 48,109</u>
Liabilities				
Amounts held for others	\$ 33,530	\$ 19,823	\$ 5,244	\$ 48,109
Total Liabilities	<u>\$ 33,530</u>	<u>\$ 19,823</u>	<u>\$ 5,244</u>	<u>\$ 48,109</u>
Children's Center Fund				
Assets				
Cash and cash equivalents	\$ 106	\$498,737	\$ 498,761	\$ 82
Total Assets	<u>\$ 106</u>	<u>\$498,737</u>	<u>\$ 498,761</u>	<u>\$ 82</u>
Liabilities				
Amounts held for others	\$ 106	\$498,737	\$ 498,761	\$ 82
Total Liabilities	<u>\$ 106</u>	<u>\$498,737</u>	<u>\$ 498,761</u>	<u>\$ 82</u>
Totals - All Agency Funds				
Assets				
Cash and cash equivalents	\$ 103,370	\$699,577	\$ 709,226	\$ 93,721
Total Assets	<u>\$ 103,370</u>	<u>\$699,577</u>	<u>\$ 709,226</u>	<u>\$ 93,721</u>
Liabilities				
Accounts payable	\$ 2,874	\$ 67,755	\$ 66,464	\$ 4,165
Amounts held for others	100,496	631,822	642,762	89,556
Total Liabilities	<u>\$ 103,370</u>	<u>\$699,577</u>	<u>\$ 709,226</u>	<u>\$ 93,721</u>

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

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

City of Franklin, Virginia
Combining Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2018

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$1,262,869	\$425,683	\$ 204,954	\$ 1,893,506
<i>Receivables (net of allowance for uncollectibles)</i>				
Accounts receivable	17,855	1,965	168	19,988
Due from other funds	-	1,725	82,094	83,819
Due from other governmental units	413,918	-	-	413,918
Inventories	-	15,040	-	15,040
Total Assets	<u>\$1,694,642</u>	<u>\$444,413</u>	<u>\$ 287,216</u>	<u>\$ 2,426,271</u>
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ 83,819	\$ -	\$ -	\$ 83,819
Accounts payable and accrued liabilities	<u>1,403,665</u>	<u>75,750</u>	<u>-</u>	<u>1,479,415</u>
Total Liabilities	1,487,484	75,750	-	1,563,234
Fund Balances				
<i>Nonspendable</i>				
Inventory	-	15,040	-	15,040
<i>Restricted</i>				
Special revenue	<u>207,158</u>	<u>353,623</u>	<u>287,216</u>	<u>847,997</u>
Total Fund Balances	<u>207,158</u>	<u>368,663</u>	<u>287,216</u>	<u>863,037</u>
Total Liabilities and Fund Balances	<u>\$1,694,642</u>	<u>\$444,413</u>	<u>\$ 287,216</u>	<u>\$ 2,426,271</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:				
Total fund balances per above				\$ 863,037
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Capital assets			\$18,038,952	
Less: Accumulated depreciation			<u>(8,633,043)</u>	9,405,909
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.				
Deferred outflows related to OPEBs			986,472	
Deferred inflows related to OPEBs			(163,088)	
Deferred outflows related to pensions			1,516,342	
Deferred inflows related to pensions			<u>(2,325,659)</u>	14,067
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			(2,593,677)	
Net pension liability			(11,758,301)	
Compensated absences			<u>(217,565)</u>	(14,569,543)
Net Position of Governmental Activities				<u>\$ (4,286,530)</u>

City of Franklin, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds - Discretely Presented Component Unit - School Board

For the Year Ended June 30, 2018

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
Revenues				
Revenue from use of money and property	\$ 11,415	\$ -	\$ 36	\$ 11,451
Charges for services	1,598	40,549	-	42,147
Miscellaneous	409,852	4,100	-	413,952
Intergovernmental Revenues				
Local government	5,037,395	-	-	5,037,395
Commonwealth	8,435,051	34,619	-	8,469,670
Federal	1,516,738	828,557	-	2,345,295
Total Revenues	15,412,049	907,825	36	16,319,910
Expenditures				
Current				
<i>Education</i>				
Instruction	10,466,516	-	23,751	10,490,267
Administration, attendance and health	1,100,323	-	-	1,100,323
Transportation	735,014	-	-	735,014
Operations and maintenance	1,689,738	-	-	1,689,738
Technology	597,036	-	-	597,036
Food services	-	915,241	-	915,241
Total Expenditures	14,588,627	915,241	23,751	15,527,619
Excess (Deficiency) of Revenues Over (Under) Expenditures	823,422	(7,416)	(23,715)	792,291
Other Financing Sources (Uses)				
Transfers in (out)	(33,613)	-	33,613	-
Total Other Financing Sources (Uses)	(33,613)	-	33,613	-
Net Change in Fund Balances	789,809	(7,416)	9,898	792,291
Fund Balances (Deficit) - Beginning	(582,651)	376,079	277,318	70,746
Fund Balances - Ending	\$ 207,158	\$ 368,663	\$ 287,216	\$ 863,037
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:				
Net changes in fund balances - total governmental funds - per above				\$ 792,291
<i>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.</i>				
Capital asset additions			\$ 410,588	
Depreciation expense			(391,377)	19,211
<i>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.</i>				
Change in compensated absences			(13,937)	
Change in OPEB liabilities				
Retiree health insurance			9,814	
VRS group life insurance			128,000	
VRS Virginia local disability program (VLDP)			(1,000)	
VRS health insurance credit			48,559	
Change in deferred outflows				
VRS pension			(881,480)	
Retiree health insurance			(11,557)	
VRS Virginia local disability program (VLDP)			8,184	
VRS group life insurance			38,993	
VRS health insurance credit			87,567	
Change in deferred inflows				
VRS pension			(1,108,940)	
Retiree health insurance			(14,232)	
VRS group life insurance			(92,000)	
VRS health insurance credit			(56,856)	
Change in VRS net pension liability			2,379,070	520,185
Change in Net Position of Governmental Activities				\$ 1,331,687

City of Franklin, Virginia

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

Discretely Presented Component Unit - School Board

For the Year Ended June 30, 2018

	<u>School Operating Fund</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Revenue from use of money and property	\$ 7,500	\$ 7,500	\$ 11,415	\$ 3,915
Charges for services	57,800	57,800	1,598	(56,202)
Miscellaneous	347,212	347,212	409,852	62,640
Intergovernmental				
Local government	5,037,395	5,037,395	5,037,395	-
Commonwealth	8,625,363	8,625,363	8,435,051	(190,312)
Federal	<u>2,606,525</u>	<u>2,606,525</u>	<u>1,516,738</u>	<u>(1,089,787)</u>
Total Revenues	16,681,795	16,681,795	15,412,049	(1,269,746)
Expenditures				
Current				
<i>Education</i>				
Instruction	12,208,722	12,208,722	10,466,516	1,742,206
Administration, attendance and health	1,109,803	1,109,803	1,100,323	9,480
Transportation	908,482	908,482	735,014	173,468
Operations and maintenance	1,723,417	1,723,417	1,689,738	33,679
Technology	<u>697,758</u>	<u>697,758</u>	<u>597,036</u>	<u>100,722</u>
Total Expenditures	<u>16,648,182</u>	<u>16,648,182</u>	<u>14,588,627</u>	<u>2,059,555</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	33,613	33,613	823,422	789,809
Other Financing Sources (Uses)				
Transfers (out)	<u>(33,613)</u>	<u>(33,613)</u>	<u>(33,613)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(33,613)</u>	<u>(33,613)</u>	<u>(33,613)</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	789,809	<u>\$ 789,809</u>
Fund Balances (Deficit) - Beginning			<u>(582,651)</u>	
Fund Balances - Ending			<u>\$ 207,158</u>	

DISCRETELY PRESENTED COMPONENT UNIT – INDUSTRIAL DEVELOPMENT AUTHORITY

City of Franklin, Virginia

Statement of Net Position

Discretely Presented Component Unit - Industrial Development Authority

June 30, 2018

Industrial
Development
Authority

Assets

Current Assets

Cash and cash equivalents

\$ 14,317

Total Assets

\$ 14,317

Net Position

Unrestricted - community development

\$ 14,317

Total Net Position

\$ 14,317

City of Franklin, Virginia

Statement of Revenues, Expenses, and Changes in Net Position

Discretely Presented Component Unit - Industrial Development Authority

For the Year Ended June 30, 2018

	Industrial Development Authority
Nonoperating Revenues	
Interest income	\$ <u>1</u>
Total Nonoperating Revenues	<u>1</u>
Change in Net Position	1
Total Net Position - Beginning	<u>14,316</u>
Total Net Position - Ending	<u><u>\$ 14,317</u></u>

City of Franklin, Virginia

Statement of Cash Flows

Discretely Presented Component Unit - Industrial Development Authority

For the Year Ended June 30, 2018

	Industrial Development Authority
Cash Flows from Capital and Related Financing Activities	\$ -
Net Cash Provided by (Used in) Capital and Related Financing Activities	-
Cash Flows from Investing Activities	
Interest and dividends received	<u>1</u>
Net Cash Provided by Investing Activities	<u>1</u>
Net Increase in Cash and Cash Equivalents	1
Cash and Cash Equivalents - Beginning	<u>14,316</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 14,317</u></u>

City of Franklin, Virginia

Schedule of Revenues - Budget and Actual

For the Year Ended June 30, 2018

General Fund

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund				
Revenue from Local Sources				
<i>General Property Taxes</i>				
Real property taxes	\$ 5,641,074	\$ 5,641,074	\$ 5,452,871	\$ (188,203)
Real and personal public service corporation taxes	68,614	68,614	74,698	6,084
Personal property taxes	1,596,897	1,596,897	1,668,777	71,880
Machinery and tools taxes	21,050	21,050	20,024	(1,026)
Penalties	80,000	80,000	91,081	11,081
Interest	50,000	50,000	50,436	436
Total General Property Taxes	7,457,635	7,457,635	7,357,887	(99,748)
<i>Other Local Taxes</i>				
Local sales and use taxes	1,873,000	1,873,000	1,854,694	(18,306)
Consumers' utility taxes	485,000	485,000	544,306	59,306
Probate taxes	3,100	3,100	3,769	669
Electric consumption taxes	31,000	31,000	31,869	869
Business license taxes	951,000	951,000	973,005	22,005
Motor vehicle license taxes	198,000	198,000	187,023	(10,977)
Bank stock taxes	56,200	56,200	59,759	3,559
Taxes on recordation and wills	46,000	46,000	42,272	(3,728)
Cigarette taxes	330,000	330,000	298,773	(31,227)
Lodging taxes	130,000	130,000	170,060	40,060
Restaurant food taxes	1,440,000	1,440,000	1,522,481	82,481
Total Other Local Taxes	5,543,300	5,543,300	5,688,011	144,711
<i>Permits, Privilege Fees, and Regulatory Licenses</i>				
Animal licenses	3,000	3,000	2,669	(331)
Building and related permits	517,754	517,754	167,410	(350,344)
Permits and other licenses	26,850	26,850	30,116	3,266
Total Permits, Privilege Fees, and Regulatory Licenses	547,604	547,604	200,195	(347,409)
<i>Fines and Forfeitures</i>				
Court fines and forfeitures	37,000	37,000	29,209	(7,791)
Total Fines and Forfeitures	37,000	37,000	29,209	(7,791)

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<i>Revenues from Use of Money and Property</i>				
Revenue from use of money	600	600	1,459	859
Revenue from use of property	242,896	224,847	429,576	204,729
Total Revenue from Use of Money and Property	243,496	225,447	431,035	205,588
<i>Charges for Services</i>				
Law library and court fees	5,500	5,500	5,910	410
J & D Services - Southampton County	4,000	4,000	4,000	-
Police services	-	-	4,533	4,533
Fire and emergency services	128,051	128,051	129,486	1,435
Ambulance services	300,000	300,000	343,359	43,359
Janitorial services	17,000	17,000	17,513	513
Waste collection and disposal	212,962	212,962	212,962	-
Administration - water and sewer	297,786	297,786	297,786	-
Administration - airport	27,235	27,235	27,235	-
Administration - electric	423,737	423,737	423,737	-
Recreation fees and admissions	7,500	7,500	7,816	316
Other charges for services	10,050	10,050	14,367	4,317
Total Charges for Services	1,433,821	1,433,821	1,488,704	54,883
<i>Miscellaneous Revenue</i>				
Miscellaneous	46,000	97,359	106,657	9,298
Cemetery revenues	32,000	32,000	35,320	3,320
Late penalties and fees for utilities	313,000	313,000	297,652	(15,348)
Payment in lieu of taxes - water and sewer	26,460	26,460	26,460	-
Payment in lieu of taxes - electric	59,282	59,282	59,282	-
Payment in lieu of taxes - FRHA	5,000	5,000	23,502	18,502
Isle of Wight - revenue sharing	720,000	720,000	720,000	-
Southampton County - revenue sharing	68,495	68,495	62,345	(6,150)
Total Miscellaneous Revenue	1,270,237	1,321,596	1,331,218	9,622
<i>Recovered Costs</i>				
Southampton County inspections	352,000	352,000	210,106	(141,894)
Other recovered costs	52,400	52,400	61,429	9,029
Total Recovered Costs	404,400	404,400	271,535	(132,865)
Total Revenue from Local Sources	16,937,493	16,970,803	16,797,794	(173,009)

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenue from the Commonwealth				
<i>Noncategorical Aid</i>				
Railroad rolling stock tax	7,000	7,000	6,218	(782)
Motor vehicle rental tax	32,000	32,000	33,666	1,666
Communication taxes	540,000	540,000	507,898	(32,102)
State recordation tax	16,000	16,000	13,355	(2,645)
Personal property tax relief funds	<u>1,048,897</u>	<u>1,048,897</u>	<u>1,048,897</u>	<u>-</u>
Total Noncategorical Aid	1,643,897	1,643,897	1,610,034	(33,863)
<i>Categorical Aid</i>				
Shared Expenses				
Commissioner of revenue	80,715	80,715	80,668	(47)
Treasurer	73,089	73,089	73,002	(87)
Registrar/electoral board	<u>35,000</u>	<u>35,000</u>	<u>35,518</u>	<u>518</u>
Total Shared Expenses	188,804	188,804	189,188	384
Other Categorical Aid				
HB 599 Law Enforcement Grant	417,544	417,544	417,544	-
Fire and rescue grant	27,200	27,200	28,691	1,491
Street and highway maintenance funds	1,697,082	1,697,082	1,574,444	(122,638)
Litter control grants	-	7,281	6,038	(1,243)
Wireless 911 grant	50,000	50,000	53,745	3,745
Virginia land conservation grant	-	45,500	-	(45,500)
State infant and toddler grant	-	-	330,806	330,806
PSAP grant police	-	118,080	-	(118,080)
Arts grant	<u>5,000</u>	<u>9,500</u>	<u>4,500</u>	<u>(5,000)</u>
Total Other Categorical Aid	<u>2,196,826</u>	<u>2,372,187</u>	<u>2,415,768</u>	<u>43,581</u>
Total Categorical Aid	<u>2,385,630</u>	<u>2,560,991</u>	<u>2,604,956</u>	<u>43,965</u>
Total Revenue from the Commonwealth	4,029,527	4,204,888	4,214,990	10,102
Revenue from the Federal Government				
<i>Categorical Aid</i>				
Justice assistance grant police	-	6,120	5,508	(612)
Emergency services grant	16,595	16,595	16,595	-
USDA police grant	25,000	50,000	50,000	-
Federal Part C infant and toddler grant	<u>-</u>	<u>-</u>	<u>167,684</u>	<u>167,684</u>
Total Categorical Aid	<u>41,595</u>	<u>72,715</u>	<u>239,787</u>	<u>167,072</u>
Total Revenue from the Federal Government	<u>41,595</u>	<u>72,715</u>	<u>239,787</u>	<u>167,072</u>
Total Intergovernmental Revenue	<u>4,071,122</u>	<u>4,277,603</u>	<u>4,454,777</u>	<u>177,174</u>
Total General Fund	<u>\$ 21,008,615</u>	<u>\$ 21,248,406</u>	<u>\$ 21,252,571</u>	<u>\$ 4,165</u>

City of Franklin, Virginia

Statement of Expenditures - Budget and Actual

For the Year Ended June 30, 2018

General Fund

<u>Fund, Function, Activity, and Elements</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund				
General Government Administration				
<i>Legislative</i>				
City council	\$ 158,126	\$ 167,626	\$ 152,519	\$ 15,107
<i>General and Financial Administration</i>				
City manager	217,303	217,303	205,138	12,165
City attorney	162,248	162,248	169,181	(6,933)
Management services and human resources	175,847	176,148	99,704	76,444
Commissioner of revenue	268,915	274,795	267,058	7,737
Real estate assessor	122,405	122,405	116,569	5,836
Treasurer	333,344	339,921	315,233	24,688
Accounting	330,163	374,861	374,619	242
Merchant card fees	55,000	55,000	69,853	(14,853)
Purchasing	91,968	74,794	59,346	15,448
Utility billings and collections	267,038	256,793	249,797	6,996
Insurance	195,232	195,232	174,979	20,253
Information Technology	262,258	341,330	207,440	133,890
Total General and Financial Administration	2,481,721	2,590,830	2,308,917	281,913
<i>Board of Elections</i>				
Electoral board and officials	176,400	176,400	168,420	7,980
Total Board of Elections	176,400	176,400	168,420	7,980
Total General Government Administration	2,816,247	2,934,856	2,629,856	305,000
Judicial Administration				
<i>Courts</i>				
Circuit court - joint operations	7,662	7,662	7,662	-
General district court	18,091	18,091	15,333	2,758
Sheriff's office	136,692	136,692	136,691	1
Clerk of the circuit court	57,283	57,283	57,283	-
Juvenile and domestic relations court	57,070	70,070	68,989	1,081
Total Courts	276,798	289,798	285,958	3,840

<u>Fund, Function, Activity, and Elements</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<i>Commonwealth's Attorney</i>	<u>58,605</u>	<u>58,605</u>	<u>58,605</u>	<u>-</u>
Total Commonwealth's Attorney	<u>58,605</u>	<u>58,605</u>	<u>58,605</u>	<u>-</u>
Total Judicial Administration	335,403	348,403	344,563	3,840
Public Safety				
<i>Law Enforcement and Traffic Control</i>				
Police department	<u>3,203,515</u>	<u>3,262,156</u>	<u>3,253,513</u>	<u>8,643</u>
Total Law Enforcement and Traffic Control	3,203,515	3,262,156	3,253,513	8,643
<i>Emergency Services</i>				
E-911 operations	676,037	999,117	721,874	277,243
Emergency management services	<u>2,379,811</u>	<u>2,338,271</u>	<u>2,303,701</u>	<u>34,570</u>
Total Emergency Services	3,055,848	3,337,388	3,025,575	311,813
<i>Correction and Detention</i>				
Detention - Western Tidewater Regional Jail	<u>921,980</u>	<u>921,980</u>	<u>921,983</u>	<u>(3)</u>
Total Correction and Detention	921,980	921,980	921,983	(3)
<i>Inspections</i>				
Building	<u>518,173</u>	<u>518,173</u>	<u>530,505</u>	<u>(12,332)</u>
Total Inspections	518,173	518,173	530,505	(12,332)
<i>Other Protection</i>				
Animal control	<u>121,604</u>	<u>121,604</u>	<u>72,532</u>	<u>49,072</u>
Total Other Protection	<u>121,604</u>	<u>121,604</u>	<u>72,532</u>	<u>49,072</u>
Total Public Safety	7,821,120	8,161,301	7,804,108	357,193
Public Works				
<i>Maintenance of highways, streets, bridges, and sidewalks</i>				
Streets and highways	1,962,645	2,057,025	1,881,428	175,597
Snow removal	13,000	13,000	13,843	(843)
Garage	<u>234,602</u>	<u>234,602</u>	<u>234,044</u>	<u>558</u>
Total Maintenance of Highways, Streets, Bridges, and Sidewalks	2,210,247	2,304,627	2,129,315	175,312

<u>Fund, Function, Activity, and Elements</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<i>Maintenance of General Buildings and Grounds</i>				
Maintenance of general buildings and grounds	652,196	686,304	682,781	3,523
Maintenance of armory	-	-	29,644	(29,644)
Maintenance of city hall	200,796	200,796	225,162	(24,366)
Maintenance of social services	83,244	83,244	86,459	(3,215)
Maintenance of health department	34,716	34,716	25,194	9,522
	<u>970,952</u>	<u>1,005,060</u>	<u>1,049,240</u>	<u>(44,180)</u>
Total Maintenance of General Buildings and Grounds				
	<u>970,952</u>	<u>1,005,060</u>	<u>1,049,240</u>	<u>(44,180)</u>
Total Public Works	3,181,199	3,309,687	3,178,555	131,132
Health and Welfare				
<i>Health</i>				
Local health department	110,000	110,000	110,000	-
Children' Center	-	-	498,490	(498,490)
Mental health	36,958	36,958	36,958	-
Senior Citizens Title III	6,659	6,659	-	6,659
Senior Citizens Nutrition	45,489	45,489	50,013	(4,524)
	<u>199,106</u>	<u>199,106</u>	<u>695,461</u>	<u>(496,355)</u>
Total Health				
	<u>199,106</u>	<u>199,106</u>	<u>695,461</u>	<u>(496,355)</u>
Total Health and Welfare	199,106	199,106	695,461	(496,355)
Education				
Contribution to local school board	5,037,395	5,037,395	5,037,395	-
	<u>5,037,395</u>	<u>5,037,395</u>	<u>5,037,395</u>	<u>-</u>
Total Education	5,037,395	5,037,395	5,037,395	-
Parks, Recreation, and Cultural				
<i>Parks and Recreation</i>				
Programs and operations	388,673	388,927	389,662	(735)
Cemeteries	42,448	42,448	42,751	(303)
	<u>431,121</u>	<u>431,375</u>	<u>432,413</u>	<u>(1,038)</u>
Total Parks and Recreation				
	<u>431,121</u>	<u>431,375</u>	<u>432,413</u>	<u>(1,038)</u>
<i>Library</i>				
Library administration	304,103	304,103	300,123	3,980
	<u>304,103</u>	<u>304,103</u>	<u>300,123</u>	<u>3,980</u>
Total Library				
	<u>304,103</u>	<u>304,103</u>	<u>300,123</u>	<u>3,980</u>
Total Parks, Recreation, and Cultural	735,224	735,478	732,536	2,942

<u>Fund, Function, Activity, and Elements</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Community Development				
<i>Planning and Community Development</i>				
Planning and zoning	259,856	305,356	268,294	37,062
Beautification commission	5,000	21,867	8,615	13,252
Downtown development	110,000	110,000	104,403	5,597
Payments to Southampton County	<u>700,000</u>	<u>700,000</u>	<u>729,149</u>	<u>(29,149)</u>
Total Planning and Community Development	<u>1,074,856</u>	<u>1,137,223</u>	<u>1,110,461</u>	<u>26,762</u>
Total Community Development	1,074,856	1,137,223	1,110,461	26,762
Debt Service				
Capital lease payments	<u>-</u>	<u>25,740</u>	<u>25,740</u>	<u>-</u>
Total Debt Service	<u>-</u>	<u>25,740</u>	<u>25,740</u>	<u>-</u>
Total General Fund	<u>\$ 21,200,550</u>	<u>\$ 21,889,189</u>	<u>\$ 21,558,675</u>	<u>\$ 330,514</u>

City of Franklin, Virginia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Capital Projects Fund				
Revenues				
Revenue from use of money - interest income	\$ -	\$ 617	\$ 616	\$ (1)
From surplus	-	127,066	-	(127,066)
Total Revenues	-	127,683	616	(127,067)
Expenditures				
Current				
General government administration	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Education	-	144,233	144,233	-
Total Expenditures	-	144,233	144,233	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(16,550)	(143,617)	\$ (127,067)
Other Financing Sources (Uses)				
Transfers in	-	372,445	372,445	-
Net Change in Fund Balance after Surplus	\$ -	\$ 355,895	228,828	\$ (127,067)
Fund Balance (Deficit) - Beginning of Year			(228,136)	
Fund Balance - End of Year			\$ 692	
Debt Service Fund				
Revenues				
Revenue from use of money - interest income	\$ -	\$ 30,000	\$ 65,226	\$ 35,226
Total Revenues	-	30,000	65,226	35,226
Expenditures				
Current - Debt Service				
Debt service - principal payments	737,275	737,275	567,244	170,031
Debt service - interest payments and other fees	396,623	396,623	393,841	2,782
Total Expenditures	1,133,898	1,133,898	961,085	172,813
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,133,898)	(1,103,898)	(895,859)	208,039
Other Financing Sources (Uses)				
Transfers in	1,133,898	1,103,898	1,131,090	27,192
Total Other Financing Sources (Uses)	1,133,898	1,103,898	1,131,090	27,192
Net Change in Fund Balance	\$ -	\$ -	235,231	\$ 235,231
Fund Balance - Beginning of Year			2,326,707	
Fund Balance - End of Year			\$ 2,561,938	

STATISTICAL TABLES

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

STATISTICAL SECTION

CONTENTS

TABLES

Financial Trends

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

1-8

Revenue Capacity

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

9-14

Debt Capacity

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

15-18

Demographic and Economic Information

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

19-20

Operating Information

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

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Sources

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

Table 1

City of Franklin, Virginia

Government-Wide Revenues

Year Ended June 30,

Fiscal Year	Program Revenues			General Revenues					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes and Other Local Taxes	Revenue Sharing from Counties	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings and Use of Property	Miscellaneous	Total
2018	\$ 22,422,329	\$ 6,031,100	\$ -	\$ 13,194,078	\$ 782,345	\$ 1,610,034	\$ 622,814	\$ 936,143	\$ 45,598,843
2017	21,293,588	4,349,358	-	12,801,214	785,799	1,628,216	447,219	771,580	42,076,974
2016	19,565,443	4,473,028	-	12,871,881	709,171	1,639,089	427,293	879,193	40,565,098
2015	21,723,121	4,188,762	1,113,036	12,623,788	704,969	1,662,463	676,115	692,495	43,384,749
2014	21,275,915	4,036,731	93,223	12,008,907	556,765	1,663,516	706,839	438,559	40,780,455
2013	20,063,868	3,935,552	178,275	12,028,857	243,503	1,668,047	430,218	346,392	38,894,712
2012	19,021,975	3,790,723	22,006	11,752,727	1,212,182	1,666,230	367,899	359,583	38,193,325
2011	19,898,355	4,638,338	109,004	11,431,190	438,746	1,663,699	341,820	249,154	38,770,306
2010	18,285,763	4,077,928	2,072,735	11,579,344	1,316,661	1,673,064	354,881	305,705	39,666,081
2009	19,491,230	4,056,878	758,780	12,482,692	1,310,461	1,108,120	362,362	533,867	40,104,390

Table 2

City of Franklin, Virginia															
Government-Wide Expenses by Function															
Year Ended June 30,															
Fiscal	General		Public	Public	Health		Parks,	Community	Non-	Interest on	Water				
Year	Government	Judicial	Safety	Works	and	Education	Recreation,	Develop-	Depart-	Long-Term	and	Solid	Electric	Airport	Total
					Welfare		and	ment	mental	Debt	Sewer	Waste			
							Cultural								
2018	\$3,003,717	\$344,563	\$7,723,020	\$3,122,262	\$2,471,638	\$5,279,390	\$ 747,262	\$1,822,617	\$ -	\$307,416	\$3,012,357	\$1,106,538	\$12,474,698	\$ 541,774	\$41,957,252
2017	2,846,060	357,168	7,653,661	2,214,262	1,845,518	5,085,157	899,851	1,821,402	-	405,480	2,854,187	1,209,202	12,697,183	583,462	40,472,593
2016	2,607,038	307,583	7,037,551	2,988,081	2,026,852	6,231,066	848,064	2,013,965	49,188	758,348	2,742,836	1,235,963	13,566,039	515,723	42,928,297
2015	2,408,961	320,562	7,924,624	3,628,604	2,035,529	6,998,339	904,944	1,431,913	46,326	402,324	4,624,837	-	14,466,480	1,365,962	46,559,405
2014	1,581,531	312,767	6,806,355	3,457,133	1,890,689	5,753,084	778,365	1,714,373	63,905	458,420	2,927,576	-	13,464,599	631,437	39,840,234
2013	2,464,954	390,639	6,477,498	4,042,630	2,029,046	4,757,834	987,498	1,238,138	88,315	862,901	2,784,937	-	12,742,843	599,945	39,467,178
2012	2,797,507	408,025	6,331,863	4,702,151	1,883,150	4,373,992	1,026,675	1,457,880	41,283	434,988	2,972,701	-	13,153,530	351,863	39,935,608
2011	2,451,215	417,073	6,638,673	4,123,252	2,092,175	4,762,168	1,045,170	2,134,311	-	240,711	3,025,608	-	12,315,508	571,057	39,816,921
2010	2,301,552	227,580	5,786,765	4,497,628	2,406,592	4,633,929	1,049,424	1,370,039	-	549,261	3,069,237	-	10,319,351	572,686	36,784,044
2009	2,570,721	238,213	6,175,136	4,328,943	2,607,817	4,866,262	1,156,868	1,249,752	-	554,434	2,994,753	-	12,844,876	584,294	40,172,069

Note: Beginning in 2016, Solid Waste expenses will be broken out separately. Previously, these numbers are included with Water and Sewer.

City of Franklin, Virginia

General Governmental Revenues by Source

Year Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General property taxes	\$ 7,357,887	\$ 7,249,980	\$ 7,343,086	\$ 7,037,730	\$ 6,810,144	\$ 6,761,228	\$ 6,531,186	\$ 6,564,430	\$ 6,530,638	\$ 6,738,891
Other local taxes	5,688,011	5,577,423	5,566,974	5,586,058	5,198,763	5,267,629	5,221,541	4,931,497	5,496,343	5,508,466
Permits, fees, and licenses	200,195	532,781	173,306	239,299	168,629	54,736	65,986	43,827	42,070	50,721
Fines and forfeitures	29,209	34,508	31,899	32,553	37,418	63,941	60,735	67,659	62,877	59,119
Use of money and property	632,232	450,868	532,087	545,633	423,159	390,886	368,747	344,072	355,363	363,039
Charges for services	1,530,851	1,511,417	1,417,125	1,484,170	1,380,953	2,740,501	2,673,776	2,813,659	2,716,955	2,395,449
Miscellaneous and donations	2,109,223	1,878,594	2,152,732	1,607,125	1,290,444	755,490	1,783,730	925,311	1,965,875	2,212,987
Recovered costs	271,535	238,678	297,156	248,457	284,056	51,320	132,719	69,151	140,199	109,572
Intergovernmental	<u>16,944,994</u>	<u>16,767,764</u>	<u>16,349,319</u>	<u>17,445,443</u>	<u>16,823,269</u>	<u>16,412,826</u>	<u>16,262,051</u>	<u>16,919,937</u>	<u>16,640,925</u>	<u>17,063,702</u>
Total	<u>\$ 34,764,137</u>	<u>\$ 34,242,013</u>	<u>\$ 33,863,684</u>	<u>\$ 34,226,468</u>	<u>\$ 32,416,835</u>	<u>\$ 32,498,557</u>	<u>\$ 33,100,471</u>	<u>\$ 32,679,543</u>	<u>\$ 33,951,245</u>	<u>\$ 34,501,946</u>

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

City of Franklin, Virginia

General Governmental Expenditures by Function

Last Ten Fiscal Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General government administration	\$ 2,629,856	\$ 2,510,396	\$ 2,854,178	\$ 2,211,912	\$ 2,173,109	\$ 2,017,868	\$ 2,064,443	\$ 2,060,446	\$ 2,083,550	\$ 2,231,540
Judicial administration	344,563	357,168	295,583	320,562	312,767	390,639	408,025	417,073	226,508	236,455
Public safety	7,927,401	7,626,452	7,197,590	7,537,609	7,051,828	6,082,876	5,916,167	6,039,390	5,379,484	5,871,389
Public works	3,178,555	3,613,994	3,610,007	2,970,313	3,874,669	3,591,932	4,277,392	4,644,403	4,253,984	4,155,038
Health and welfare	2,458,149	1,804,334	2,020,091	1,990,435	1,919,290	1,990,673	1,856,751	2,047,487	2,314,766	2,531,118
Education	15,671,852	16,662,510	17,745,962	18,687,553	17,167,862	16,064,811	15,680,694	15,627,197	16,189,511	16,245,264
Parks, recreation, and cultural	738,249	752,435	694,894	728,009	890,590	845,750	852,091	867,991	877,561	1,098,785
Community development	1,990,535	1,818,821	2,011,098	1,431,913	1,714,373	1,238,138	1,457,880	2,162,246	1,486,489	1,306,902
Nondepartmental	-	-	49,188	46,326	39,835	64,245	41,283	104,155	61,375	50,554
Capital projects	-	-	-	-	-	-	-	-	46,127	152,417
<i>Debt service</i>										
Principal retirement	592,984	547,673	6,245,308	480,082	355,041	4,193,126	480,037	674,229	1,173,938	1,157,421
Interest and fiscal charges	393,841	441,519	785,550	402,324	417,441	2,074,953	434,988	318,941	1,066,708	577,131
Totals	<u>\$ 35,925,985</u>	<u>\$ 36,135,302</u>	<u>\$ 43,509,449</u>	<u>\$ 36,807,038</u>	<u>\$ 35,916,805</u>	<u>\$ 38,555,011</u>	<u>\$ 33,469,751</u>	<u>\$ 34,963,558</u>	<u>\$ 35,160,001</u>	<u>\$ 35,614,014</u>

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

City of Franklin, Virginia

Fund Balances - Governmental Funds

Last Ten Fiscal Years Ended June 30,

	<u>2010</u>	<u>2009</u>							
Pre-GASB 54 Implementation									
General Fund									
Unreserved	\$ 5,211,536	\$ 4,671,350							
Total General Fund	<u>\$ 5,211,536</u>	<u>\$ 4,671,350</u>							
All Other Governmental Funds									
Reserved	\$ 834,736	\$ 644,623							
<i>Unreserved, reported in</i>									
Special revenue funds	1,094,142	1,297,002							
Debt service funds	(325,499)	(280,924)							
Capital projects funds	118,884	89,921							
Permanent funds	136,060	129,787							
Total All Other Governmental Funds	<u>\$ 1,858,323</u>	<u>\$ 1,880,409</u>							
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	
Post-GASB 54 Implementation									
General Fund									
Nonspendable	\$ 969,874	\$ 969,874	\$ 969,874	\$ 969,874	\$ 969,874	\$ 969,874	\$ 969,874	\$ 978,500	
Restricted	-	58,743	98,743	493,480	240,686	1,070,252	80,000	146,044	
Committed	-	-	-	7,336	496,110	643,174	230,972	343,194	
Assigned	339,363	491,280	658,214	475,028	1,113,614	2,366,148	2,588,020	1,212,612	
Unassigned	<u>4,189,190</u>	<u>5,055,159</u>	<u>5,035,674</u>	<u>5,123,487</u>	<u>4,071,412</u>	<u>3,648,940</u>	<u>3,084,828</u>	<u>2,381,262</u>	
Total General Fund	<u>\$ 5,498,427</u>	<u>\$ 6,575,056</u>	<u>\$ 6,762,505</u>	<u>\$ 7,069,205</u>	<u>\$ 6,891,696</u>	<u>\$ 8,698,388</u>	<u>\$ 6,953,694</u>	<u>\$ 5,061,612</u>	
All Other Governmental Funds									
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 219,584	\$ 226,048	\$ 226,048	
Restricted	3,452,753	3,205,897	2,816,762	744,137	2,354,530	1,780,661	1,478,166	1,728,261	
Committed	-	-	-	-	-	7,575	-	-	
Assigned	-	-	-	3,126,402	1,185,642	1,976,098	98,268	180,277	
<i>Unassigned, reported in</i>									
Special revenue funds	<u>(19,222)</u>	<u>(431,058)</u>	<u>-</u>	<u>2,845</u>	<u>2,845</u>	<u>(10,606)</u>	<u>(20,380)</u>	<u>(49,310)</u>	
Total All Other Governmental Funds	<u>\$ 3,433,531</u>	<u>\$ 2,774,839</u>	<u>\$ 2,816,762</u>	<u>\$ 3,873,384</u>	<u>\$ 3,543,017</u>	<u>\$ 3,973,312</u>	<u>\$ 1,782,102</u>	<u>\$ 2,085,276</u>	
Total All Governmental Funds	<u>\$ 8,931,958</u>	<u>\$ 9,349,895</u>	<u>\$ 9,579,267</u>	<u>\$ 10,942,589</u>	<u>\$ 10,434,713</u>	<u>\$ 12,671,700</u>	<u>\$ 8,735,796</u>	<u>\$ 7,146,888</u>	

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

Table 6

City of Franklin, Virginia										
Changes in Fund Balance - Governmental Funds										
Last Ten Fiscal Years Ended June 30,										
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues										
General property taxes	\$ 7,357,887	\$ 7,249,980	\$ 7,343,086	\$ 7,037,730	\$ 6,810,144	\$ 6,761,228	\$ 6,531,186	\$ 6,564,430	\$ 6,530,638	\$ 6,738,891
Other local taxes	5,688,011	5,577,423	5,566,974	5,586,058	5,198,763	5,267,629	5,221,541	4,931,497	5,496,343	5,508,466
Permits, privilege fees, and regulatory licenses	200,195	532,781	173,306	239,299	168,629	54,736	65,986	43,827	42,070	50,721
Fines and forfeitures	29,209	34,508	31,899	32,553	37,418	63,941	60,735	67,659	62,877	59,119
Revenue from use of money and property	620,781	445,878	524,433	433,216	423,111	386,324	367,899	341,820	354,881	362,362
Charges for services	1,488,704	1,356,274	1,375,315	1,433,589	1,380,953	2,615,929	2,557,279	2,700,399	2,573,185	2,235,778
Miscellaneous	1,695,272	1,531,135	1,581,331	1,397,464	995,324	589,895	1,500,459	687,900	1,622,366	1,844,328
Recovered costs	271,535	238,678	296,988	242,899	283,729	43,894	71,306	27,261	100,749	61,314
Intergovernmental	6,130,028	5,852,460	6,056,065	6,069,592	5,787,624	5,603,598	5,456,953	6,302,037	5,214,853	5,821,774
Total Revenues	23,481,622	22,819,117	22,949,397	22,472,400	21,085,695	21,387,174	21,833,344	21,666,830	21,997,962	22,682,753
Expenditures										
Current										
General government administration	2,629,856	2,510,396	2,854,178	2,211,912	2,173,109	2,017,868	2,064,443	2,060,446	2,083,550	2,231,540
Judicial administration	344,563	357,168	295,583	320,562	312,767	390,639	408,025	417,073	226,508	236,455
Public safety	7,927,401	7,626,452	7,197,590	7,537,609	7,051,828	6,082,876	5,916,167	6,039,390	5,379,484	5,871,389
Public works	3,178,555	3,613,994	3,610,007	2,970,313	3,874,669	3,591,932	4,277,392	4,644,403	4,253,984	4,155,038
Health and welfare	2,458,149	1,804,334	2,020,091	1,990,435	1,919,290	1,990,673	1,856,751	2,047,487	2,314,766	2,531,118
Education	5,181,628	5,043,504	6,563,431	6,892,767	5,820,046	4,677,791	4,276,230	4,664,406	4,490,040	4,620,576
Parks, recreation, and cultural	738,249	752,435	694,894	728,009	890,590	845,750	852,091	867,991	877,561	1,098,785
Community development	1,990,535	1,818,821	2,011,098	1,431,913	1,714,373	1,238,138	1,457,880	2,162,246	1,486,489	1,306,902
Nondepartmental	-	-	49,188	46,326	39,835	64,245	41,283	104,155	61,375	50,554
Capital projects	-	-	-	-	-	-	-	-	46,127	152,417
Debt service										
Principal retirement	567,244	547,673	6,245,308	480,082	355,041	4,193,126	480,037	674,229	1,173,938	1,157,421
Interest and other fiscal charges	419,581	441,519	785,550	402,324	417,441	2,074,593	434,988	318,941	1,066,708	577,131
Total Expenditures	25,435,761	24,516,296	32,326,918	25,012,252	24,568,989	27,167,631	22,065,287	24,000,767	23,460,530	23,989,326
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,954,139)	(1,697,179)	(9,377,521)	(2,539,852)	(3,483,294)	(5,780,457)	(231,943)	(2,333,937)	(1,462,568)	(1,306,573)
Other Financing Sources (Uses)										
Issuance of debt	-	-	6,117,000	1,816,000	-	8,137,578	-	-	5,235,000	-
Payment to refunding bond escrow agent	-	-	-	-	-	-	-	-	(4,828,997)	-
Premium on issuance of bonds	-	-	-	-	-	-	-	-	84,500	-
Discount on sale of bonds	-	-	-	-	-	-	-	-	-	-
Transfers in	3,996,654	3,520,736	3,222,004	3,207,161	3,185,390	3,581,305	3,428,856	4,634,273	4,139,028	3,878,065
Transfers out	(2,460,452)	(2,052,929)	(1,767,674)	(1,897,291)	(1,872,093)	(2,020,222)	(1,599,773)	(2,625,576)	(2,648,863)	(2,258,174)
Issuance of capital leases	-	-	461,416	-	-	-	-	318,975	-	-
Total Other Financing Sources (Uses)	1,536,202	1,467,807	8,032,746	3,125,870	1,313,297	9,698,661	1,829,083	2,327,672	1,980,668	1,619,891
Net Change in Fund Balances	\$ (417,937)	\$ (229,372)	\$ (1,344,775)	\$ 586,018	\$ (2,169,997)	\$ 3,918,204	\$ 1,597,140	\$ (6,265)	\$ 518,100	\$ 313,318
Debt Service as a Percentage of Noncapital Expenditures	4%	4%	22%	4%	3%	23%	4%	4%	10%	7%

Table 7

City of Franklin, Virginia

Net Position by Component

June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental Activities										
Net investment in capital assets	\$ 10,902,923	\$ 10,732,282	\$ 7,885,690	\$ 7,820,476	\$ 12,910,601	\$ 9,300,806	\$ 15,514,000	\$ 16,568,294	\$ 17,477,560	\$ 17,319,997
Restricted	2,561,938	3,264,640	3,119,104	1,237,617	2,595,216	2,850,913	1,062,775	1,032,007	-	-
Unrestricted	<u>(1,059,512)</u>	<u>411,654</u>	<u>2,268,401</u>	<u>9,783,115</u>	<u>5,556,004</u>	<u>9,820,786</u>	<u>5,786,923</u>	<u>4,558,481</u>	<u>4,919,147</u>	<u>4,374,403</u>
Total Governmental Activities	12,405,349	14,408,576	13,273,195	18,841,208	21,061,821	21,972,505	22,363,698	22,158,782	22,396,707	21,694,400
Business-Type Activities										
Net investment in capital assets	8,410,799	7,563,748	7,194,170	5,967,851	6,677,554	5,949,747	8,095,793	8,400,534	9,228,349	8,004,309
Restricted	-	-	-	-	-	700,333	-	-	-	-
Unrestricted	<u>3,156,563</u>	<u>580,875</u>	<u>(426,206)</u>	<u>1,904,949</u>	<u>2,798,246</u>	<u>1,702,628</u>	<u>438,188</u>	<u>2,080,645</u>	<u>2,748,995</u>	<u>1,786,860</u>
Total Business-Type Activities	11,567,362	8,144,623	6,767,964	7,872,800	9,475,800	8,352,708	8,533,981	10,481,179	11,977,344	9,791,169
Primary Government										
Net investment in capital assets	19,313,722	18,296,030	15,079,860	13,788,327	19,588,155	15,250,553	23,609,793	24,968,828	26,705,909	25,324,306
Restricted	2,561,938	3,264,640	3,119,104	1,237,617	2,595,216	3,551,246	1,062,775	1,032,007	-	-
Unrestricted	<u>2,097,051</u>	<u>992,529</u>	<u>1,842,195</u>	<u>11,688,064</u>	<u>8,354,250</u>	<u>11,523,414</u>	<u>6,225,111</u>	<u>6,639,126</u>	<u>7,668,142</u>	<u>6,161,263</u>
Total Primary Government	<u>\$ 23,972,711</u>	<u>\$ 22,553,199</u>	<u>\$ 20,041,159</u>	<u>\$ 26,714,008</u>	<u>\$ 30,537,621</u>	<u>\$ 30,325,213</u>	<u>\$ 30,897,679</u>	<u>\$ 32,639,961</u>	<u>\$ 34,374,051</u>	<u>\$ 31,485,569</u>

City of Franklin, Virginia

Change in Net Position

Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Expenses										
Governmental Activities										
General government administration	\$ 3,003,717	\$ 2,846,060	\$ 2,656,226	\$ 2,455,287	\$ 1,645,436	\$ 2,553,269	\$ 2,838,790	\$ 2,451,215	\$ 2,301,552	\$ 2,570,721
Judicial	344,563	357,168	307,583	320,562	312,767	390,639	408,025	417,073	227,580	238,213
Public safety	7,723,020	7,653,661	7,037,551	7,924,624	6,806,355	6,477,498	6,331,863	6,638,673	5,799,871	6,175,136
Public works	3,122,262	2,214,262	2,988,081	3,628,604	3,457,133	4,042,630	4,702,151	4,123,252	4,497,628	4,328,943
Health and welfare	2,471,638	1,845,518	2,026,852	2,035,529	1,890,689	2,029,046	1,883,150	2,092,175	2,406,592	2,607,817
Education	5,279,390	5,085,157	6,231,066	6,998,339	5,753,084	4,757,834	4,373,992	4,762,168	4,633,929	4,866,262
Parks, recreation, and cultural	747,262	899,851	848,064	904,944	778,365	987,498	1,026,675	1,045,170	1,049,424	1,156,868
Community development	1,822,617	1,821,402	2,013,965	1,431,913	1,714,373	1,238,138	1,457,880	2,134,311	1,273,639	1,249,752
Interest on long-term debt	307,416	405,480	758,348	402,324	458,420	862,901	434,988	240,711	549,261	554,434
Total Governmental Activities	24,821,885	23,128,559	24,867,736	26,102,126	22,816,622	23,339,453	23,457,514	23,904,748	22,739,476	23,748,146
Business-Type Activities										
Water and sewer	3,012,357	2,854,187	2,742,836	3,275,718	2,927,576	2,784,937	2,972,701	3,025,608	3,069,237	2,994,753
Solid waste	1,106,538	1,209,202	1,235,963	1,349,119	1,319,111	-	-	-	-	-
Electric	12,474,698	12,697,183	13,566,039	14,466,480	13,464,599	12,742,843	13,153,530	12,315,508	11,107,273	12,844,876
Airport	541,774	583,462	515,723	1,365,962	631,437	599,945	351,863	571,057	572,686	584,294
Total Business-Type Activities	17,135,367	17,344,034	18,060,561	20,457,279	18,342,723	16,127,725	16,478,094	15,912,173	14,749,196	16,423,923
Total Expenses	41,957,252	40,472,593	42,928,297	46,559,405	41,159,345	39,467,178	39,935,608	39,816,921	37,488,672	40,172,069
Program Revenues										
Governmental Activities										
<i>Charges for Services</i>										
General government administration	763,125	984,336	732,066	242,355	384,455	148,629	630,502	613,208	662,101	615,929
Judicial	9,910	7,324	11,875	37,251	41,794	69,127	68,562	88,075	14,432	17,509
Public safety	706,782	375,713	416,434	457,629	422,447	381,946	441,386	529,385	510,261	464,978
Public works	230,475	549,664	407,055	960,179	710,310	2,119,550	1,517,698	1,535,386	1,469,356	1,207,847
Health and welfare	-	-	5,524	(1,594)	17,141	-	-	16,112	-	9,503
Parks, recreation, and cultural	7,816	6,526	7,566	9,621	10,853	15,356	13,783	17,327	14,418	20,197
Community development	-	-	-	-	-	-	12,070	12,392	7,564	9,655
Operating grants and contributions	4,519,994	4,224,244	4,416,976	4,188,762	4,036,731	3,935,552	3,790,723	4,638,338	4,077,928	4,056,878
Capital grants and contributions	-	-	-	-	-	-	-	-	49,197	656,776
Total Governmental Activities	6,238,102	6,147,807	5,997,496	5,894,203	5,623,731	6,670,160	6,474,724	7,450,223	6,805,257	7,059,272
Business-Type Activities										
<i>Charges for Services</i>										
Water and sewer	3,250,423	3,573,740	2,904,767	3,045,691	3,049,282	3,154,656	3,043,329	3,035,547	3,276,636	3,283,366
Solid waste	1,293,890	1,373,427	1,305,582	1,365,620	1,343,522	-	-	-	-	-
Electric	16,024,281	14,332,022	13,664,164	15,474,300	15,117,660	13,996,271	13,093,877	13,871,929	12,142,738	13,687,790
Airport	135,627	90,836	110,410	132,069	178,450	178,334	200,768	178,994	188,257	174,456
<i>Operating Grants and Contributions</i>										
Water and sewer	91,653	728	-	-	-	-	-	-	-	-
Electric	-	7,383	-	-	-	-	-	-	-	-
Airport	1,419,453	117,003	56,052	1,113,036	93,223	178,275	22,006	109,004	2,040,691	102,004
Total Business-Type Activities	22,215,327	19,495,139	18,040,975	21,130,716	19,782,137	17,507,536	16,359,980	17,195,474	17,648,322	17,247,616
Total Program Revenues	28,453,429	25,642,946	24,038,471	27,024,919	25,405,868	24,177,696	22,834,704	24,645,697	24,453,579	24,306,888

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental Activities Net Expense	(18,583,783)	(16,980,752)	(18,870,240)	(20,207,923)	(17,192,891)	(16,669,293)	(16,982,790)	(16,454,525)	(15,934,219)	(16,688,874)
Business-Type Activities Net Expense	<u>5,079,960</u>	<u>2,151,105</u>	<u>(19,586)</u>	<u>673,437</u>	<u>1,439,414</u>	<u>1,379,811</u>	<u>(118,114)</u>	<u>1,283,301</u>	<u>2,899,126</u>	<u>823,693</u>
Total Primary Government Net Expense	(13,503,823)	(14,829,647)	(18,889,826)	(19,534,486)	(15,753,477)	(15,289,482)	(17,100,904)	(15,171,224)	(13,035,093)	(15,865,181)
General Revenues and Other Changes in Net Position										
Governmental Activities										
<i>Taxes</i>										
Property taxes	7,506,067	7,223,791	7,304,907	7,037,730	6,810,144	6,761,228	6,531,186	6,499,693	6,668,337	6,974,226
Local sales and use taxes	1,854,694	1,799,419	1,767,781	1,800,368	-	-	-	-	-	-
Consumers' utility taxes	544,306	565,160	574,958	576,452	-	-	-	-	-	-
Business license taxes	973,005	959,132	969,181	921,270	-	-	-	-	-	-
Motor vehicle license taxes	187,023	185,505	188,080	195,333	-	-	-	-	-	-
Cigarette taxes	298,773	316,662	352,199	373,904	-	-	-	-	-	-
Lodging taxes	170,060	141,318	123,626	149,166	-	-	-	-	-	-
Restaurant food taxes	1,522,481	1,498,567	1,494,137	1,439,601	-	-	-	-	-	-
Other local taxes	137,669	111,660	97,012	129,964	5,198,763	5,267,629	5,221,541	4,931,497	4,911,007	5,508,466
Revenue sharing from counties	782,345	785,799	709,171	704,969	556,765	243,503	1,212,182	438,746	1,316,661	1,310,461
Revenue from use of money and property	620,141	445,878	417,798	676,115	706,839	430,218	367,899	341,820	354,881	362,362
Noncategorical aid from state	1,610,034	1,628,216	1,639,089	1,662,463	1,663,516	1,668,047	1,666,230	1,663,699	1,673,064	1,108,120
Miscellaneous	912,927	745,336	872,161	692,495	438,559	346,392	359,583	249,154	305,705	533,867
Transfers	<u>1,536,202</u>	<u>1,467,807</u>	<u>1,454,330</u>	<u>1,309,870</u>	<u>1,314,660</u>	<u>1,561,084</u>	<u>1,829,084</u>	<u>2,008,697</u>	<u>1,490,165</u>	<u>1,619,891</u>
Total Governmental Activities	18,655,727	17,874,250	17,964,430	17,669,700	16,689,246	16,278,101	17,187,705	16,133,306	16,719,820	17,417,393
Business-Type Activities										
Revenue from use of money and property	2,673	1,341	9,495	-	-	-	-	-	6,445	7,760
Miscellaneous	23,216	26,244	7,032	-	-	-	-	-	-	-
Transfers	<u>(1,536,202)</u>	<u>(1,467,807)</u>	<u>(1,454,330)</u>	<u>(1,309,870)</u>	<u>(1,314,660)</u>	<u>(1,561,084)</u>	<u>(1,829,084)</u>	<u>(2,008,697)</u>	<u>(1,490,165)</u>	<u>(1,619,891)</u>
Total Business-Type Activities	<u>(1,510,313)</u>	<u>(1,440,222)</u>	<u>(1,437,803)</u>	<u>(1,309,870)</u>	<u>(1,314,660)</u>	<u>(1,561,084)</u>	<u>(1,829,084)</u>	<u>(2,008,697)</u>	<u>(1,483,720)</u>	<u>(1,612,131)</u>
Total General Revenues and Other Changes in Net Position	17,145,414	16,434,028	16,526,627	16,359,830	15,374,586	14,717,017	15,358,621	14,124,609	15,236,100	15,805,262
Change in Net Position										
Governmental activities	71,944	893,498	(905,810)	(2,538,223)	(503,645)	(391,192)	204,915	(321,219)	785,601	728,519
Business-type activities	<u>3,569,647</u>	<u>710,883</u>	<u>(1,457,389)</u>	<u>(636,433)</u>	<u>124,754</u>	<u>(181,273)</u>	<u>(1,947,198)</u>	<u>(725,396)</u>	<u>1,415,406</u>	<u>(788,438)</u>
Total Primary Government	<u>\$ 3,641,591</u>	<u>\$ 1,604,381</u>	<u>\$ (2,363,199)</u>	<u>\$ (3,174,656)</u>	<u>\$ (378,891)</u>	<u>\$ (572,465)</u>	<u>\$ (1,742,283)</u>	<u>\$ (1,046,615)</u>	<u>\$ 2,201,007</u>	<u>\$ (59,919)</u>

NOTE: The detailed breakdown of taxes for the years 2014 and prior are not available.

Table 9

City of Franklin, Virginia

Property Tax Levies and Collections

Last Ten Fiscal Years Ended June 30,

<u>Year</u>	<u>Total Tax Levy⁽¹⁾</u>	<u>Current Tax Collections⁽¹⁾</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections⁽¹⁾⁽²⁾</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Percent of Delinquent Taxes to Tax Levy</u>
2018	\$ 8,053,723	\$ 7,949,357	98.70%	\$ 315,909	\$8,265,266	102.63%	\$ 690,640	8.58%
2017	8,115,389	7,848,696	96.71%	303,837	8,152,533	100.46%	542,460	6.68%
2016	8,124,907	7,990,238	98.34%	220,314	8,210,552	101.05%	632,793	7.79%
2015	7,856,015	7,537,704	95.95%	330,551	7,868,255	100.16%	700,940	8.92%
2014	7,764,626	7,384,115	95.10%	321,534	7,705,649	99.24%	612,060	7.88%
2013	7,277,357	7,197,984	98.91%	183,306	7,381,290	101.43%	671,990	9.23%
2012	7,333,436	7,135,568	97.30%	304,318	7,439,886	101.45%	756,365	10.31%
2011	7,355,039	7,326,977	99.62%	125,647	7,452,624	101.33%	863,109	11.73%
2010	7,774,091	7,482,861	96.25%	182,767	7,665,628	98.60%	758,751	9.76%
2009	7,510,356	7,240,857	96.41%	232,401	7,473,258	99.51%	756,356	10.07%

Source: City of Franklin Commissioner of Revenue⁽¹⁾Exclusive of penalties and interest.⁽²⁾Does not include land redemptions.**Note:** Includes Real Estate, Personal Property, Mobile Homes, Machinery and Tools, and Public Service Corporation property.

Table 10

City of Franklin, Virginia

Assessed Value of Taxable Property

Last Ten Fiscal Years Ended June 30,

<u>Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Mobile Home</u>	<u>Machinery and Tools</u>	<u>Public Service Corporations</u>		<u>Total</u>	<u>Total Direct Tax Rate</u>
					<u>Real Estate</u>	<u>Personal Property</u>		
2018	\$ 550,853,846	\$62,891,034		\$1,000,717	\$ 7,535,131	\$ 3,262	\$ 622,283,990	1.29
2017	551,169,536	64,088,674	-	994,840	6,885,844	9,872	623,148,766	1.43
2016	550,548,631	61,007,684	-	970,081	6,771,272	14,362	619,312,030	1.31
2015	546,840,453	60,195,857	-	928,666 ⁽¹⁾	6,551,183	43,818	614,559,977	1.36
2014	571,544,231	59,269,598	-	3,136,696	6,588,695	77,003	640,616,223	1.34
2013	550,495,439	55,575,941	-	2,993,303	6,927,392	13,914	616,005,989	1.22
2012	606,470,410	55,398,273	-	3,032,569	7,371,365	16,575	672,289,192	1.19
2011	629,410,310	57,061,332	-	3,018,957	7,761,879	42,224	697,294,702	1.19
2010	671,857,100	59,307,993	900	2,909,231	7,646,642	27,151	741,749,017	1.18
2009	561,634,400	57,716,863	-	573,729	8,480,797	39,340	628,445,129	1.34

Source: City of Franklin Treasurer

⁽¹⁾Assessed value was reported incorrectly in the 2015 CAFR. The City's loss of a major taxpayer resulted in a significant drop in machinery and tools assessment.

Table 11

City of Franklin, Virginia

Property Tax Rates

Tax Rates per Hundred Dollars of Assessed Value

Last Ten Fiscal Years Ended June 30,

<u>Year</u>	<u>Real Estate</u>		<u>Personal Property</u>	<u>Mobile Home</u>	<u>Machinery and Tools</u>	<u>Public Service Corporation</u>	
						<u>Real Estate⁽¹⁾</u>	<u>Personal Property</u>
2018	0.99 / 1.23	⁽⁶⁾	4.50	0.99	2.00	0.99	4.50
2017	0.99 / 1.23	⁽⁶⁾	4.50	0.99	2.00	0.99	4.50
2016	0.99 / 1.23	⁽⁶⁾	4.50	0.99	2.00	0.99	4.50
2015	0.96 / 1.20	⁽⁵⁾	4.50	0.96	2.00	0.96	4.50
2014	0.90 / 1.14	⁽⁴⁾	4.50	0.90	2.00	0.90	4.50
2013	0.90 / 1.14	⁽²⁾	4.50	0.90	2.00	0.90	4.50
2012	0.77 / 1.01	⁽³⁾	4.50	0.77	2.00	0.77	4.50
2011	0.77 / 1.01	⁽³⁾	4.50	0.77	2.00	0.77	4.50
2010	0.77 / 1.01	⁽³⁾	4.50	0.77	2.00	0.77	4.50
2009	0.77 / 1.01	⁽³⁾	4.50	0.77	2.00	0.77	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 \$1.14 and remaining areas were taxed at \$0.90 for real estate.

⁽³⁾Downtown district real estate tax rate was \$1.01 and remaining areas were taxed at \$0.77 for real estate.

⁽⁴⁾Downtown district real estate tax rate was \$1.14 and remaining areas were taxed at \$0.90 for real estate.

⁽⁵⁾Downtown district real estate tax rate was \$1.20 and remaining areas were taxed at \$0.96 for real estate.

⁽⁶⁾Downtown district real estate tax rate was \$1.23 and remaining areas were taxed at \$0.99 for real estate.

Source: City of Franklin Commissioner of Revenue

City of Franklin, Virginia

Principal Taxpayers - Real Estate

Current Year and Nine Years Ago

Fiscal Year 2018

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2017 Assessed Valuation</u>	<u>Percent of Total Assessed Valuation of Real Estate</u>
Franklin Hospital Corporation	Hospital	\$ 24,041,300	3.89%
The Village at Woods Edge	Retirement Home	12,150,500	1.96%
James L. Rifkin Estate	Shopping Center	10,863,800	1.76%
Lowes Home Centers, Inc.	Retail - Hardware	8,117,700	1.31%
Southampton Shopping Center, LP	Shopping Center	5,630,800	0.91%
F.P. Associates, Inc.	Apartments	5,000,000	0.81%
37 Wm Dorchester, LLC	Apartments	4,900,000	0.79%
F P A LLC	Apartments	4,700,000	0.76%
Inspire Commercial LLC	Apartments	4,639,500	0.75%
Love's Travel Stops	Shopping Center	4,440,000	0.72%
		<u>\$ 84,483,600</u>	<u>13.65%</u>
Total Assessed Real Estate		<u>\$ 618,774,500</u>	

Fiscal Year 2009

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2008 Assessed Valuation</u>	<u>Percent of Total Assessed Valuation of Real Estate</u>
Community Health Systems, Inc.	Hospital	\$ 25,961,800	3.82%
James L. Rifkin Estate	Shopping Center	13,496,900	1.99%
The Village at Woods Edge	Retirement Home	10,873,000	1.60%
Lowes Home Centers, Inc.	Retail - Hardware	8,611,800	1.27%
Southampton Shopping Center, LP	Shopping Center	7,049,800	1.04%
ACJCS LLC	Direct Mail-Advertising	6,055,700	0.89%
Meadowridge Associates, LP	Apartments	5,101,400	0.75%
Dorchester Apartments, LP	Apartments	4,507,800	0.66%
F P Associates, Inc.	Apartments	4,305,400	0.63%
F P A LLC	Apartments	3,998,400	0.59%
		<u>\$ 89,962,000</u>	<u>13.24%</u>
Total Assessed Real Estate		<u>\$ 679,628,272</u>	

Source: City of Franklin Treasurer

City of Franklin, Virginia

Principal Taxpayers - Personal Property

Current Year and Nine Years Ago

<u>Fiscal Year 2018</u>			
<u>Taxpayer</u>	<u>Type of Business</u>	<u>2017 Assessed Valuation</u>	<u>Percent of Total Assessed Personal Property</u>
Franklin Hospital Corporation	Hospital	\$ 2,956,287	4.26%
Charter Communications, Inc.	Service - Telecommunications	877,143	1.26%
Lowes Home Centers, Inc.	Retail - Hardware	826,843	1.19%
Wal-Mart Stores, Inc.	Retail - Variety	704,091	1.01%
FF Acquisition, LLC	Retail - Grocery	694,333	1.00%
The Village at Woods Edge	Retirement Home	472,301	0.68%
Love's Travel Stop	Shopping Center	462,795	0.67%
Butler Paper Recycling, Inc.	Paper Recycling	436,722	0.63%
Food Lion, Inc.	Retail - Grocery	389,469	0.56%
Birdsong Corporation	Peanut - Wholesale Industry	283,655	0.41%
		<u>\$ 8,103,639</u>	<u>11.68%</u>
Total Assessed Personal Property		<u>\$ 69,397,554</u>	

<u>Fiscal Year 2009</u>			
<u>Taxpayer</u>	<u>Type of Business</u>	<u>2008 Assessed Valuation</u>	<u>Percent of Total Assessed Personal Property</u>
Money Mailer, LLC	Direct mail	\$ 2,292,727	3.86%
Franklin Hospital Corporation	Hospital	1,850,776	3.12%
Wal-Mart Stores, Inc.	Retail - Variety	832,612	1.40%
Lowes Home Centers, Inc.	Retail - Hardware	690,844	1.16%
Charter Communications	Service - Telecommunications	435,630	0.73%
Butler Paper Recycling, Inc.	Paper Recycling	408,417	0.69%
Birdsong Corporation	Peanut Wholesaler Industry	254,988	0.43%
General Electric Credit Corporation	Lease Furniture & Fixtures	241,494	0.41%
Albert G. Dail, Inc.	Retail - Hardware	222,415	0.37%
Food Lion, Inc.	Retail - Grocery	220,819	0.37%
		<u>\$ 7,450,722</u>	<u>12.54%</u>
Total Assessed Personal Property		<u>\$ 59,397,073</u>	

Source: City of Franklin Treasurer

Table 14

City of Franklin, Virginia										
Taxable Sales by Category										
Last Ten Calendar Years Ended June 30,										
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Merchant Wholesaler, Durable										
Merchant Wholesaler, Durable Goods	\$ 2,904,459	\$ 2,371,632	\$ 1,806,127	\$ 1,669,822	\$ 3,188,873	\$ 2,201,607	N/A	\$ 540,973	\$ 319,700	\$ 160,501
Merchant Wholesaler, Non-Durable Goods	2,064,428	2,111,572	2,080,192	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Motor vehicle and parts dealers	5,239,325	5,112,592	4,889,783	4,709,352	4,721,876	4,692,831	3,873,423	5,049,510	4,177,804	3,978,697
Furniture and home furnishings	341,428	-	-	1,049,067	2,279,473	3,157,818	3,057,434	3,367,524	3,415,004	3,766,476
Crop production	-	-	-	-	-	-	N/A	67,636	N/A	N/A
Building materials, farm and garden supplies	-	-	-	-	15,626,661	20,589,426	-	-	-	-
Food and beverage stores	19,233,198	9,678,555	9,947,261	15,181,770	18,978,071	19,052,994	18,485,435	17,562,519	18,543,874	20,153,777
Health and personal care	1,392,119	1,770,890	1,214,184	1,094,381	995,056	N/A	N/A	1,620,007	1,708,589	1,181,688
Gasoline stations	8,084,526	7,355,646	6,696,970	5,883,759	6,912,466	6,984,919	6,386,331	5,728,484	5,064,456	5,484,253
Clothing and clothing accessories stores	1,524,724	1,452,903	1,521,078	1,640,436	1,800,686	1,907,205	1,913,678	1,918,978	1,992,877	1,910,099
Sporting goods, hobby, book and music stores	923,119	957,114	1,126,773	572,043	213,433	855,199	268,093	-	34,340	-
General merchandise stores	60,197,822	59,931,329	61,689,841	59,265,803	59,383,364	66,102,148	59,970,095	57,836,189	60,044,952	60,639,197
Miscellaneous store retailers	1,847,959	2,156,400	3,247,600	2,506,553	1,668,453	1,457,346	1,896,322	2,094,847	1,745,625	1,735,875
Nonstore retailers	290,142	362,880	574,780	1,056,137	1,050,957	1,109,388	957,052	1,392,909	1,169,469	1,518,049
Rental and lease services	160,149	135,257	138,706	-	43,429	95,371	538,438	676,770	929,073	796,030
Professional, scientific, and technical services	-	-	1,284,188	496,354	N/A	1,532,544	1,621,123	1,765,592	1,605,670	634,005
Accommodation	-	-	N/A	N/A	N/A	2,512,857	N/A	816,451	N/A	N/A
Food services and drinking places	19,702,931	18,923,698	18,645,187	16,428,458	15,989,545	17,408,704	15,530,633	16,947,347	17,052,909	15,814,206
Repair and maintenance	3,161,387	4,043,033	3,962,936	4,217,944	3,594,792	2,906,481	2,843,412	2,906,222	2,772,329	2,528,870
Personal and laundry services	1,105,658	1,137,408	1,080,827	1,208,198	1,302,214	1,300,644	1,323,188	1,115,148	905,405	1,309,468
Chemical manufacturing	-	-	-	-	200,572	686,394	-	-	-	-
All Other Businesses	194,094	16,439	9,680	2,384,511	2,589,207	-	2,530,722	1,155,848	213,205	318,129
Miscellaneous and Unidentifiable	39,185,900	46,566,770	42,866,680	38,796,791	17,006,970	7,764,925	27,833,602	25,414,636	27,559,023	28,788,615
Total	\$ 167,553,368	\$ 164,084,118	\$ 162,782,793	\$ 158,161,379	\$ 157,546,098	\$ 162,318,801	\$ 149,028,981	\$ 147,977,590	\$ 149,254,304	\$ 150,717,935

Source - Weldon Cooper Center for Public Service

City of Franklin, Virginia

Ratio of Net General Bonded Debt to Assessed Value

Last Ten Fiscal Years Ended June 30,

General Bonded Debt Outstanding

<u>Year</u>	<u>Governmental Activities General Obligation Bonds (Net) ⁽¹⁾</u>	<u>Business-Type Activities General Obligation Bonds (Net) ⁽¹⁾</u>	<u>Total General Obligation Bonds (Net) ⁽¹⁾</u>	<u>School Literary Fund Loans</u>	<u>Revolving Loans</u>	<u>Total</u>	<u>% of Actual Taxable Value of Property ⁽²⁾</u>	<u>Per Capita ⁽³⁾</u>
2018	\$ 15,185,642	\$ 3,201,762	\$ 18,387,404	\$ -	\$ -	\$ 18,387,404	3.34%	2,249
2017	15,780,113	3,713,722	19,493,835	-	-	19,493,835	3.54%	2,347
2016	16,354,987	4,211,684	20,566,671	-	-	20,566,671	3.74%	2,422
2015	15,888,999	4,651,400	20,540,399	-	-	20,540,399	3.76%	2,394
2014	14,733,683	4,876,000	19,609,683	-	-	19,609,683	3.43%	2,285
2013	15,087,295	5,326,000	20,413,295	-	-	20,413,295	3.71%	2,379
2012	12,860,239	3,435,000	16,295,239	-	448,518	16,743,757	2.76%	1,950
2011	13,170,270	3,435,000	16,605,270	-	505,296	17,110,566	2.72%	1,994
2010	13,456,141	3,435,000	16,891,141	100,000	560,409	17,551,550	2.61%	1,991
2009	13,899,488	3,689,865	17,589,353	200,000	613,905	18,403,258	3.28%	2,073

Note

⁽¹⁾ General Obligation Bonds are reported net of premiums and discounts for both Governmental and Business-Type Activities.

⁽²⁾ See Table 10 for assessed and estimated actual value of taxable property for assessed value data.

⁽³⁾ See Table 19 for population.

⁽⁴⁾ In addition to the City's general obligation pledge, the bonds are secured on a junior lien basis by the pledge of utility revenues.

Table 16

City of Franklin, Virginia

Legal Debt Margin Information

Last Ten Fiscal Years Ended June 30,

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Debt limit	\$ 67,950	\$ 67,239	\$ 60,647	\$ 55,050	\$ 57,154	\$ 54,684	\$ 54,684	\$ 55,055	\$ 55,117	\$ 55,085
Total net debt applicable to limit	<u>19,339</u>	<u>18,130</u>	<u>17,111</u>	<u>16,744</u>	<u>20,413</u>	<u>19,610</u>	<u>20,540</u>	<u>20,054</u>	<u>19,011</u>	<u>17,936</u>
Legal Debt Margin	<u>\$ 48,611</u>	<u>\$ 49,109</u>	<u>\$ 43,536</u>	<u>\$ 38,306</u>	<u>\$ 36,741</u>	<u>\$ 35,074</u>	<u>\$ 34,144</u>	<u>\$ 35,001</u>	<u>\$ 36,106</u>	<u>\$ 37,149</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	28.46%	26.96%	28.21%	30.42%	35.72%	35.86%	37.56%	36.43%	34.49%	32.56%

Note: The amounts reported above are presented in thousands.

Assessed value	<u>\$ 550,853,846</u>
Total Assessed Value	<u>\$ 550,853,846</u>
Debt limit (10% of total assessed value)	\$ 55,085,385
Amount of Debt Applicable to Debt Limit	
General Obligation Debt	
Primary Government	14,758,676
Business-Type	<u>3,178,000</u>
Net Debt Applicable to Limit	<u>17,936,676</u>
Legal Debt Margin	<u>\$ 37,148,709</u>

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

Table 17

City of Franklin, Virginia

Ratio of Annual Debt Service Expenditures to
Total General Governmental Expenditures

Last Ten Fiscal Years Ended June 30,

<u>Fiscal Year</u>	<u>Expenditures - All Governmental Fund Types</u>	<u>Total Debt Service⁽¹⁾⁽²⁾</u>	<u>Percentage of Debt Service to Expenditures</u>
2018	\$ 25,435,761	\$ 986,825	3.88%
2017	24,516,296	989,192	4.03%
2016	32,326,918	7,030,858	21.75%
2015	36,807,039	882,406	2.40%
2014	35,916,805	772,482	2.15%
2013	38,554,650	6,267,719	16.26%
2012	33,469,749	915,024	2.73%
2011	34,963,558	993,170	2.84%
2010	35,160,001	2,240,646	6.37%
2009	35,614,014	1,734,552	4.87%

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

⁽²⁾Includes amounts for refunding of debt.

Table 18

City of Franklin, Virginia

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years Ended June 30,

Fiscal Year	Governmental Activities General Obligation Bonds (Net)	Business-Type Activities General Obligation Bonds (Net)	Total General Obligation Bonds (Net)	School Literary Fund Loans	Revolving Loans	Total Primary Government Total	Total Outstanding Debt as Percentage of Personal Income ⁽¹⁾	Total Outstanding Debt Per Capita ⁽¹⁾
2018	\$ 15,185,642	\$ 3,201,762	\$ 18,387,404	\$ -	\$ -	\$ 18,387,404	1.94%	\$ 2,249
2017	15,780,113	3,713,722	19,493,835	-	-	19,493,835	2.06%	\$ 2,347
2016	16,354,987	4,211,684	20,566,671	-	-	20,566,671	2.21%	2,422
2015	15,888,999	4,651,400	20,540,399	-	-	20,540,399	2.21%	2,394
2014	14,733,683	4,876,000	19,609,683	-	-	19,609,683	2.18%	2,285
2013	15,087,295	5,326,000	20,413,295	-	-	20,413,295	2.29%	2,379
2012	12,860,239	3,435,000	16,295,239	-	448,518	16,743,757	1.85%	1,950
2011	13,170,270	3,435,000	16,605,270	-	505,296	17,110,566	2.02%	1,994
2010	13,456,141	3,435,000	16,891,141	100,000	560,409	17,551,550	2.19%	1,991
2009	13,899,488	3,689,865	17,589,353	200,000	613,905	18,403,258	2.22%	2,073

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

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

City of Franklin, Virginia

Demographic Statistics

Last Ten Fiscal Years Ended June 30,

<u>Fiscal Year</u>	<u>Population</u> ⁽¹⁾	<u>Total Personal Income</u> ⁽²⁾	<u>Per Capita Income</u> ⁽³⁾	<u>School Enrollment</u> ⁽⁴⁾	<u>Unemployment Rate</u> ⁽⁵⁾
2018	8,176	946,389	35,898	1,053	5.6%
2017	8,306	946,389	35,898	1,056	5.6%
2016	8,490	930,617	34,987	1,132	5.9%
2015	8,580	930,617	34,987	1,201	7.6%
2014	8,582	901,543	33,778	1,265	9.2%
2013	8,582	890,156	33,084	1,265	9.2%
2012	8,588	906,502	33,549	1,271	10.4%
2011	8,582	847,243	31,241	1,187	10.3%
2010	8,814	801,974	29,459	1,160	12.9%
2009	8,877	830,029	30,633	1,331	11.5%

Source⁽¹⁾United States Census Estimates⁽²⁾US Commerce - Bureau of Economic Analysis (Franklin and Southampton combined)⁽³⁾US Commerce - Bureau of Economic Analysis (Franklin and Southampton combined)⁽⁴⁾Virginia Department of Education Fall Membership Data⁽⁵⁾Virginia Employment Commission

Table 20

City of Franklin, Virginia

Principal Employers

Current Year and Nine Years Ago

Fiscal Year 2018

<u>Employer</u>	<u>Employees⁽¹⁾</u>	<u>Rank</u>
Southampton Memorial Hospital	250-499	1
Franklin City Public Schools	100-249	2
Wal-Mart Supercenter	100-249	3
City of Franklin	100-249	4
On Time Staffing	100-249	5
Paul D. Camp Community College	100-249	6
Lowes' Home Centers, Inc.	100-249	7
VDOT	100-249	8
The Village at Woods Edge	100-249	9
Care Advantage	50-99	10

Fiscal Year 2009

<u>Employer</u>	<u>Employees⁽¹⁾</u>	<u>Rank</u>
Southampton Memorial Hospital	250-499	1
Wal-Mart Supercenter	250-499	2
Franklin City Public Schools	250-499	3
City of Franklin	100-249	4
Paul D. Camp Community College	100-249	5
International Paper Company	100-249	6
Lowes' Home Centers, Inc.	50-99	7
Farm Fresh	50-99	8
Bronco Federal Credit Union	50-99	9
McDonald's	50-99	10

Source: Franklin Southampton Economic Development, Inc. (2nd Quarter of Each Year)
Virginia Gov. - Labor Market Information

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

Table 21

City of Franklin, Virginia

Full-Time Equivalent City Government Employees by Function/Program

Last Ten Fiscal Years Ended June 30,

<u>Function/Program</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Fund										
General government administration	25.5	25.0	23.5	22.5	25.0	26.0	26.0	23.0	24.0	24.0
Police and communications	42.5	42.5	33.0	37.5	39.0	41.0	40.0	42.0	39.0	40.0
Animal control	1.5	1.5	1.5	1.5	2.0	2.0	2.0	2.0	2.0	1.0
Fire and rescue - EMS	28.0	27.0	27.0	28.0	27.0	27.0	21.0	15.0	15.0	15.0
Community services	9.0	9.0	9.0	9.0	9.0	5.0	5.0	5.0	5.0	7.0
Public works - streets	16.0	16.0	17.0	16.0	17.0	16.0	14.0	15.0	14.0	14.0
Garage	4.0	4.0	4.0	4.0	3.0	3.0	3.0	4.0	4.0	4.0
Refuse collection	0.0	0.0	0.0	0.0	0.0	7.0	9.0	9.0	9.0	8.0
Public works - buildings and grounds	10.0	10.0	10.0	10.0	8.5	9.0	15.0	10.0	10.0	10.0
Cemetery and mosquito control	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Park and recreation	3.5	3.5	3.5	3.5	3.5	6.0	5.0	5.0	5.0	4.0
Senior program	1.0	1.0	1.0	1.0	1.0	2.0	2.0	2.0	3.0	3.0
Library	0.5	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0	1.0
Economic development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Downtown development	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total General Fund	142.5	141.0	131.0	134.5	136.5	146.0	144.0	134.0	132.0	132.0
Social services fund	23.0	23.0	20.0	23.0	21.0	20.0	20.0	19.0	19.0	20.0
Electric	16.0	16.0	9.0	12.0	11.0	16.0	13.0	14.0	14.0	16.0
Water and sewer	13.0	13.0	15.0	13.0	12.0	13.0	13.0	16.0	14.0	14.0
Solid waster fund	8.0	8.0	8.0	8.0	7.0	0.0	0.0	0.0	0.0	0.0
Incubator	0.5	0.5	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Airport	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Smart beginnings (Early Childhood)	0.0	0.0	1.5	1.5	3.0	4.0	4.0	2.0	2.0	2.0
	62.5	62.5	55.5	59.5	56.5	55.0	52.0	53.0	51.0	54.0
Total	205.0	203.5	186.5	194.0	193.0	201.0	196.0	187.0	183.0	186.0

Source: Individual City departments

Table 22

City of Franklin, Virginia
Operating Indicators by Function/Program
Last Ten Fiscal Years Ended June 30,

Function/Program	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Police										
Physical arrests	574	718	661	693	724	734	693	671	638	686
Parking violations	33	23	23	36	40	79	106	78	39	37
Traffic violations	501	599	790	580	987	1,751	1,943	1,845	1,792	1,406
Fire										
Emergency responses	2,123	2,263	2,498	2,895	2,716	2,718	1,971	2,111	2,390	2,324
Fires extinguished	65	60	69	62	70	78	83	31	68	202
Inspections	24	27	30	24	30	26	22	24	22	17
Building Inspections										
Inspections performed (Franklin)	1,121	1,884	2,004	3,167	1,451	1,484	3,495	1,647	N/A	N/A
Permits issued	2,306	1,215	919	1,351	848	406	518	413	N/A	N/A
Refuse Collection										
Refuse collected (tons per day)	9.61	10.34	10.10	9.77	9.47	9.75	15	15	13	14
Recyclables collected (tons per day)	1.06	1.09	1.19	1.26	1	1	1	1	1	1
Other Public Works										
Street resurfacing (tons)	1,838	4,046	6,289	1,690	5,137	-	2,315	10,542	2,728	3,576
Potholes repaired	142	175	159	184	149	163	138	152	178	207
Park and Recreation										
Athletic field permits issued	290	275	275	250	200	240	307	355	285	275
Community center admissions	59,550	59,501	59,501	56,364	57,025	50,885	54,825	44,486	30,214	29,634
Library										
Volumes in collection	33,377	32,527	31,824	30,518	29,832	31,094	32,000	32,600	37,000	47,000
Total volumes borrowed	78,941	92,446	85,509	90,099	96,674	96,749	109,000	121,000	121,000	116,000
Water										
New connections	4	4	2	3	3	-	3	1	5	11
Water mains breaks	92	45	48	45	50	42	51	42	50	54
Average daily consumption (thousands of gallons)	647	850	832	1,100	1.1	953	943	1,067	1,082	1,037
Peak daily consumption (thousands of gallons)	1812	913	906	1,300	1,300	1,300	1,300	1,700	1,700	1,453
Wastewater										
Average daily sewage treatment	925	1,123	1,420	1,320	1,330	1,603	1,656	1,100	1,780	1,090
Sewer connections - new	4	4	2	3	2	-	2	1	5	9
Transit										
Total route miles	None	None	None	None	None	None	None	None	None	None
Passengers	None	None	None	None	None	None	None	None	None	None

Source: Individual City Departments

City of Franklin, Virginia

Capital Asset Statistics by Function/Program

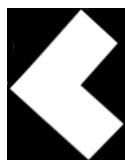
Last Ten Fiscal Years Ended June 30,

<u>Function/Program</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	14	16	16	16	16	16	16	16	16	16
Fire Stations	2	2	2	2	2	2	2	2	2	2
Refuse Collection										
Collection trucks	8	8	6	5	5	5	5	5	5	5
Other Public Works										
Street (miles)	43.04	43.04	35.50	35.50	35.50	35.50	35.50	35.50	35.50	35.50
Highways (miles)	7.68	7.68	15.09	15.09	15.09	15.09	15.09	15.09	15.09	15.09
Streetlights	955	951	950	945	945	945	945	945	945	937
Traffic signals	14	14	14	14	14	14	14	14	14	14
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	5	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)	68	68	67	67	67	67	67	67	67	67
Fire hydrants	343	343	336	336	336	336	336	336	336	336
Storage capacity (thousands of gallons)	1300	1300	1300	1300	1300	1300	1300	1300	1300	1300
Wastewater										
Sanitary sewers (miles)	43	43	43	43	43	43	43	43	43	43
Storm sewers (miles)	210	210	210	210	210	210	210	210	210	210
Treatment capacity (thousands of gallons)	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000

Source: Individual City Departments

COMPLIANCE SECTION





**Creedle
Jones
& Alga**

A Professional Corporation

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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, 2018, and the related notes to the financial statements, which collectively comprise the City of Franklin, Virginia's basic financial statements and have issued our report thereon dated November 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Franklin, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Franklin, Virginia's internal control.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Franklin, Virginia's financial statements are free from 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*.

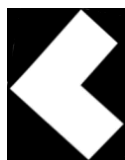
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Creedle Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
November 14, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Franklin, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Franklin, Virginia's major federal programs for the year ended June 30, 2018. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Franklin, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, the Uniform Guidance, and specifications 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Franklin, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Franklin, Virginia, complied, in all material respects, with the types of compliance 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, 2018.

Report on Internal Control over Compliance

Management of the City of Franklin, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Franklin, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Franklin, Virginia's internal control over compliance.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Creedle Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
November 14, 2018



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REPORT ON COMPLIANCE WITH COMMONWEALTH OF VIRGINIA'S LAWS, REGULATIONS, CONTRACTS, AND GRANTS

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

We have audited the financial statements of the City of Franklin, Virginia, as of and for the year ended June 30, 2018, and have issued our report thereon dated November 14, 2018.

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

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

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

Code of Virginia

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

State Agency Requirements

- Social Services
- Education
- Comprehensive Services Act Funds
- Economic Development Opportunity Fund

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

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

Creedle, Jones & Alga, P.C.

Creedle Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
November 14, 2018

City of Franklin, Virginia
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U. S. Department of Health and Human Services				
Pass-Through Payments				
<i>Department of Social Services</i>				
Promoting safe and stable families	93.556	765		\$ 12,847
<i>TANF Cluster</i>				
Temporary assistance for needy families (TANF)	93.558	765		167,892
Refugee and entrant assistance - state administered programs	93.566	765		225
Low-income home energy assistance	93.568	765		20,684
<i>CCDF Cluster</i>				
Child care mandatory and matching funds of the child care and development fund	93.596	765		25,809
Stephanie Tubbs Jones child welfare services program	93.645	765		475
Foster care - Title IV-E	93.658	765		143,485
Adoption assistance	93.659	765		18,177
Social services block grant	93.667	765		93,936
Chafee foster care independence program	93.674	765		1,255
Children's Health Insurance Program (CHIP)	93.767	765		7,465
<i>Medicaid Cluster</i>				
Medical assistance program	93.778	765		199,004
Subtotal - U. S. Department of Health and Human Services				691,254
U. S. Department of Agriculture				
Pass-Through Payments				
<i>Department of Education</i>				
<i>Child Nutrition Cluster</i>				
National School Lunch Program (NSLP) - Food distribution - donated commodities	10.555	197		46,435
Summer Food Service Program for Children (SFSPC) - Food distribution - donated commodities	10.559	197		-
National school lunch program (NSLP)	10.555	197		432,892
School breakfast program (SBP)	10.553	197		307,727
Subtotal - Child Nutrition Cluster				787,054
Fresh Fruit and Vegetable Program	10.582	197		41,503
<i>Department of Social Services</i>				
<i>SNAP Cluster</i>				
State administrative matching grants for the supplemental nutrition assistance program	10.561	765		189,843
Direct Payments				
<i>Community Facilities Loans & Grants Cluster</i>				
Community Facilities Loans and Grants	10.766	N/A		50,000
Subtotal - U. S. Department of Agriculture				1,068,400
U. S. Department of Transportation				
Direct Payments				
Airport improvement program	20.106	N/A		1,300,408
Subtotal - U. S. Department of Transportation				1,300,408

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass- through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U. S. Department of Justice				
Pass-Through Payments				
<i>Department of Criminal Justice Services</i>				
Edward Byrne Memorial	16.738	140		<u>5,508</u>
Subtotal - U. S. Department of Justice				5,508
U. S. Department of Homeland Security				
Pass-Through Payments				
<i>Department of Emergency Management</i>				
Emergency management performance grant	97.042	127		<u>16,595</u>
Subtotal - U. S. Department of Homeland Security				16,595
U. S. Department of Housing and Urban Development				
Pass-Through Payments				
<i>Department of Housing and Community Development</i>				
Community Development Block Grants	14.228	165		<u>318,666</u>
Subtotal - U. S. Department of Housing and Community Development				318,666
U. S. Department of Education				
Pass-Through Payments				
<i>Department of Education</i>				
Title I Grants to local educational agencies	84.010	197		731,183
School improvement grants	84.377	197		201,467
<i>Special Education Cluster (IDEA)</i>				
Special education - grants to states (IDEA, Part B)	84.027	197		251,662
Special education - preschool grants (IDEA Preschool)	84.173	197		<u>18,524</u>
Subtotal - Special Education Cluster (IDEA)				270,186
Title VI - Rural education - English language acquisition grants	84.358	197		22,090
21st century community learning centers	84.287	197		165,152
Career and technical education - basic grants to states	84.048	197		52,623
Migrant education coordination program	84.144	197		1,227
Improving teacher quality state grants	84.367	197		<u>72,810</u>
Totals for School Board Component Unit				<u>1,516,738</u>
<i>Department of Behavioral Health and Developmental Services</i>				
Special education - Grants for infants and families with disabilities	84.181	720	\$ 167,684	<u>167,684</u>
Subtotal - U. S. Department of Education			<u>167,684</u>	<u>1,684,422</u>
Total Expenditures of Federal Awards			<u>\$ 167,684</u>	<u>\$ 5,085,253</u>
See accompanying notes to schedule of expenditures of federal awards.				

City of Franklin, Virginia

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of City of Franklin, Virginia under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Franklin, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of City of Franklin, Virginia.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

City of Franklin, Virginia has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

City of Franklin, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

Section I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified? None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a)? No

Major programs:

CFDA Number(s)

20.106

84.027 and 84.173

Name of Federal Program or Cluster

Airport Improvement Program

Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

Section II – Financial Statement Audit

None

Section III – Findings and Questioned Costs – Major Federal Award Programs Audit

There are no federal award findings to report.