



*Community
Community*

*Growth
Growth*



CITY OF FRANKLIN, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Period Ended June 30, 2014
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, 2014



Growth – Community - Spirit

Department of Finance

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

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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CITY OF FRANKLIN, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2014

Mayor

Raystine D. Johnson-Ashburn

Vice Mayor

Barry Cheatham

Council Members

Donald T. Blythe*
Brenton D. Burgess
Mona Murphy

Mary E. Hilliard
Gregory McLemore

Constitutional Officers

Dinah M. Babb
Brenda B. Rickman

Treasurer
Commissioner of Revenue

Franklin City Public Schools

Edna King
Michelle R. Belle**
Rachel Yates

Chairman of School Board
Superintendent
Director of Finance

City Administration

R. Randy Martin
H. Taylor Williams, IV
Melissa Rollins
Phillip M. Hardison
Mark Bly
Peter Hyatt
Jennifer L. Maynard
Vincent P. Holt
Russell L. Pace
Christopher A. Hogge
Donald E. Goodwin

City Manager
City Attorney
Director of Finance
Chief of Police
Director of Public Utilities
Acting Dir. Of Parks & Recreation
Registrar
Chief of Emergency Services
Director of Public Works
Director of Social Services
Director of Community Development

* Councilman Frank Rabil – July 1, 2014

**Superintendent Willie Bell, Jr. – July 1, 2014

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Citizens of Franklin

Shared
Services with
Southampton
County



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November 30, 2014

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, 2014. The report is required in accordance with section 3.08 (c) of the Franklin City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia.

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

The City of Franklin’s financial statements have been audited by Davis & Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Franklin for the fiscal year ended June 30, 2014 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, 2014, are fairly presented in conformity with GAAP. The independent auditor’s report is presented in the Financial Section of this report.

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

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

Profile of the City of Franklin

Background

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

Franklin is organized under the Council – City Manager form of government. The Franklin City Council is comprised of seven members, which includes the Mayor. Six council members, each representing a 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 services, including police and fire protection and emergency medical services; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City owns and operates a municipal electric company (Franklin Power & Light), which provides electrical services to City residents and certain geographical locations within surrounding jurisdictions (Southampton, Suffolk and Isle of Wight). The City also owns and operates water and sewage facilities 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 the schools, the City must provide all capital improvement funds, pay debt on school projects, and provide a significant amount of operating funds required, but not provided by the state. The City Council's authority is limited to appointing local school board members and appropriating funds by state-established categories. Local school boards do not have taxing or bond issuance authority.

The Industrial Development Authority is also reported as component unit. Additional information on legally separate entities can be found in the Notes to the Financial Statements in Exhibits 22 through 24.

Budgetary Systems

The annual budget serves as the foundation for the City of Franklin's financial planning and control. All agencies and departments of the City of Franklin are required to submit requests for appropriation to the City Manager in February. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget by no later than June 30th. The appropriated budget is prepared by fund and department. The City Manager, subject to a \$10,000 limit, may make transfers of appropriations within a department. New sources of funding and transfers exceeding the \$10,000 limit require the approval of City Council. Transfers within the School Operating Fund must be approved by City Council.

The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. Budget-to-actual comparisons for the General Fund are provided on exhibit 11 and schedule 2 of the report.

Economic Conditions & Outlook

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

Local Economy

The 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.

FSEDI, the City of Franklin and Southampton County are continually making strides in diversifying the local economy and strengthening the tax base. During FY13-14, the following businesses began operations in Franklin and the surrounding counties:

- Hampton Farms, an international producer of peanut butter and other peanut products made from peanuts grown in Virginia, located in the former International Paper Company Converting Innovation Center. While the plant is located in Southampton County, it is in the revenue sharing area with the City and therefore, the tax revenue will be shared between the two jurisdictions. The company planned a \$6.5 million investment in real estate and production equipment improvements and created 60 new jobs. In June 2014, the company announced production of an almond butter line.
- By the end of FY 13-14 Love's Travel Center to include a Bojangles' Restaurant, had nearly completed all site work and construction in preparation for its grand opening in August of 2014. Located in the Industrial Corridor Revenue Sharing area, the City is expecting a boost in its local restaurant meal taxes and sales taxes as a result of this welcomed investment.
- Franklin Lumber became fully operational in FY 13-14 with 65 full-time employees and an approximate \$10.0 million investment in new machinery and equipment.

Local taxes indicative of Franklin's economy also showed signs of stabilization at the end of 6/30/14 from the prior year period, but improvement overall from the prior fiscal years trending collectively at 12.83% higher than revenue from these tax sources in FY 2009-2010.

FYE	Business Licenses	Meals Tax	Lodging Tax	Cigarette Taxes	Sales & Use Taxes	TOTALS
FY10	\$ 857,653	\$ 1,149,930	\$ 126,981	\$ 230,534	\$ 1,589,864	\$3,954,962
FY11	\$ 941,650	\$ 1,154,659	\$ 117,911	\$ 208,592	\$ 1,592,996	\$4,015,807
FY12	\$ 934,328	\$ 1,330,207	\$ 198,481	\$ 244,959	\$ 1,683,980	\$4,391,956
FY13	\$ 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
Fiscal Year Growth Trend						\$ 507,531
						12.83%

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.

Established industries in the City include Charter Communications, Butler Paper Recycling, Birdsong Peanut Co., and Southampton Memorial Hospital, which is the City's largest employer. Other more recent positive economic news involved the announcement of new businesses in the City and the surrounding Counties including:

- In October 2014, Highground Services, an engineering corporation specializing in process control, announced their intention to purchase and revitalize vacant City property in Downtown Franklin as their new corporate headquarters. Highground services previously occupied the Franklin Business Incubator. 65 jobs will stay in the City as a result of the company's decision to remain in Franklin.
- Providence Agriculture LLC, a distributor of seed, crop protection and fertilizer products, announced its plan to purchase 10 acres for construction of a manufacturing and distribution facility in the Pretlow Industrial Park located in the City of Franklin. The sale will bring a \$1.5 million investment in real estate and production equipment improvements. Nine jobs will be created with the project with the potential for further expansion.

Long-Term Financial & Strategic Planning

Effective July 1, 2013, the City made two major changes to its financial and administrative operations resulting from strategic planning initiatives to streamline operations and cut costs:

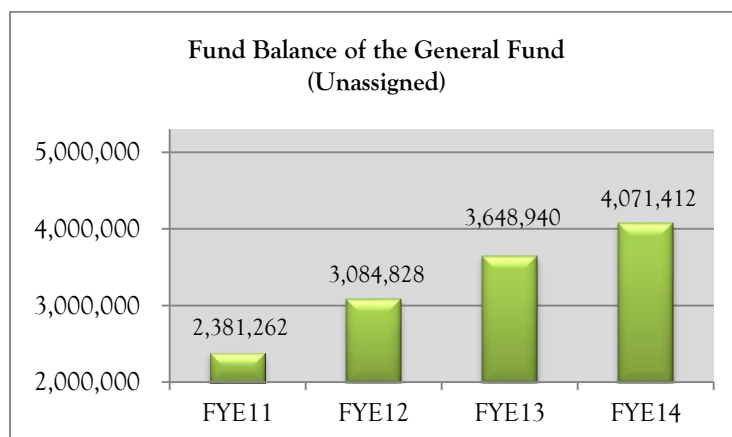
1. A Solid Waste Enterprise Fund was established to account for the management and operation of the City's solid waste services. Prior to July 1, 2013, these services were accounted for in the City's general fund. Establishment of the Solid Waste Enterprise Fund ensures that all operational and administrative expenses are covered by the user fees collected for the services and therefore promotes a fully self-sufficient operation, separate from the General Fund rather than commingled. This strategic transition to an Enterprise Fund is critical in determining rates which could over time, be reduced as a result of efficiency measures to reduce landfill waste (i.e recycling and separation of yard debris from garbage) which has produced significant cost savings over the last two fiscal periods.
2. The City began sharing services in a number of areas to include planning, zoning and inspections with Southampton County. Stringent state-mandated storm water management regulation was the primary impetus for the creation of Virginia's first city/county shared Community Development Department which required additional staff and fiscal resources. By combining all of the Community Development functions, both localities are able to provide services more cost effectively and efficiently throughout the Franklin/Southampton area. State grant funds were leveraged to assist with initial funding of the storm water operations and other initiatives. The shared Community Development department is located in Franklin City Hall and serves residents and businesses needing services in both localities with operational funding shared by the County. The FY 2013-2014 cost savings to the City of Franklin as a result of this strategic initiative was \$175,000.

City Council and City Management continues 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.

Financial Policies

One of the financial policies closely monitored is the City's unassigned fund balance policy which indicates the ability of the City to cope with unexpected financial challenges or emergencies. The larger the unassigned General Fund balance, the greater the City's ability to survive potential financial emergencies and fluctuations in revenue cycles and to take advantage of unexpected opportunities. 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, 2014, the City's unassigned fund balance of \$4.071 million represented 17.2% of the budgeted annual expenditures (as revised) exceeding the minimum policy level.

During FY 2014, General Fund expenditures exceeded revenues, including other financial sources, by \$1.39 million. This was a planned use of assigned fund balance due to (1) a commitment of capital project expenditures in FY 2013-2014 from loan proceeds received in FY 2012-2013 and (2) use of a portion of debt reserve assigned fund balance to fund the operating budget. The City was able to improve its unassigned fund balance from the previous year by fiscally sound budget management practices to include improved revenue forecasting, expenditure reductions and program savings and structured debt management practices (i.e. use of planned debt service reserve funds). Below is a history of the City's Unassigned Fund Balance for the General Fund for the current and past three fiscal periods. The FY 6/30/14 Unassigned fund balance increased by 11.6% from the 6/30/13 Unassigned Fund Balance.



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.

Bond Rating

In April 2014, the City received favorable news from Standard & Poor's credit rating agency. S & P upgraded the City's bond rating from A+ to AA with a stable outlook. Moody's affirmed the City's excellent credit rating of Aa2.

Financial Outlook

The financial outlook for Fiscal Year 2014-2015 is 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 wake of the fiscal challenges which to some extent were beyond the City's control (i.e. rising costs of jail administration, required local contributions to fund health & welfare administration, the increased cost of health insurance benefits and a net reduction in real estate property tax revenues as a result of changes in assessed property values). 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 FY2014

We are pleased to report some significant accomplishments and initiatives undertaken during the year ended June 30, 2013:

Public Safety

- The Franklin Police Department was awarded a \$25,000 USDA matching grant to acquire one replacement patrol vehicle.
- The Franklin Volunteer Fire & Rescue Department was awarded a Rescue Squad Assistance Grant in the amount of \$168,615 to achieve the capital improvement goal of replacing 14 year old equipment with a new Type I Emergency Response Ambulance. The grant is 80% state funds and 20% grant matching funds from Southampton County.
- The City's Employee Safety Committee completed its Risk Management Assessment Guideline Questionnaire with 100% of safety related processes implemented. As a result the City received a 5.0% discount on the ensuing year's worker's compensation insurance premium in the amount of \$9,000.
- Public Safety priority enhancements were accomplished to prepare the City for an updated Insurance Services Office (ISO) rating (i.e. improved fire insurance rating). As a result of (1) improved emergency communication systems, capabilities and reporting, (2) significantly enhanced water utility infrastructure both within and in strategic locations outside the city, (3) improved code enforcement efforts and resources, (4) significantly upgraded firefighting apparatus and equipment, (5) improved staff training facilities, equipment and opportunities, and (6) expanded firefighting staff resources to offset the national and regional trends of declining volunteerism, the City's ISO rating was significantly improved to 3:3Y from a Class 5:9 Rating. To put this into context, Franklin joins an elite company nationally and within the State of Virginia as only 11 fire departments in Virginia have a class 3 rating with only eight agencies having achieved a better rating. The rating improvement will positively impact property owners served by the fire department within and outside the city and result in the opportunity for reduced fire insurance premiums.

Community Development & Neighborhood Services

- Received a \$30,000 Needs Assessment Grant from the Virginia Department of Housing & Community Development to study and plan for the rehabilitation of eligible homes and utility service enhancements in the Madison Street Neighborhood to improve the quality of life for residents.

Public Works

- In cooperation with Southampton County, received \$40,000 in state planning grant funds to establish a joint management team charged with studying the feasibility of future water and wastewater utility needs and collaboration opportunities for the city and county.

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, 2013. This is the first 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 believe 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.

Future Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Distinguished Budget Presentation award to governmental units who publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The City plans to submit future budgets to GFOA for award consideration.

Acknowledgements

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

Respectfully Submitted,



R. Randy Martin
City Manager



Melissa D. Rollins
Director of Finance



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, 2013

Executive Director/CEO

INDEPENDENT AUDITOR'S REPORT

The Honorable Governing Body
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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Specifications for Audits of Counties, Cities, and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of June 30, 2014, and the respective changes in financial position, and, where applicable, 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, budgetary comparison information, Schedule of Pension Funding Progress, and Schedule of OPEB Funding Progress as listed in the table of contents 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, 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund 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 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 26, 2014, on our consideration of the City of Franklin, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Davis & Associates, PLLC

November 26, 2014
Alexandria, Virginia

Management's Discussion and Analysis
Fiscal Year July 1, 2013 – June 30, 2014

The following is a narrative overview and analysis of the financial activities of the City of Franklin, Virginia (the City) as of and for the fiscal year ended June 30, 2014. As readers, you are encouraged to review this discussion and analysis in conjunction with the transmittal letter in front of this report and the City's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

General Fund

- At the close of FY 2014, unassigned fund balance for the General Fund was \$4.071 million or 17.2% of the FY 2014 total General Fund budget as amended. At the close of FY 2013, the unassigned fund balance of the General Fund was \$3.64 million, or 15.3% of FY 2013 General Fund budget as amended. This represents an increase of \$422,472 or 11.6% in the unassigned fund balance from the prior fiscal year. This is an improvement despite a significant loss in revenue sharing under prior years.
- Overall, General Fund revenues (less transfers in) decreased by \$86,528 below FY 2013, primarily due to the accounting of charges for services revenue for solid waste collections (\$1.2 million) to the newly created Solid Waste Enterprise Fund effective July 1, 2013. Absent of this significant change, general fund revenues increased in the following areas: (1) permits, fees and regulatory licenses by \$110,872 and recovered costs by \$222,392, both resulting from the consolidation of services with Southampton County for inspections, planning and community development services, (2) miscellaneous revenue by \$240,000 primarily resulting from increased revenue received in FY2014 from revenue sharing payments and (3) intergovernmental revenue by \$596,000 as a result of state grants (Stormwater Management and Fire Safety) and federal grant (SAFER) reimbursements. Other categorical aid (street and highway maintenance and HB 599 Law Enforcement funds) increased from FY 2013.
- The City's real estate tax rate of \$0.90 per \$100 of assessed valuation remained unchanged for FY 2014 from \$0.90 per \$100 of assessed valuation in FY 2013.
- The portion of the City's assigned fund balance at the close of FY 2014 was \$1.11 million, down from \$2.36 million in FY 2013. As a result, the City was able to divert more funds to the unassigned fund balance, which increased the amount of funds available for subsequent expenditure.
- The City's FY 2013-2014 operating budget included a planned use of fund balance to assist with balancing the budget. To this end, the General Fund, on a current financial resources basis, reported expenditures and other financing uses of \$1.39 million over revenues and other financing sources. This is after making a \$5.02 million payment to Franklin City Schools, \$95,231 payment to the Airport Fund (Enterprise), \$751,851 to Special Revenue Funds, and \$971,695 to the Debt Service Fund. Expenditures increased by \$1.80 million when compared to FY 2013. Public Safety expenditures increased \$832,202 or 13.8%, over FY 2013 as a result of higher police and fire and rescue departmental costs in which a portion (\$518,000) was reimbursed by state and federal grants. The City's transfer to Education increased by \$392,566, or 8.4%, from FY 2013.

Governmental Activities

- The assets of the City of Franklin exceeded its liabilities at the close of fiscal year 2014 by \$30.5 million (net position). Of this amount, \$8.4 million represents an unrestricted net position, which may be used to meet the City's ongoing obligation; \$1.6 million represents a restricted net position for future debt service; \$184,000 is restricted for capital projects; \$676,000 is restricted for community development; and \$87,000 is restricted for public safety as well as parks and recreation. The residual \$19.6 million relates to net investment in capital assets, and is not available for expenditure (Exhibit 1).

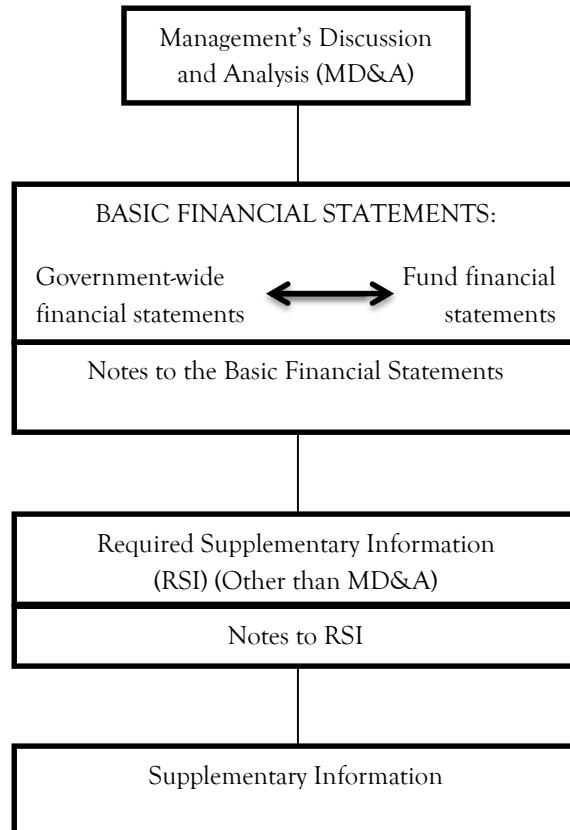
FINANCIAL HIGHLIGHTS: (CONTINUED)

- The City's total net position decreased by \$379,000 from the prior year. Of this amount, the business-type activities net position increased \$124,000 while governmental activities net position decreased by \$504,000 (Exhibit 2). This change is a result of the transitioning of solid waste operations to an Enterprise Fund effective July 1, 2013.
- The City's total outstanding general obligation debt at June 30, 2014, was \$19,963,295. This includes \$4,876,000 in business-activity debt and \$15,087,295 in general government activities (\$7,410,575 is School-related debt and \$7,676,720 is other general government debt - details in Note 7 - Notes to the Financial Statements). The City's total bonded debt (general and business-related) decreased by \$808,000 during the current fiscal year. The City did not issue any new debt in FY 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

COMPONENTS OF THE FINANCIAL SECTION



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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- **Governmental activities** - The City's basic municipal services are reported here and include general government, public safety, highways and streets, 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 & Sewer, and Electric Utility Funds are self-supporting, the City provides general fund support for operation of the Airport.
- **Component Units** - The government-wide financial statements include not only the City itself (known as the Primary Government), but also the following legally separate component units for which the City is financially accountable for providing operating and capital funding: the City of Franklin Public Schools, and the City of Franklin Industrial Development Authority. Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on Exhibits 19 - 24 of this report.

Fund Financial Statements

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

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

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

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 exceeded its liabilities by \$30,537,620.

STATEMENT OF NET POSITION (Exhibit 1) For the Fiscal Year Ended June 30, 2014

	Governmental Activities		Business-type Activities		Total	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Current and other assets	\$ 11,780,362	\$ 14,178,123	\$ 5,334,506	\$ 4,371,161	\$ 17,114,868	\$ 18,549,284
Capital assets	28,265,788	27,111,463	11,488,437	11,436,469	39,754,225	38,547,932
Total assets	\$ 40,046,151	\$ 41,259,586	\$ 16,822,943	\$ 15,807,629	\$ 56,869,093	\$ 57,097,216
Current and other liabilities	\$ 1,345,650	\$ 1,506,425	\$ 2,257,811	\$ 1,968,198	\$ 3,603,461	\$ 3,474,623
Long-term liabilities	17,638,681	17,810,658	5,089,332	5,486,721	22,728,013	23,297,379
Total liabilities	\$ 18,984,330	\$ 19,317,082	\$ 7,347,143	\$ 7,454,919	\$ 26,331,474	\$ 26,772,001
Net assets:						
Invested in capital assets, net of related debt	\$ 12,910,601	\$ 9,300,806	\$ 6,677,554	\$ 5,949,747	\$ 19,588,154	\$ 15,250,553
Restricted	2,595,216	2,850,913	-	700,333	2,595,216	3,551,246
Unrestricted net assets	5,556,004	9,820,786	2,798,246	1,702,628	8,354,250	11,523,414
Total Net assets	\$ 21,061,820	\$ 21,972,505	\$ 9,475,800	\$ 8,352,708	\$ 30,537,620	\$ 30,325,213

The largest portion of the City's total net position of \$30,537,620 is its \$19,588,154 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 of \$10,949,466 is comprised of \$8,354,250 in unrestricted net position, which may be used to meet the City's ongoing obligations, and \$2,595,216 in restricted assets.

The City's financial position includes \$8.4 million, or 27.4% of the net position, as unrestricted net position. The \$5.56 million from governmental activities and \$2.80 million from business-type activities are available to allow the City to provide services to citizens.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

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

CHANGES IN NET POSITION (Exhibit 2) For the Fiscal Year Ended June 30, 2014

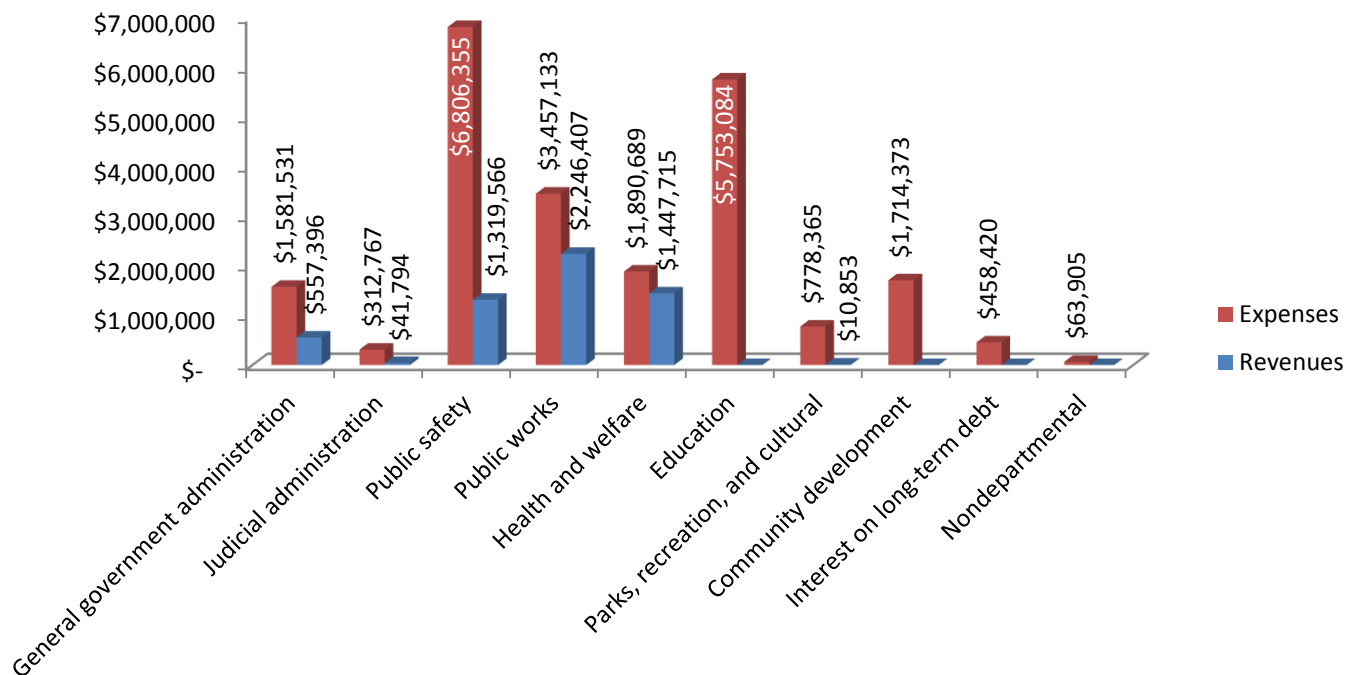
	Governmental Activities		Business-type Activities		Total	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Revenues						
Program Revenues:						
Charges for Services	\$ 1,587,000	\$ 2,734,607	\$ 19,688,915	\$ 17,329,261	\$ 21,275,915	\$ 20,063,868
Operating grants & contributions	4,036,731	3,935,552	-	-	4,036,731	3,935,552
Capital grants & contributions	-	-	93,223	178,275	93,223	178,275
General Revenues:						
Real estate & personal property taxes	6,810,144	6,761,228	-	-	6,810,144	6,761,228
Other local taxes	5,198,763	5,267,629	-	-	5,198,763	5,267,629
Revenue sharing from counties	556,765	243,503	-	-	556,765	243,503
Use of money & property	706,839	430,218	-	-	706,839	430,218
Grants & gifts - non-restricted	1,663,516	1,668,047	-	-	1,663,516	1,668,047
Miscellaneous	438,559	346,392	-	-	438,559	346,392
Total Revenues	\$ 20,998,317	\$ 21,387,175	\$ 19,782,137	\$ 17,507,536	\$ 40,780,454	\$ 38,894,711
Expenses						
General government	\$ 1,581,531	\$ 2,464,954	\$ -	\$ -	\$ 1,581,531	\$ 2,464,954
Judicial	312,767	390,639	-	-	312,767	390,639
Public safety	6,806,355	6,477,498	-	-	6,806,355	6,477,498
Public works	3,457,133	4,042,630	-	-	3,457,133	4,042,630
Health and welfare	1,890,689	2,029,046	-	-	1,890,689	2,029,046
Education	5,753,084	4,757,834	-	-	5,753,084	4,757,834
Parks, recreation, cultural	778,365	987,498	-	-	778,365	987,498
Community development	1,714,373	1,238,138	-	-	1,714,373	1,238,138
Interest & fees on long-term debt	458,420	862,901	-	-	458,420	862,901
Nondepartmental	63,905	88,315	-	-	63,905	88,315
Water & Sewer	-	-	2,927,576	2,784,937	2,927,576	2,784,937
Solid Waste	-	-	1,319,111	-	1,319,111	-
Electric	-	-	13,464,599	12,742,843	13,464,599	12,742,843
Airport	-	-	631,437	599,945	631,437	599,945
Total Expenses	\$ 22,816,622	\$ 23,339,452	\$ 18,342,723	\$ 16,127,725	\$ 41,159,345	\$ 39,467,177
Excess of revenue over expenses	\$ (1,818,305)	\$ (1,952,277)	\$ 1,439,414	\$ 1,379,811	\$ (378,891)	\$ (572,466)
Transfers	1,314,660	1,561,084	(1,314,660)	(1,561,084)	-	-
Increase (decrease) in net assets	\$ (503,645)	\$ (391,193)	\$ 124,754	\$ (181,273)	\$ (378,891)	\$ (572,466)
Net assets - beginning of year	21,565,465	22,363,698	9,351,045	8,533,981	30,916,510	30,897,679
Net assets - ending of year	\$ 21,061,820	\$ 21,972,505	\$ 9,475,799	\$ 8,352,708	\$ 30,537,619	\$ 30,325,213

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Government Activities

Real estate and personal property tax revenue, the City's largest revenue source, totaled \$6.81 million, closely consistent with the previous year at \$6.76 million. The City's real estate tax rate remained the same at \$0.90 per hundred dollars of assessed value. Personal property was taxed at \$4.50 per \$100 of assessed value and represents \$1.36 million of total general property taxes (excludes tax relief portion of \$1.04 million). Other local tax revenues, which totaled \$5,219,226, consist primarily of local option sales, consumer utility, business license, motor vehicle license, lodging, and meals taxes. The City received nearly the same revenue in FY 2014 from these sources.

EXPENSES AND PROGRAM REVENUES
GOVERNMENTAL ACTIVITIES (Graph 1)

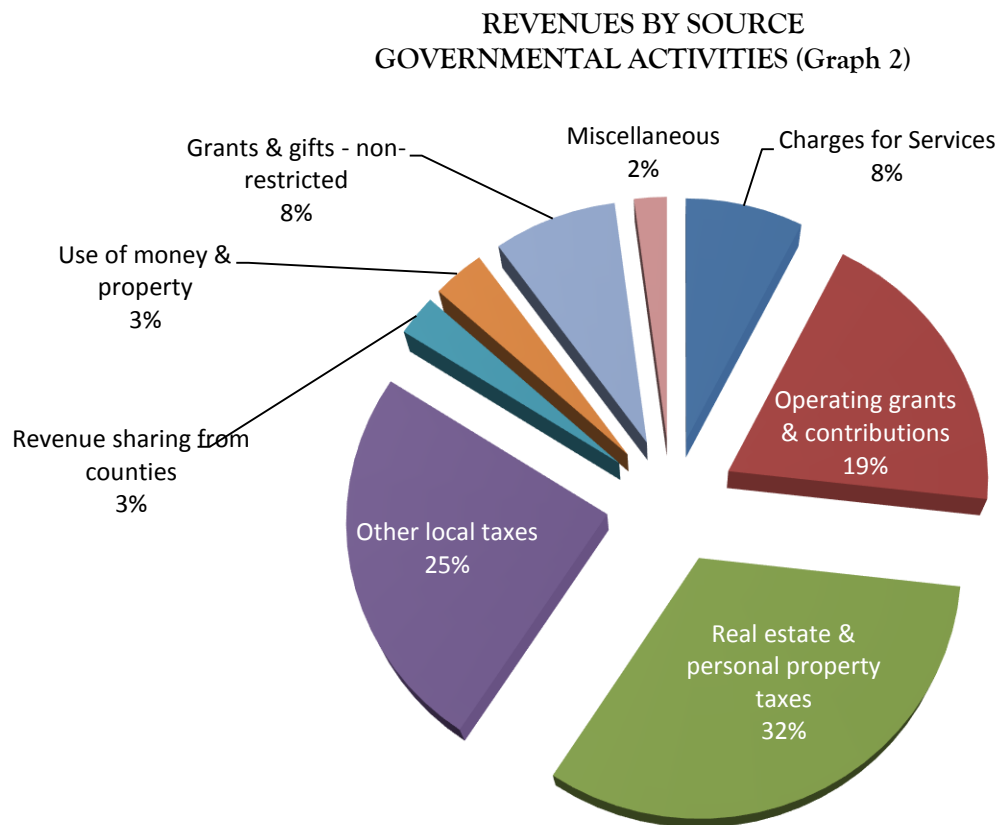


Revenues from other Counties of \$556,765 represent revenue sharing payments received from Isle of Wight and Southampton Counties as part of annexation and service providing agreements. This is an increase from FY 2013 revenue sharing payments of \$243,503. Charges for services represent revenue received primarily from ambulance services and administration reimbursements from certain General Fund costs of the Enterprise Funds. These costs reflect a significant reduction as a result of the creation of the Solid Waste Enterprise Fund which accounts for service charges for waste collection and disposal. The chart above provides an overview of program expenses and related revenues as reflected in Exhibit 2, the Statement of Activities.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Government Activities (CONTINUED)

The chart below denotes the major sources of revenue for the governmental funds.



Business-type Activities

Business-type Activities are made up of the Electric, Solid Waste, Water & Sewer and Airport Fund activities.

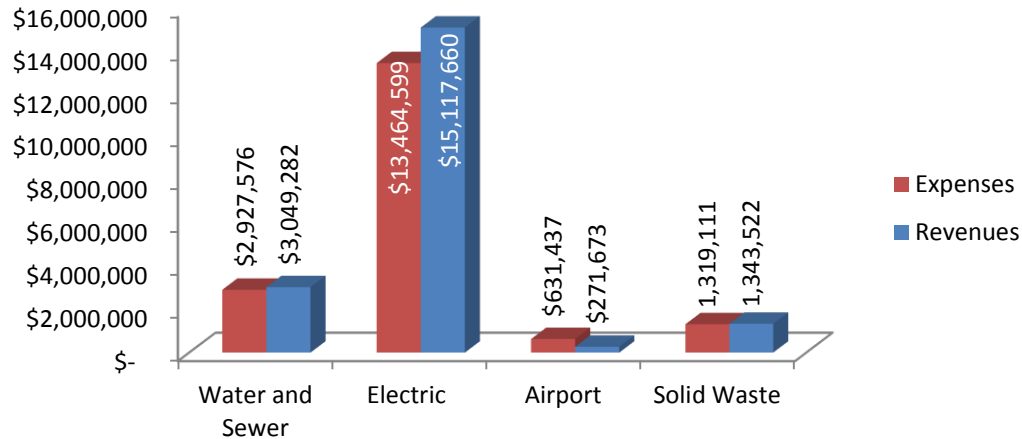
Business-type activities increased the City's net position before transfers and capital grants by \$1,346,192 and after transfers and capital grants decreased net position by \$124,754. Key elements of each fund were: Electric Fund revenue increased \$1.12 million, or 8.0%, from the prior year due to a rise in charges for services. Revenues totaled \$15,117,660 when compared to \$13,996,271 in FY 2013. Electric Fund operating expenses decreased by \$688,204 from the previous year, primarily resulting from a decrease in purchases of goods and services for resale from FY 2013. The Water and Sewer Fund net income before transfers totaled \$121,707, down \$248,012 from the previous year. This decrease is primarily due to a decrease in revenues as well as an increase in operating expenses. Revenues for the Airport fund remained relatively the same as the prior year at \$178,450 while expenses increased slightly, contributing to a loss before capital grants and transfers of \$452,987, an increase from the previous year of \$421,611. Airport Fund net position decreased by \$264,533, which was closely correlated to an increase in operating expenses mostly associated with grant funded capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Business-type Activities (CONTINUED)

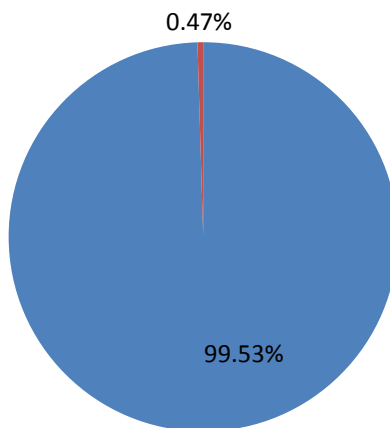
Graph 3 below provides a comparison of program expenses and revenues, while Graph 4 denotes revenues by source. Graph 3 denotes revenues and expenses from continuing operations and does not include capital grants or transfers.

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



BUSINESS-TYPE ACTIVITIES
Revenues by Source (Graph 4)

■ Charges for Services ■ Capital Grants



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 \$10,434,713, compared to \$12,604,712 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 \$6,891,695, which reflects a \$1,399,652 decrease over the prior year ending fund balance of \$8,291,347. Of the \$6,891,695 balance, \$4,071,412, or 59.08%, represents unassigned funds, which are available for operations of the government. The remaining \$2,820,824 is allocated among non-spendable, restricted, committed 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, 2014, this percentage totaled 20.05%, an improvement 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 assigned fund balance totaled \$1,185,642, which is related to school capital expenditures.

Debt service fund. The debt service fund has a restricted fund balance of \$1,647,298, 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 \$9,475,799, an increase of \$124,754 over the prior balance of \$9,351,045. Information supporting the analysis of the proprietary funds was discussed previously.

GENERAL FUND BUDGETARY HIGHLIGHTS

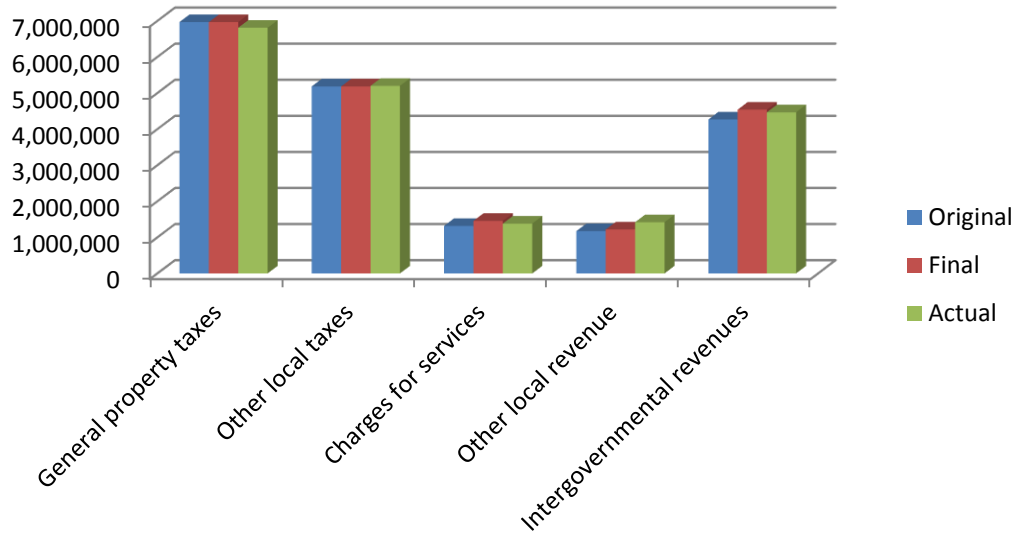
The City's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations. Annual operating budgets are adopted by ordinance for the General Fund, Debt Service Fund, Water & Sewer Fund, Solid Waste, Electric Fund, Airport Fund and several Special Revenue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

During the year, City Council revised the budget on several occasions to include the appropriation of prior year reserves, grants, donations, and other revenues. Actual expenditures varied significantly from the final budgeted amount for the General Fund. The actual contribution to the local school board was \$462,645 lower than the budgeted amount. Additionally, expenditures for General Government Administration and Public Works were \$357,591 and \$512,888, below budget, respectively. General Government expenditures were less than budget primarily due to position vacancies, capital project funds appropriated but not spent in information technology and unspent contingency funds. Public Works savings were the result of unspent capital outlay funds, and budgeted expenditures not spent (move to Solid Waste Fund).

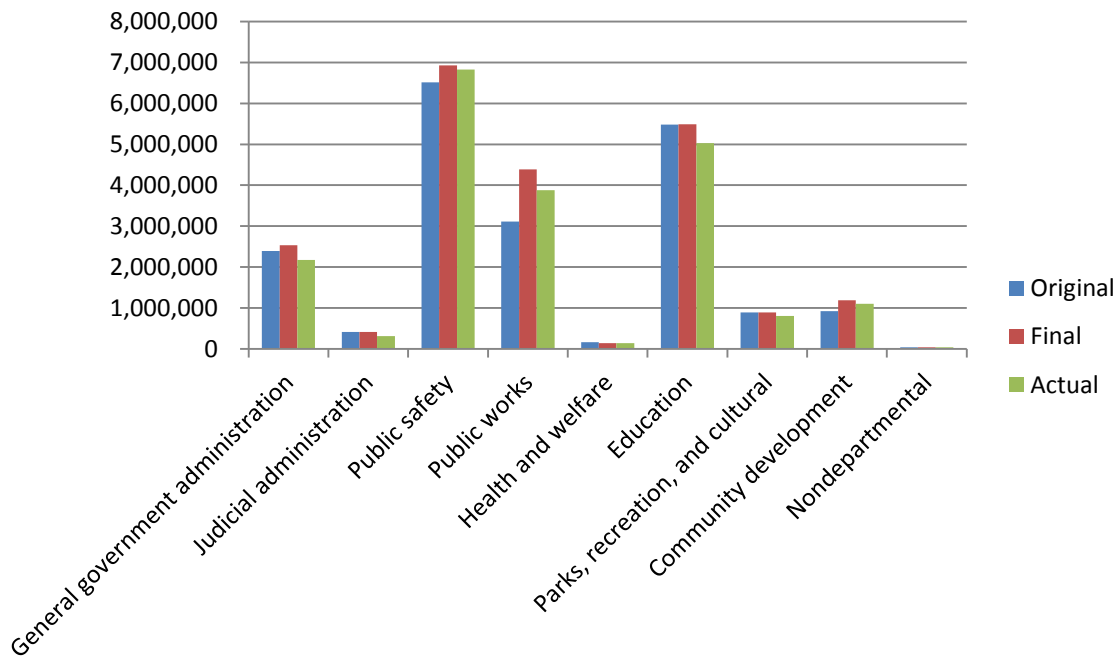
GENERAL FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

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

GENERAL FUND REVENUE
Comparison of Budget to Actual
Fiscal Year 2013-2014 (Graph 5)



GENERAL FUND EXPENDITURES
Comparison of Budget to Actual
Fiscal Year 2013-2014 (Graph 6)



GENERAL FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

The difference between the original budget and the final amended budget for the City's General Fund expenditures was approximately \$2.08 million representing an increase in appropriations. The variance is mainly due to the following appropriations and anticipated expenditures made during FY 2014:

- \$185,000 – increase appropriation of loan proceeds for capital projects in Information Technology
- \$280,000 – increased appropriation of loan proceeds for capital projects in Building Maintenance
- \$252,000 – increase appropriation for purchase of police vehicles (grant and loan proceeds)
- \$145,000 – increase in appropriation for various shared services positions in Community Development and Inspections
- \$55,000 – increased appropriation of Generator Hookup Grant in Community Development
- \$30,000 – police department grants and supplemental appropriation to cover operating costs
- \$739,000 – increased appropriation of street paving and drainage funds not utilized in the prior fiscal year
- \$122,000 – increased appropriation required for revenue sharing payment to County

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, 2014, totaled \$39,754,225 net of accumulated depreciation. Investment in capital assets includes land and easements, buildings, improvements other than buildings, infrastructure, machinery and equipment, and construction in progress. The current year reduction in capital asset of \$1,919,012 is primarily due to depreciation expense, which totaled \$1,154,325 in the governmental activities and \$1,177,458 in the proprietary activities. School board capital assets are not included in the schedule below. Additional details on school board capital assets can be located in Note 6 to the financial statements.

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-type Activities		Total	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Land	\$ 5,159,209	\$ 5,159,209	\$ 110,101	\$ 110,101	\$ 5,269,310	\$ 5,269,310
Construction in progress	-	-	820,193	497,799	820,193	497,799
Buildings	12,402,668	12,585,439	148,888	235,091	12,551,556	12,820,530
Improvements other than buildings	1,233,438	1,375,568	-	-	1,233,438	1,375,568
Machinery and equipment	2,672,895	1,567,971	1,993,364	817,127	4,666,259	2,385,098
Infrastructure	4,133,882	3,857,342	8,415,891	9,776,351	12,549,773	13,633,693
Allocations of Component Units	2,663,696	2,565,934	-	-	2,663,696	2,565,934
Totals	<u>\$ 28,265,788</u>	<u>\$ 27,111,463</u>	<u>\$ 11,488,437</u>	<u>\$ 11,436,469</u>	<u>\$ 39,754,225</u>	<u>\$ 38,547,932</u>

Debt Administration. The City's total outstanding general obligation debt at June 30, 2014 was \$19,963,295. This includes \$7,410,575 in School-related debt and \$7,676,720 of general government debt. Of this total, \$15,087,295 is considered to be tax supported debt and \$4,876,000 is related to Enterprise Fund (water & sewer, electric, solid waste and airport) debt, which is directly supported by revenues generated from operations and not supported by taxes.

CAPITAL ASSETS AND DEBT ADMINISTRATION: (CONTINUED)

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 bonded debt to assessed value totals 2.35% (see Table 15).

	<u>FY 2014</u>	<u>FY 2013</u>
General Government Activities:		
Bonds Payable - General	\$ 7,676,720	\$ 7,676,720
School Related Bonds & Notes	<u>7,410,575</u>	<u>7,410,575</u>
Total Tax Supported Debt	\$ <u>15,087,295</u>	\$ <u>15,087,295</u>
Business-type Activities:		
Total Long -Term Debt	\$ <u>4,876,000</u>	\$ <u>5,326,000</u>
	\$ <u>19,963,295</u>	\$ <u>20,413,295</u>
Per Capita Tax Supported	\$ 1,758	\$ 1,758
Total Per Capita Debt	\$ <u>2,326</u>	\$ <u>2,379</u>

ECONOMIC FACTORS

The June 30, 2014 unemployment rate for the City of Franklin was 7.6% compared to 5.3% for Virginia and the national rate of 6.1%. The June 30, 2013 unemployment rate for the City of Franklin was 9.2%, compared to the state's unemployment rate of 5.6% and the average national rate of 7.6%.

REQUEST FOR INFORMATION

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

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CITY OF FRANKLIN
Statement of Net Position
June 30, 2014

Exhibit 1

	Primary Government			Component Units	
	Governmental Activities	Business- type Activities	Total	School Board	Industrial Development Authority
ASSETS					
Cash and cash Equivalents	\$ 7,422,018	\$ 4,188,427	\$ 11,610,446	\$ 1,198,891	\$ 14,312
Receivables (net of allowance for uncollectibles):					
Property taxes receivable	621,775	-	621,775	-	-
Accounts receivable	447,063	2,025,887	2,472,950	32,569	-
Internal balances	969,874	(969,874)	-	-	-
Due from other governmental units	672,333	-	672,333	642,168	-
Inventories	-	30,585	30,585	9,474	-
Prepaid expenses	-	-	-	-	-
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	1,647,298	-	1,647,298	-	-
Other assets:					
Deposits	-	-	-	-	-
Unamortized bond issue costs	-	59,481	59,481	-	-
Capital assets (net of accumulated depreciation):					
Land	5,159,209	110,101	5,269,310	-	-
Construction in progress	-	820,193	820,193	-	-
Land improvements	-	-	-	48,561	-
Buildings	15,066,364	148,888	15,215,252	4,870,268	-
Improvements other than buildings	1,233,438	-	1,233,438	-	-
Machinery and equipment	2,672,895	1,993,364	4,666,259	578,608	-
Infrastructure	4,133,882	8,415,891	12,549,773	3,910,376	-
Total assets	<u>\$ 40,046,151</u>	<u>\$ 16,822,943</u>	<u>\$ 56,869,093</u>	<u>\$ 11,290,914</u>	<u>\$ 14,312</u>
LIABILITIES					
Reconciled overdraft	\$ -	\$ 57,039	\$ 57,039	\$ -	\$ -
Accounts payable and accrued liabilities	871,066	1,556,646	2,427,712	1,455,287	-
Customers' deposits	-	586,191	586,191	-	-
Accrued interest payable	-	57,936	57,936	-	-
Deferred revenue	419,084	-	419,084	-	-
Deposits held in escrow	55,500	-	55,500	-	-
Long-term liabilities:					
Due within one year	953,186	117,108	1,070,294	242,248	-
Due in more than one year	16,685,495	4,972,224	21,657,719	206,567	-
Total liabilities	<u>\$ 18,984,330</u>	<u>\$ 7,347,143</u>	<u>\$ 26,331,474</u>	<u>\$ 1,904,102</u>	<u>\$ -</u>
NET POSITION					
Net investment in capital assets	\$ 12,910,601	\$ 6,677,554	\$ 19,588,154	\$ 9,407,813	\$ -
Restricted for:					
Debt service	1,647,298	-	1,647,298	-	-
Capital projects	184,429	-	184,429	-	-
Community development	676,290	-	676,290	-	-
Public safety and parks and recreation	87,199	-	87,199	-	-
Unrestricted (deficit)	5,556,004	2,798,246	8,354,250	(21,001)	14,312
Total net position	<u>21,061,821</u>	<u>9,475,800</u>	<u>30,537,620</u>	<u>9,386,812</u>	<u>14,312</u>
Total liabilities and net position	<u>\$ 40,046,151</u>	<u>\$ 16,822,943</u>	<u>\$ 56,869,094</u>	<u>\$ 11,290,914</u>	<u>\$ 14,312</u>

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

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities				
General government administration	\$ 1,581,531	\$ 384,455	\$ 172,941	\$ -
Judicial administration	312,767	41,794	-	-
Public safety	6,806,355	422,447	897,119	-
Public works	3,457,133	710,310	1,536,097	-
Health and welfare	1,890,689	17,141	1,430,574	-
Education	5,753,084	-	-	-
Parks, recreation, and cultural	778,365	10,853	-	-
Community development	1,714,373	-	-	-
Interest on long-term debt	458,420	-	-	-
Nondepartmental	63,905	-	-	-
Total governmental activities	\$ 22,816,622	\$ 1,587,000	\$ 4,036,731	\$ -
Business-type activities:				
Water and Sewer	\$ 2,927,576	\$ 3,049,282	\$ -	\$ -
Solid Waste	1,319,111	1,343,522	-	-
Electric	13,464,599	15,117,660	-	-
Airport	631,437	178,450	-	93,223
Total business-type activities	\$ 18,342,723	\$ 19,688,915	\$ -	\$ 93,223
Total primary government	\$ 41,159,345	\$ 21,275,915	\$ 4,036,731	\$ 93,223
COMPONENT UNITS:				
School Board	\$ 15,808,291	\$ -	\$ 11,035,646	\$ -
Industrial Development Authority	-	-	-	-
Total component units	\$ 15,808,291	\$ -	\$ 11,035,646	\$ -

Net (Expense) Revenue and Changes in Net Position					
Primary Government			Component Units		
Governmental Activities	Business- type Activities	Total	School Board	Industrial Development Authority	
\$ (1,024,135)	\$ -	\$ (1,024,135)	\$ -	\$ -	
(270,973)	-	(270,973)	-	-	
(5,486,789)	-	(5,486,789)	-	-	
(1,210,726)	-	(1,210,726)	-	-	
(442,973)	-	(442,973)	-	-	
(5,753,084)	-	(5,753,084)	-	-	
(767,512)	-	(767,512)	-	-	
(1,714,373)	-	(1,714,373)	-	-	
(458,420)	-	(458,420)	-	-	
(63,905)	-	(63,905)	-	-	
<u>\$ (17,192,891)</u>	<u>\$ -</u>	<u>\$ (17,192,891)</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ -	\$ 121,707	\$ 121,707	\$ -	\$ -	
-	24,411	24,411	-	-	
-	1,653,061	1,653,061	-	-	
-	(359,764)	(359,764)	-	-	
<u>\$ -</u>	<u>\$ 1,439,414</u>	<u>\$ 1,439,414</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>\$ (17,192,891)</u>	<u>\$ 1,439,414</u>	<u>\$ (15,753,477)</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ -	\$ -	\$ -	\$ (4,772,646)	\$ -	
-	-	-	-	-	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,772,646)</u>	<u>\$ -</u>	
General revenues:					
General property taxes	\$ 6,810,144	\$ -	\$ 6,810,144	\$ -	\$ -
Local sales and use taxes	1,722,799	-	1,722,799	-	-
Restaurant food taxes	1,294,882	-	1,294,882	-	-
Business licenses	952,525	-	952,525	-	-
Consumers' utility taxes	478,152	-	478,152	-	-
Other local taxes	750,406	-	750,406	-	-
Revenue sharing from counties	556,765	-	556,765	-	-
Unrestricted revenues from use of money and property	706,839	-	706,839	48	4
Miscellaneous	438,559	-	438,559	295,447	-
Contribution from City of Franklin	-	-	-	5,027,124	-
Grants and contributions not restricted to specific programs	1,663,516	-	1,663,516	-	-
Transfers	1,314,660	(1,314,660)	-	-	-
Total general revenues	<u>\$ 16,689,246</u>	<u>\$ (1,314,660)</u>	<u>\$ 15,374,586</u>	<u>\$ 5,322,619</u>	<u>\$ 4</u>
Change in net position	<u>\$ (503,645)</u>	<u>\$ 124,754</u>	<u>\$ (378,891)</u>	<u>\$ 549,974</u>	<u>\$ 4</u>
Net position - beginning, as restated	<u>21,565,465</u>	<u>9,351,045</u>	<u>30,916,510</u>	<u>8,836,839</u>	<u>14,308</u>
Net position - ending	<u><u>\$ 21,061,821</u></u>	<u><u>\$ 9,475,800</u></u>	<u><u>\$ 30,537,621</u></u>	<u><u>\$ 9,386,812</u></u>	<u><u>\$ 14,312</u></u>

CITY OF FRANKLIN, VIRGINIA
Balance Sheet
Governmental Funds
June 30, 2014

Exhibit 3

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 5,615,011	\$ -	\$ 1,185,642	\$ -	\$ 655,734	\$ 7,456,387
Receivables (net of allowance for uncollectibles)						
Property taxes receivable	621,775	-	-	-	-	621,775
Accounts receivable	328,206	-	-	-	118,857	447,063
Due from other funds	969,874	-	-	-	-	969,874
Due from other governmental units	576,219	91,861	-	-	4,253	672,333
Prepays	-	-	-	-	-	-
Inventory	-	-	-	-	-	-
Restricted assets:						
Cash and cash equivalents	-	-	-	1,647,298	-	1,647,298
Total assets	<u>\$ 8,111,085</u>	<u>\$ 91,861</u>	<u>\$ 1,185,642</u>	<u>\$ 1,647,298</u>	<u>\$ 778,844</u>	<u>\$ 11,814,731</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Reconciled overdraft	\$ -	\$ 34,369	\$ -	\$ -	\$ -	\$ 34,369
Accounts payable and accrued liabilities	744,805	57,493	-	-	68,768	871,066
Deferred revenue	419,084	-	-	-	-	419,084
Deposits held in escrow	55,500	-	-	-	-	55,500
Total liabilities	<u>\$ 1,219,389</u>	<u>\$ 91,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,768</u>	<u>\$ 1,380,019</u>
Fund balances:						
Nonspendable:						
Inventory and prepaids	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term receivables - Airport	\$ 969,874	\$ -	\$ -	\$ -	\$ -	\$ 969,874
Restricted:						
Public safety grants	56,257	-	-	-	30,942	87,199
Parks, recreation, and cultural	-	-	-	-	-	-
Community development	-	-	-	-	676,290	676,290
Debt service	-	-	-	1,647,298	-	1,647,298
Capital projects	184,429	-	-	-	-	184,429
Committed:						
General government	126,500	-	-	-	-	126,500
Public safety	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Education	345,594	-	-	-	-	345,594
Community development	24,016	-	-	-	-	24,016
Assigned:						
Capital projects	186,205	-	1,185,642	-	-	1,371,847
Debt service	927,409	-	-	-	-	927,409
Unassigned:						
General fund	4,071,412	-	-	-	-	4,071,412
Special revenue fund	-	-	-	-	2,845	2,845
Total fund balances	<u>\$ 6,891,695</u>	<u>\$ -</u>	<u>\$ 1,185,642</u>	<u>\$ 1,647,298</u>	<u>\$ 710,076</u>	<u>\$ 10,434,713</u>
Total liabilities and fund balances	<u>\$ 8,111,085</u>	<u>\$ 91,862</u>	<u>\$ 1,185,642</u>	<u>\$ 1,647,298</u>	<u>\$ 778,844</u>	<u>\$ 11,814,732</u>

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

CITY OF FRANKLIN, VIRGINIA**Exhibit 4**

Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2014

Total Fund Balances from Exhibit 3 - Balance Sheet Governmental Funds	\$	10,434,713
Capital Assets are Not Included	\$	28,265,788
Other Long-Term Assets	\$	419,084
Long-Term Liabilities	\$	<u>(18,057,765)</u>
Net Position of Governmental Activities	\$	<u><u>21,061,821</u></u>

CITY OF FRANKLIN, VIRGINIA
Exhibit 5
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES						
General property taxes	\$ 6,810,144	\$ -	\$ -	\$ -	\$ -	\$ 6,810,144
Other local taxes	5,198,763	-	-	-	-	5,198,763
Permits, privilege fees, and regulatory licenses	168,629	-	-	-	-	168,629
Fines and forfeitures	37,418	-	-	-	-	37,418
Revenue from the use of money and property	248,948	-	2,467	41,740	129,956	423,111
Charges for services	1,380,953	-	-	-	-	1,380,953
Miscellaneous	680,312	-	-	-	315,012	995,324
Recovered costs	283,729	-	-	-	-	283,729
Intergovernmental revenues:						
Commonwealth	3,937,726	323,782	-	-	184,980	4,446,488
Federal	528,027	792,697	-	-	20,413	1,341,136
Total revenues	\$ 19,274,649	\$ 1,116,478	\$ 2,467	\$ 41,740	\$ 650,360	\$ 21,085,694
EXPENDITURES						
Current:						
General government administration	\$ 2,173,109	\$ -	\$ -	\$ -	\$ -	\$ 2,173,109
Judicial administration	312,767	-	-	-	-	312,767
Public safety	6,829,366	-	-	-	222,462	7,051,828
Public works	3,874,669	-	-	-	-	3,874,669
Health and welfare	145,198	1,499,227	-	-	274,865	1,919,290
Education	5,027,124	-	792,922	-	-	5,820,046
Parks, recreation, and cultural	802,643	-	-	-	87,947	890,590
Community development	1,102,551	-	-	-	611,822	1,714,373
Nondepartmental	39,835	-	-	-	-	39,835
Debt service:						
Principal retirement	-	-	-	355,041	-	355,041
Interest and other fiscal charges	-	-	-	417,441	-	417,441
Total expenditures	\$ 20,307,263	\$ 1,499,227	\$ 792,922	\$ 772,482	\$ 1,197,096	\$ 24,568,989
Excess (deficiency) of revenues over (under) expenditures	\$ (1,032,614)	\$ (382,749)	\$ (790,455)	\$ (730,742)	\$ (546,736)	\$ (3,483,295)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 1,456,792	\$ 375,173	\$ -	\$ 971,695	\$ 381,730	\$ 3,185,390
Transfers (out)	(1,823,829)	-	-	-	(48,264)	(1,872,093)
Issuance of additional debt	-	-	-	-	-	-
Total other financing sources (uses)	\$ (367,038)	\$ 375,173	\$ -	\$ 971,695	\$ 333,465	\$ 1,313,296
Net change in fund balances	\$ (1,399,652)	\$ (7,575)	\$ (790,455)	\$ 240,954	\$ (213,270)	\$ (2,169,999)
Fund balances - beginning, as restated	8,291,347	7,575	1,976,098	1,406,345	923,347	12,604,712
Fund balances - ending	\$ 6,891,695	\$ -	\$ 1,185,642	\$ 1,647,298	\$ 710,077	\$ 10,434,713

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

CITY OF FRANKLIN, VIRGINIA**Exhibit 6**

Reconciliation of Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$ (2,169,999)
--	----------------

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

Capital asset additions	\$ 2,730,122	
Depreciation expense	<u>(1,575,797)</u>	1,154,325

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

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. This following is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt, net of premiums and deferred amount on refunding	\$ -	
Principal payments	355,041	
Premium on bond issue and Interest Charges	280,048	
Deferred amount on refunding	<u>(24,070)</u>	611,019

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

Compensated absences	\$ (15,150)	
Other postemployment benefits	(83,840)	
Accrued interest	<u>-</u>	<u>(98,990)</u>

Change in net position of governmental activities		<u><u>(503,645)</u></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
June 30, 2014

Exhibit 7

	Water and Sewer Fund	Solid Waste Fund	Electric Fund	Airport Fund	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,493,942	\$ 438,053	\$ 1,256,432	\$ -	\$ 4,188,427
Accounts receivable, net of allowances for uncollectibles	271,452	77,002	1,640,978	36,455	2,025,887
Inventories	-	-	-	30,585	30,585
Total current assets	\$ 2,765,394	\$ 515,055	\$ 2,897,410	\$ 67,040	\$ 6,244,898
Noncurrent assets:					
Other assets:					
Unamortized bond issue costs	\$ 39,308	\$ -	\$ 20,173	\$ -	\$ 59,481
Capital assets:					
Land	-	-	-	110,101	110,101
Construction in progress	322,394	-	-	-	322,394
Buildings and improvements	497,799	-	34,966	5,608,554	6,141,319
Equipment and furniture/fixtures	1,346,288	1,209,662	2,212,696	1,769,021	6,537,666
Infrastructure	15,200,908	223,500	12,677,673	-	28,102,081
Less: accumulated depreciation	(13,774,019)	(966,265)	(10,774,843)	(4,209,996)	(29,725,123)
Total capital assets	\$ 3,593,370	\$ 466,896	\$ 4,150,492	\$ 3,277,680	\$ 11,488,438
Total noncurrent assets	\$ 3,632,678	\$ 466,896	\$ 4,170,665	\$ 3,277,680	\$ 11,547,919
Total assets	\$ 6,398,072	\$ 981,951	\$ 7,068,075	\$ 3,344,720	\$ 17,792,818
LIABILITIES					
Current liabilities:					
Reconciled overdraft	\$ -	\$ -	\$ -	\$ 57,039	\$ 57,039
Accounts payable and accrued liabilities	237,089	366,612	944,812	8,133	1,556,646
Customers' deposits	-	-	586,191	-	586,191
Accrued interest payable	43,053	2,423	25,093	(12,633)	57,936
Due to other funds	-	-	-	969,874	969,874
Current portion of long-term liabilities	29,299	17,853	62,782	7,174	117,108
Total current liabilities	\$ 309,441	\$ 386,888	\$ 1,618,877	\$ 1,029,587	\$ 3,344,793
Noncurrent liabilities:					
Long-term liabilities - less current portion	\$ 3,094,482	\$ 8,067	\$ 1,861,608	\$ 8,067	\$ 4,972,224
Total noncurrent liabilities	\$ 3,094,482	\$ 8,067	\$ 1,861,608	\$ 8,067	\$ 4,972,224
Total liabilities	\$ 3,403,923	\$ 394,955	\$ 3,480,485	\$ 1,037,654	\$ 8,317,017
NET POSITION					
Net investment in capital assets	\$ 563,424	\$ 466,896	\$ 2,369,554	\$ 3,277,680	\$ 6,677,554
Restricted					
Unrestricted	2,430,725	120,100	1,218,035	(970,614)	2,798,246
Total net position	\$ 2,994,149	\$ 586,996	\$ 3,587,589	\$ 2,307,066	\$ 9,475,800
Total liabilities and net position	\$ 6,398,072	\$ 981,951	\$ 7,068,075	\$ 3,344,720	\$ 17,792,818

CITY OF FRANKLIN, VIRGINIA

Exhibit 8

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

For the Year Ended June 30, 2014

	Water and Sewer Fund	Solid Waste Fund	Electric Fund	Airport Fund	Total
OPERATING REVENUES					
Charges for services	\$ 3,049,051	\$ 1,343,514	\$ 15,024,205	\$ 178,158	\$ 19,594,929
Miscellaneous	231	8	93,455	292	93,986
Total operating revenues	<u>\$ 3,049,282</u>	<u>\$ 1,343,522</u>	<u>\$ 15,117,660</u>	<u>\$ 178,450</u>	<u>\$ 19,688,915</u>
OPERATING EXPENSES					
Personal services	\$ 532,735	\$ 162,089	\$ 656,666	\$ 75,090	\$ 1,426,581
Benefits	201,264	89,852	247,517	30,642	569,276
Contractual services	8,511	-	23,405	377	32,294
Other charges	1,342,830	813,253	11,599,551	220,151	13,975,785
Payment to general fund for services and taxes	283,765	198,162	448,242	17,833	948,002
Depreciation and amortization	449,002	45,645	395,467	287,344	1,177,458
Total operating expenses	<u>\$ 2,818,107</u>	<u>\$ 1,309,002</u>	<u>\$ 13,370,849</u>	<u>\$ 631,437</u>	<u>\$ 18,129,395</u>
Operating income (loss)	<u>\$ 231,175</u>	<u>\$ 34,520</u>	<u>\$ 1,746,811</u>	<u>\$ (452,987)</u>	<u>\$ 1,559,520</u>
NONOPERATING REVENUES (EXPENSES)					
Interest expense	\$ 109,469	\$ 10,109	\$ 93,750	\$ -	\$ 213,328
Total nonoperating revenues (expenses)	<u>\$ 109,469</u>	<u>\$ 10,109</u>	<u>\$ 93,750</u>	<u>\$ -</u>	<u>\$ 213,328</u>
Income before capital grants and transfers	<u>\$ 121,707</u>	<u>\$ 24,411</u>	<u>\$ 1,653,061</u>	<u>\$ (452,987)</u>	<u>\$ 1,346,192</u>
Capital grants:					
Commonwealth	\$ -	\$ -	\$ -	\$ 10,230	\$ 10,230
Federal	-	-	-	82,993	82,993
Transfers in	-	-	-	95,231	95,231
Transfers (out)	<u>-</u>	<u>-</u>	<u>(1,409,891)</u>	<u>-</u>	<u>(1,409,891)</u>
Change in net position	\$ 121,707	\$ 24,411	\$ 243,170	\$ (264,533)	\$ 124,754
Total net position - beginning, as restated	<u>2,872,442</u>	<u>562,585</u>	<u>3,344,419</u>	<u>2,571,599</u>	<u>9,351,045</u>
Total net position - ending	<u>\$ 2,994,149</u>	<u>\$ 586,996</u>	<u>\$ 3,587,589</u>	<u>\$ 2,307,066</u>	<u>\$ 9,475,800</u>

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

CITY OF FRANKLIN, VIRGINIA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

Exhibit 9

	Water and Sewer Fund	Solid Waste Fund	Electric Fund	Airport Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 3,059,828	\$ 1,266,520	\$ 14,872,893	\$ 175,005	\$ 19,374,246
Payments to suppliers for goods and services	(1,575,300)	(644,803)	(12,129,417)	(229,531)	(14,579,051)
Payments to and on behalf of employees	(733,999)	(251,942)	(904,184)	(105,732)	(1,995,856)
Net cash provided (used) by operating activities	\$ <u>750,528</u>	\$ <u>369,775</u>	\$ <u>1,839,293</u>	\$ <u>(160,258)</u>	\$ <u>2,799,338</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers (to) other funds	\$ -	\$ -	\$ (1,409,891)	\$ -	\$ (1,409,891)
Transfers from other funds	-	-	-	95,231	95,231
Net cash provided (used) by noncapital financing activities	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(1,409,891)</u>	\$ <u>95,231</u>	\$ <u>(1,314,660)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants	\$ -	\$ -	\$ -	\$ 93,223	\$ 93,223
Adjustments to Capital Assets/Debt	191,614	(258,211)	143,452	8,067	
Interest paid on capital debt	(109,469)	(10,109)	(93,750)	-	(213,328)
Net cash provided (used) by capital and related financing activities	\$ <u>82,145</u>	\$ <u>(268,320)</u>	\$ <u>49,702</u>	\$ <u>101,290</u>	\$ <u>(120,106)</u>
Net increase (decrease) in cash and cash equivalents	\$ 832,674	\$ 101,455	\$ 479,104	\$ 36,262	\$ 1,364,572
Cash and cash equivalents - beginning	<u>1,661,269</u>	<u>336,598</u>	<u>777,328</u>	<u>(93,301)</u>	<u>2,681,894</u>
Cash and cash equivalents - ending	\$ <u><u>2,493,943</u></u>	\$ <u><u>438,053</u></u>	\$ <u><u>1,256,432</u></u>	\$ <u><u>(57,039)</u></u>	\$ <u><u>4,131,388</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ <u>231,175</u>	\$ <u>34,520</u>	\$ <u>1,746,811</u>	\$ <u>(452,987)</u>	\$ <u>1,559,520</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	\$ 449,002	\$ 45,645	\$ 395,467	\$ 287,344	\$ 1,177,458
(Increase) decrease in accounts receivable	10,545	(77,002)	(163,023)	(16,078)	(245,558)
(Increase) decrease in inventories	-	-	-	10,166	10,166
Increase (decrease) in accounts payable and accrued liabilities	59,806	366,612	(58,219)	(1,336)	366,863
Increase (decrease) in customer deposits	-	-	(81,744)	12,633	(69,111)
Total adjustments	\$ <u>519,353</u>	\$ <u>335,255</u>	\$ <u>92,481</u>	\$ <u>292,729</u>	\$ <u>1,239,818</u>
Net cash provided (used) by operating activities	\$ <u><u>750,528</u></u>	\$ <u><u>369,775</u></u>	\$ <u><u>1,839,293</u></u>	\$ <u><u>(160,258)</u></u>	\$ <u><u>2,799,338</u></u>

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>137,550</u>
Total assets	\$ <u><u>137,550</u></u>
LIABILITIES	
Amounts held for others	\$ <u>137,550</u>
Total liabilities	\$ <u><u>137,550</u></u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS AS OF JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

A. Government-wide and Fund Financial Statements

Management's Discussion and Analysis

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

Government-wide Financial Statements

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

Statement of Net 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 are broken down into three categories – 1) Net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities

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

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

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

Budgetary Comparison Schedules

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

B. Other Related Organizations

Included in the City's Financial Report

None

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

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

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

Government-Wide and Fund Accounting Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund accounting financial statements. The focus is on either the City as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund accounting financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net 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.

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

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

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

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

The government-wide Statements of Net 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., expense) 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.

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

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

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

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

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

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

Governmental Funds

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

General Fund

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

Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Debt Service Fund

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

Capital Projects Fund

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

Proprietary Fund

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the primary government's business activities are accounted for through proprietary funds. The measurement focus is on the determination of net income, financial position, and cash flows. Proprietary Funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Proprietary Funds are charges for services. Operating expenses include cost of sales and services, personnel, contractual services, and depreciation. The City applies all GASB as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The City's proprietary funds consist of only enterprise funds.

Enterprise Funds

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

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

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

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

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.

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

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

Fiduciary Funds

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

Trust and Agency Funds

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

Agency Funds

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

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

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

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

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

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 \$5,024,127 to the School Board.

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

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

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

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

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 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. Expenditures over the original budget of any department must be approved by City Council. The School Board is authorized to transfer budgeted amounts within the school system's categories.
- Appropriations lapse on June 30 for all city units.
- All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America as applicable to governmental entities.

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

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

D. Budgets and Budgetary Accounting (CONTINUED)

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

E. Allowance for Uncollectible Amounts

The City calculates its allowances for uncollectible property taxes, refuse collection, and utility service charges using historical collection data. At June 30, 2014, the allowance attributed to the General Fund amounted to \$145,194, water and sewer in the amount of \$105,431, utility service charges in the amount of \$636,427, and solid waste services in the amount of \$29,981.

F. Cash and Investments

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

G. Inventories

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

H. Capital Assets

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

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

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

The estimated useful lives of capital assets are as follows:

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

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

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

I. Compensated Absences

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

J. Deferred Revenue

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

K. Statement of Cash Flows

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

L. Estimates

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

M. Prepaid Expenses

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

N. Credit Risk

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 15.2% and 14.4% of the City's real estate and personal property tax base, respectively. Concentration of credit risk with respect to receivables is limited due to the large number of citizens comprising the City's taxpayer base.

O. Net Position

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

P. Fund Equity

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

- Nonspendable fund balance – amounts that 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;

P. Fund Equity (CONTINUED)

- 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 policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an 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.

Q. Property Taxes

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

NOTE 2 – DEPOSITS AND INVESTMENTS:

Deposits

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

Investments

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

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

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

Credit Risk of Debt Securities

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

Interest Rate Risk

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

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Interfund balances at June 30, 2014, were as follows:

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

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

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

Interfund transfers for the year ended June 30, 2014, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:		
General	\$ 1,456,792	\$ 1,823,829
Virginia public assistance	375,173	-
Capital projects	-	-
Debt service	971,695	-
Nonmajor governmental funds:		
Disaster recovery	1,364	48,264
Comprehensive services act	186,593	-
Regional Fire Training	5,051	-
Block grant fund	-	-
Economic development	190,085	-
Proprietary funds:		
Water and sewer	-	-
Solid Waste	-	-
Airport	95,231	-
Electric	-	1,409,891
Total	\$ <u>3,281,984</u>	\$ <u>3,281,984</u>

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

NOTE 4 – RECEIVABLES:

Receivables in the fund statements at June 30, 2014, are as follows:

Primary Government

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Business-type Activities</u>	<u>Total</u>
Property taxes	\$ 703,595	\$ -	\$ -	\$ 703,595
Accounts receivable	<u>510,437</u>	<u>118,857</u>	<u>2,797,724</u>	<u>3,427,018</u>
Total receivables	\$ 1,214,032	\$ 118,857	\$ 2,797,724	\$ 4,130,613
Less-allowance for uncollectible accounts:				
Property taxes	81,820	-	-	81,820
Utility and other service charges	<u>63,374</u>	<u>-</u>	<u>771,838</u>	<u>835,212</u>
Receivables - net	<u>\$ 1,068,838</u>	<u>\$ 118,857</u>	<u>\$ 2,025,887</u>	<u>\$ 3,213,582</u>

NOTE 5 – DUE FROM OTHER GOVERNMENTS:

Due from other governments consists of the following at June 30, 2014:

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:					
Total due from the Commonwealth of Virginia	\$ <u>576,219</u>	\$ <u>91,861</u>	\$ <u>4,253</u>	\$ <u>672,333</u>	\$ <u>642,168</u>
Federal Government:					
Total due from federal government	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Total due from other governments	\$ <u>576,219</u>	\$ <u>91,861</u>	\$ <u>4,253</u>	\$ <u>672,333</u>	\$ <u>642,168</u>

NOTE 6 – CAPITAL ASSETS:

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

Governmental Activities

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 5,159,209	\$ -	\$ -	\$ 5,159,209
Total capital assets not being depreciated	<u>\$ 5,159,209</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,159,209</u>
Capital assets being depreciated				
Buildings	\$ 17,991,832	\$ 470,745	\$ -	\$ 18,462,577
Improvements other than buildings	3,212,002	3,230	-	3,215,232
Machinery and equipment	8,658,219	1,548,209	109,589	10,096,839
School joint tenancy assets	4,888,086	-	-	4,888,086
Infrastructure	15,730,920	817,527	-	16,548,447
Total capital assets being depreciated	<u>\$ 50,481,059</u>	<u>\$ 2,839,711</u>	<u>\$ 109,589</u>	<u>\$ 53,211,181</u>
Less-accumulated depreciation				
Buildings	\$ 5,162,611	\$ 457,992	\$ -	\$ 5,620,604
Improvements other than buildings	1,836,434	145,360	-	1,981,794
Machinery and equipment	7,090,248	443,185	109,489	7,423,944
School joint tenancy assets	2,565,934	97,762	-	2,663,696
Infrastructure	11,873,578	540,986	-	12,414,565
Total accumulated depreciation	<u>\$ 28,528,805</u>	<u>\$ 1,685,286</u>	<u>\$ 109,489</u>	<u>\$ 30,104,602</u>
Subtotal capital assets, net	<u>\$ 21,952,254</u>	<u>\$ 1,154,425</u>	<u>\$ 100</u>	<u>\$ 23,106,579</u>
Total capital assets, governmental activities, net	<u>\$ 27,111,463</u>	<u>\$ 1,154,425</u>	<u>\$ 100</u>	<u>\$ 28,265,788</u>

- 1) Legislation enacted during the year ended June 30, 2002, Section 15.2-1800.1 of the Code of Virginia 1950, as amended, has changed the reporting of local capital assets and related debt for financial statement purposes. Historically, debt incurred by local governments “on-behalf” of school boards was reported in the school board’s discrete column along with the related capital assets. Under the law local governments have a “tenancy in common” with the school board whenever the locality incurs any financial obligations for any school property which is payable over more than one year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt. The effect on the City of Franklin, Virginia for the year ended June 30, 2014, is that school financed assets in the amount of \$2,224,390 net are reported in the Primary Government for financial reporting purposes.

NOTE 6 – CAPITAL ASSETS: (CONTINUED)

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

General Governmental Administration	\$	440,836
Public Safety		381,669
Public Works		649,196
Health and Welfare		44,471
Parks, Recreation, and Cultural		174,491
Education		104,113
Total	\$	<u>1,794,775</u>

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

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Water and Sewer Fund:				
Capital assets not being depreciated				
Construction in progress	\$ 497,799	\$ 322,394	\$ -	\$ 820,193
Total capital assets not being depreciated	<u>\$ 497,799</u>	<u>\$ 322,394</u>	<u>\$ -</u>	<u>\$ 820,193</u>
Other capital assets				
Infrastructure	\$ 13,501,179	\$ 1,699,728	\$ -	\$ 15,200,907
Machinery and equipment	<u>1,152,317</u>	<u>222,902</u>	<u>28,931</u>	<u>1,346,288</u>
Total other capital assets	<u>\$ 14,653,496</u>	<u>\$ 1,922,630</u>	<u>\$ 28,931</u>	<u>\$ 16,547,195</u>
Less - accumulated depreciation				
Infrastructure	\$ 10,988,876	\$ 1,910,171	\$ -	\$ 12,899,047
Machinery and equipment	<u>813,310</u>	<u>90,593</u>	<u>28,931</u>	<u>874,972</u>
Total accumulated depreciation	<u>\$ 11,802,186</u>	<u>\$ 2,000,764</u>	<u>\$ 28,931</u>	<u>\$ 13,774,019</u>
Subtotal capital assets, net	<u>\$ 2,851,310</u>	<u>\$ (78,134)</u>	<u>\$ -</u>	<u>\$ 2,773,176</u>
Total Water and Sewer Fund	<u>\$ 3,349,109</u>	<u>\$ 244,260</u>	<u>\$ -</u>	<u>\$ 3,593,369</u>
Solid Waste Fund:				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other capital assets				
Infrastructure	\$ 1,699,729	\$ -	\$ 1,476,229	\$ 223,500
Machinery and equipment	<u>88,506</u>	<u>1,121,155</u>	<u>-</u>	<u>1,209,661</u>
Total other capital assets	<u>\$ 1,788,235</u>	<u>\$ 1,121,155</u>	<u>\$ 1,476,229</u>	<u>\$ 1,433,161</u>
Less - accumulated depreciation				
Infrastructure	\$ 1,452,588	\$ 82,405	\$ 647,854	\$ 887,139
Machinery and equipment	<u>70,242</u>	<u>8,885</u>	<u>-</u>	<u>79,127</u>
Total accumulated depreciation	<u>\$ 1,522,830</u>	<u>\$ 91,290</u>	<u>\$ 647,854</u>	<u>\$ 966,266</u>
Subtotal capital assets, net	<u>\$ 265,405</u>	<u>\$ 1,029,865</u>	<u>\$ 828,375</u>	<u>\$ 466,895</u>
Total Solid Waste Fund	<u>\$ 265,405</u>	<u>\$ 1,029,865</u>	<u>\$ 828,375</u>	<u>\$ 466,895</u>

NOTE 6 – CAPITAL ASSETS: (CONTINUED)

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Electric Fund:				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other capital assets				
Infrastructure	\$ 12,917,798	\$ 155,342	\$ -	\$ 13,073,140
Buildings and improvements	34,966	-	-	34,966
Machinery and equipment	2,079,009	133,687	-	2,212,696
Total other capital assets	<u>\$ 15,031,773</u>	<u>\$ 289,029</u>	<u>\$ -</u>	<u>\$ 15,320,802</u>
Less - accumulated depreciation				
Infrastructure	\$ 9,025,762	\$ 213,552	\$ -	\$ 9,239,314
Buildings and improvements	34,966	-	-	34,966
Machinery and equipment	1,714,114	181,915	-	1,896,029
Total accumulated depreciation	<u>\$ 10,774,842</u>	<u>\$ 395,467</u>	<u>\$ -</u>	<u>\$ 11,170,309</u>
Subtotal capital assets, net	<u>\$ 4,256,931</u>	<u>\$ (106,439)</u>	<u>\$ -</u>	<u>\$ 4,150,492</u>
Total Electric Fund	<u>\$ 4,256,931</u>	<u>\$ (106,439)</u>	<u>\$ -</u>	<u>\$ 4,150,492</u>
Airport Fund:				
Capital assets not being depreciated				
Land	\$ 110,101	\$ -	\$ -	\$ 110,101
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>\$ 110,101</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,101</u>
Other capital assets				
Infrastructure	\$ 5,608,554	\$ -	\$ -	\$ 5,608,554
Buildings and improvements	1,415,026	-	-	1,415,026
Machinery and equipment	353,995	-	-	353,995
Total other capital assets	<u>\$ 7,377,575</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,377,575</u>
Less - accumulated depreciation				
Infrastructure	\$ 2,483,684	\$ 181,027	\$ -	\$ 2,664,711
Buildings and improvements	1,179,935	86,203	-	1,266,138
Machinery and equipment	259,033	20,114	-	279,147
Total accumulated depreciation	<u>\$ 3,922,652</u>	<u>\$ 287,344</u>	<u>\$ -</u>	<u>\$ 4,209,996</u>
Subtotal capital assets, net	<u>\$ 3,454,923</u>	<u>\$ (287,344)</u>	<u>\$ -</u>	<u>\$ 3,167,579</u>
Total Airport Fund	<u>\$ 3,565,024</u>	<u>\$ (287,344)</u>	<u>\$ -</u>	<u>\$ 3,277,680</u>
Total capital assets, business-type activities	<u>\$ 11,436,469</u>	<u>\$ 880,343</u>	<u>\$ 828,375</u>	<u>\$ 11,488,437</u>

NOTE 6 – CAPITAL ASSETS: (CONTINUED)

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

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Other capital assets				
Land improvement	\$ 144,911	\$ -	\$ -	\$ 144,911
Buildings	12,998,188	446,355	-	13,444,543
Infrastructure	4,404,725	125,868	-	4,530,593
School joint tenancy assets	(4,888,086)	-	-	(4,888,086)
Machinery and equipment	3,364,298	193,015	-	3,557,314
Total other capital assets	\$ 16,024,036	\$ 765,238	\$ -	\$ 16,789,274
Less- accumulated depreciation				
Land improvement	\$ 92,285	\$ 4,064	\$ -	\$ 96,350
Buildings	6,094,541	255,344	-	6,349,884
Infrastructure	552,849	67,368	-	620,217
School joint tenancy assets	(2,565,934)	(97,762)	-	(2,663,696)
Machinery and equipment	2,834,015	144,690	-	2,978,705
Total accumulated depreciation	\$ 7,007,757	\$ 373,704	\$ -	\$ 7,381,461
Other capital assets - net	\$ 9,016,279	\$ 391,534	\$ -	\$ 9,407,813
Total capital assets, net	\$ 9,016,279	\$ 391,534	\$ -	\$ 9,407,813

NOTE 7 - LONG-TERM OBLIGATIONS:

The following is a summary of the changes in long-term obligations of the primary government and its Component Unit - School Board, respectively, for the year ended June 30, 2014:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014	Due within one year
Primary Government:					
Governmental Activities					
General obligation bonds	\$ 15,087,295	\$ -	\$ 353,612	\$ 14,733,683	\$ 419,284
Capital lease obligations	258,240	147,297	79,103	326,434	60,953
Premium on bond issuance	562,971	-	27,201	535,771	27,201
Deferred amount on refunding	(264,770)	-	(24,070)	(240,700)	(24,070)
Landfill postclosure/corrective action	858,088	17,582	-	875,670	-
Compensated absences	747,313	484,968	469,818	762,463	469,818
Other postemployment benefits	561,520	83,840	-	645,360	-
Total - Governmental activities	\$ 17,810,658	\$ 733,687	\$ 905,664	\$ 17,638,681	\$ 953,186
Business-type Activities					
Bonds payable	\$ 5,326,000	\$ -	\$ 450,000	\$ 4,876,000	\$ 466,000
Premium on bond issuance	43,564	-	3,960	39,604	3,960
Deferred amount on refunding	(115,192)	-	(10,472)	(104,720)	(10,472)
Total bonds and loans	\$ 5,254,372	\$ -	\$ 443,488	\$ 4,810,884	\$ 459,488
Compensated absences	91,970	127,025	101,886	117,109	101,886
Other postemployment benefits	140,380	20,960	-	161,340	-
Total - Business-type Activities	\$ 5,486,722	\$ 147,985	\$ 545,374	\$ 5,089,333	\$ 561,374
Total - Primary Government	\$ 23,297,380	\$ 881,673	\$ 1,451,038	\$ 22,728,014	\$ 1,514,560
Component Unit - School Board:					
Compensated absences	\$ 356,127	\$ 149,737	\$ 242,248	\$ 263,615	\$ 242,248
Other postemployment benefits	164,200	21,000	-	185,200	-
Total School Board	\$ 520,327	\$ 170,737	\$ 242,248	\$ 448,815	\$ 242,248

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

NOTE 7 – LONG-TERM OBLIGATIONS: (CONTINUED)

General obligation debt of the governmental activities at June 30, 2014 is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2014
Primary Government:					
Governmental Obligations:					
General obligation bonds:					
Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	\$ 5,235,000	\$ 3,225,000
Public Improvement Series 1999A	05/28/99	07/15/19	3.97	2,041,330	562,637
Public Improvement Series 2004	12/01/04	12/01/14	3.64	310,000	36,117
Public Improvement Series 2008	02/15/08	01/15/18	3.56	400,000	178,000
Virginia General Obligation Qualified Zone Academy Bond, Series 2005	12/29/05	12/20/20	-	2,214,429	2,214,429
Virginia Public School Authority Series 1995A	12/21/95	01/15/16	5.10-6.10	567,942	71,888
Virginia General Obligation Qualified Zone Academy Bond, Series 2003	12/31/03	12/31/17	-	1,000,000	1,000,000
Southampton county debt assumed*	01/01/96	06/30/14	N/A	N/A	612
Taxable General Obligation Refunding Bond, Series 2012A	12/20/12	06/30/27	3.05	2,664,000	2,523,000
Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series	12/20/12	06/30/28	3.05	1,207,000	1,207,000
General Obligation Refunding Bond, Series 2013	04/04/13	10/01/38	3.65	2,075,000	2,020,000
General Obligation School Bonds, Series 2013A	04/12/13	07/15/33	3.05-5.05	1,695,000	1,695,000
Total general obligation bonds					\$ 14,733,683
Capital lease obligations:					
Garbage Truck	06/20/11	06/20/16	3.22	101,955	42,730
Fire Truck	06/13/11	08/20/20	3.74	217,020	155,958
Bucket Truck	10/22/12	10/22/19	2.00	147,297	127,746
Total capital lease obligations					\$ 326,434
Premium on bond issuance				\$	535,771
Deferred amount on refunding					(240,700)
Landfill post-closure/corrective action					875,670
Compensated absences					762,463
Other postemployment benefits					645,360
Total general long-term obligations					\$ 17,638,681
The assets acquired through capital leases are as follows:					
Asset:					
Machinery and equipment				\$	534,810
Less: accumulated depreciation					120,962
Total				\$	413,848

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

NOTE 7 - LONG-TERM OBLIGATIONS: (CONTINUED)

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2014
Water and Sewer Fund:					
General obligation bonds - Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	\$ 3,435,000	\$ 895,000
Taxable General Obligation Refunding Bond, Series 2012A	12/20/12	01/15/24	3.05	1,387,000	1,354,000
Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B	12/20/12	01/15/23	3.05	907,000	803,000
Premium on bond issuance					26,172
Deferred amount on refunding					(48,226)
Compensated absences					29,299
Other postemployment benefits					64,536
Total Water and Sewer Fund					\$ 3,123,781
Electric Fund:					
General obligation bonds - Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	\$ 3,435,000	\$ 1,055,000
Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B	12/20/12	01/15/23	3.05	844,000	769,000
Premium on bond issuance					13,432
Deferred amount on refunding					(56,494)
Compensated absences					62,782
Other postemployment benefits					80,670
Total Electric Fund					\$ 1,924,390
Airport Fund:					
Compensated absences					\$ 7,174
Other postemployment benefits					8,067
Total Airport Fund					\$ 15,241
Solid Waste Fund:					
Compensated absences					\$ 17,853
Other postemployment benefits					8,067
Total Solid Waste Fund					\$ 25,920
Total Proprietary Funds					\$ 5,089,332
Total Primary Government					\$ 22,728,013

NOTE 7 - LONG-TERM OBLIGATIONS: (CONTINUED)

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

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2015	\$ 419,284	\$ 436,005	\$ 60,954	\$ 10,333
2016	493,780	420,756	62,867	8,422
2017	575,673	402,505	42,436	6,450
2018	593,270	381,672	43,751	5,135
2019	1,548,092	359,258	45,107	3,777
2020	680,155	337,319	46,509	2,376
2021	2,849,429	309,180	24,810	929
2022	853,000	283,161	-	-
2023	890,000	249,378	-	-
2024	925,000	217,108	-	-
2025	909,000	183,648	-	-
2026	946,000	150,365	-	-
2027	928,000	115,695	-	-
2028	283,000	82,109	-	-
2029	190,000	71,473	-	-
2030	195,000	63,861	-	-
2031	200,000	56,245	-	-
2032	210,000	47,995	-	-
2033	220,000	39,331	-	-
2034	225,000	30,538	-	-
2035	110,000	23,843	-	-
2036	115,000	19,068	-	-
2037	120,000	14,069	-	-
2038	125,000	8,828	-	-
2039	130,000	3,069	-	-
	<u>\$ 14,733,683</u>	<u>\$ 4,306,479</u>	<u>\$ 326,434</u>	<u>\$ 37,422</u>

NOTE 7 – LONG-TERM OBLIGATIONS: (CONTINUED)

Long-Term Liabilities – Business-Type Activities:

Long-term obligations of the business-type activities at June 30, 2014, are comprised of the following:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Water and Sewer Fund		Electric Fund		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 273,000	\$ 93,935	\$ 193,000	\$ 54,747	\$ 466,000	\$ 148,682
2016	278,000	87,609	200,000	50,452	478,000	138,061
2017	287,000	80,048	207,000	45,100	494,000	125,148
2018	294,000	72,235	214,000	39,554	508,000	111,789
2019	302,000	64,053	220,000	33,652	522,000	97,705
2020	311,000	55,086	222,000	27,234	533,000	82,320
2021	321,000	44,869	234,000	19,254	555,000	64,123
2022	333,000	33,825	241,000	10,780	574,000	44,605
2023	343,000	22,375	93,000	2,037	436,000	24,412
2024	310,000	10,963	-	-	310,000	10,963
Total	\$ <u>3,052,000</u>	\$ <u>564,998</u>	\$ <u>1,824,000</u>	\$ <u>282,810</u>	\$ <u>4,876,000</u>	\$ <u>847,808</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, 2014, the City's aggregate general obligation indebtedness is approximately \$35.0 million less than the Commonwealth's limit as summarized in the following table:

Total assessed value of taxed assessed value		
Assessed value of real estate		\$ <u>546,840,453</u>
Debt limit – 10% of total assessed value		\$ 54,684,045
Amount of debt applicable to debt limit		
General obligation debt:		
Primary Government	\$ 14,733,683	
Business – type	4,876,000	<u>19,609,683</u>
Legal debt margin		\$ <u>35,074,362</u>

Note: The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2014.

NOTE 7 – LONG-TERM OBLIGATIONS: (CONTINUED)

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

Debt Issuance	Reason for Debt Issuance
Governmental Activities:	
Public Improvement and Refunding Series 2010	Schools Realignment and Gym, Social Services Building., King Center, City Buildings
Public Improvement Series 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 re-surfacing
Business-Type Activities:	
<i>Water and Sewer Fund:</i>	
General obligation bonds - Public Improvement and Refunding Series 2010	Water/Sewer Line Extensions, Hunterdale Pump Station
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
<i>Electric Fund:</i>	
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

NOTE 8 – COMPENSATED ABSENCES:

City employees earn annual leave at the rate of 17 to 29 days per year depending on length of service. A maximum of 34 to 58 days of annual leave, depending on length of service, may be carried over to succeeding years and may be paid if not used prior to termination. The governmental and business-type activities have outstanding accrued vacation totaling \$762,463 and \$117,109, respectively, as of June 30, 2014. 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, 2014, accumulated unpaid vacation and sick leave amounted to \$263,615.

NOTE 9 – DEFINED PENSION BENEFIT OBLIGATION:

A. Plan Description

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

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

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and, Hybrid. Each plan has a different eligibility and benefit structure as set out in the table below:

VRS Plan 1	VRS Plan 2	VRS Plan 3
<p>About VRS Plan 1</p> <p>VRS 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. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About VRS Plan 2</p> <p>VRS 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. Employees are eligible for VRS 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.</p>	<p>About the Hybrid Retirement Plan</p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.</p> <p>(See "Eligible Members")</p> <ul style="list-style-type: none"> • 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.
<p>Eligible Members</p> <p>Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election</p> <p>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</p>	<p>Eligible Members</p> <p>Employees are in VRS 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.</p> <p>Hybrid Opt-In Election</p> <p>VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014

<p style="text-align: center;">VRS Plan 1</p>	<p style="text-align: center;">VRS Plan 2</p>	<p style="text-align: center;">VRS Plan 3</p>
<p>window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<ul style="list-style-type: none"> • Members in VRS Plan 1 or VRS 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 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. 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.</p>	<p>Retirement Contributions Same as VRS Plan 1.</p>	<p>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.</p>
<p>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.</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> 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.</p>

VRS Plan 1	VRS Plan 2	VRS Plan 3
		<p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p> <p><u>Vesting</u> <u>Defined Benefit Component:</u> 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. VRS Plan 1 or VRS 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.</p> <p><u>Defined Contributions Component:</u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p>
<p><u>Vesting</u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><u>Vesting</u> Same as VRS Plan 1.</p>	<p><u>Calculating the Benefit</u> 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.</p>
	<p><u>Calculating the Benefit</u> See definition under VRS Plan 1.</p>	<p><u>Calculating the Benefit</u> <u>Defined Benefit Component:</u> See definition under VRS Plan 1</p> <p><u>Defined Contribution Component:</u> 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.</p>

VRS Plan 1	VRS Plan 2	VRS Plan 3
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.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
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 is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	Service Retirement Multiplier The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age Age 65.	Normal Retirement Age Normal Social Security retirement age.	Normal Retirement Age <u>Defined Benefit Component:</u> Same as VRS Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

VRS Plan 1	VRS Plan 2	VRS Plan 3
<p>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%.</p> <p><u>Eligibility:</u> 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.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • 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). <p>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.</p> <ul style="list-style-type: none"> • 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. 	<p>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%.</p> <p><u>Eligibility:</u> Same as VRS Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit</u> <u>Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution</u> <u>Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as VRS Plan 1 and VRS Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1 and VRS Plan 2.</p>
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p>	<p>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.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p>	<p>Disability Coverage Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in</p>

VRS Plan 1	VRS Plan 2	VRS Plan 3
VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
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 toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as VRS Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as VRS Plan 1. <u>Defined Contribution Component:</u> Not applicable.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

A. **Funding Policy**

Primary Government

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% 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. In addition, the City of Franklin, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City of Franklin, Virginia contribution rate for the fiscal year ended June 30, 2014 was 8.13% of the annual covered payroll.

B. **Annual Pension Cost**

Primary Government

For the fiscal year ended June 30, 2014, the City of Franklin, Virginia's annual pension cost of \$775,208 for VRS was equal to the required and actual contributions.

NOTE 9 – DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

**Three-Year Trend Information
for the City of Franklin, Virginia**

Fiscal Year Ending	Annual Pension Cost (APC)*	Percentage Of APC Contributed	Net Pension Obligation
6/30/2014	\$775,208	100%	\$-
6/30/2013	801,556	100%	-
6/30/2012	748,861	100%	-

* Employer portion only

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the City of Franklin, Virginia's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City of Franklin's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

C. Annual Pension Cost (CONTINUED)

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

For the fiscal year ended June 30, 2014, the School Board's annual pension cost of \$37,418 for VRS was equal to the required and actual contributions.

**Three-Year Trend Information
for the City of Franklin, Virginia**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
6/30/2014	\$37,418	100%	\$-
6/30/2013	37,978	100%	-
6/30/2012	36,858	100%	-

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% 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

NOTE 9 – DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

the employee-paid member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board contribution rate for the fiscal year ended June 30, 2014 was 5.81% of the annual covered payroll.

D. Funded Status and Funding Progress

Primary Government

As of June 30, 2013, the most recent actuarial valuation date, the plan was 75.87% funded. The actuarial accrued liability for benefits was \$32,679,920, and the actuarial value of assets was \$24,794,273, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,885,647. The covered payroll (annual payroll of active employees covered by the plan) was \$7,335,473, and the ratio of the UAAL to the covered payroll was 107.50%.

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

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

As of June 30, 2013, the most recent actuarial valuation date, the plan was 83.41% funded. The actuarial accrued liability for benefits was \$1,674,609, and the actuarial value of assets was \$1,396,854, resulting in an unfunded actuarial accrued liability (UAAL) of \$277,755. The covered payroll (annual payroll of active employees covered by the plan) was \$374,568, and the ratio of the UAAL to the covered payroll was 74.15%.

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

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

Plan Description

The Franklin City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required to contribute 5.00% of their annual covered salary and Franklin City School Board is required to contribute at an actuarially determined rate. The current rate is 8.94% of annual covered payroll. The contribution requirements of plan members and Franklin City School Board are established and may be amended by the VRS Board of Trustees. The School Board's contributions to VRS for the years ending June 30, 2014, 2013 and 2012 were \$481,906, \$498,285, and \$540,792, respectively, equal to the required contributions for each year.

NOTE 10 – JOINT VENTURES AND RELATED ORGANIZATIONS:

Blackwater Regional Library

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

Franklin-Southampton Economic Development Commission

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

Western Tidewater Regional Jail Authority

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

Western Tidewater Community Services Board

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

NOTE 11 – CONTINGENT LIABILITIES:

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

General obligation bonds of \$5,326,000 have been recorded in the Enterprise Funds from which repayment is anticipated. The General Fund has a contingent liability for repayment of the aforementioned amounts should the Enterprise Funds be unable to pay.

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

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

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS PROGRAM:

Background

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

City:

A. Plan Description

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

B. Funding Policy

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

C. Annual OPEB and Net OPEB Obligation:

The annual cost of other post-employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay as you go cost for OPEB benefits is \$310,000 for fiscal year 2014. The City has paid an estimated \$205,200 towards this obligation during the fiscal year. The City is required to contribute the annual required contribution of the employer (ARC) an amount actuarially determined in accordance within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

City: (Continued)

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

Annual OPEB Cost

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

Annual required contribution	\$	307,100
Interest on net OPEB obligation		28,100
Adjustment to annual required contribution		<u>(25,200)</u>
Annual OPEB cost (expense)	\$	310,000
Estimated contributions made		<u>(205,200)</u>
Increase in net OPEB obligation		104,800
Net OPEB obligation, beginning of year	\$	<u>701,900</u>
Net OPEB obligation, end of year	\$	<u><u>806,700</u></u>

For 2014 the City's expected cash payment of \$205,200 was \$104,800 less than the OPEB cost. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014, 2013 and 2012 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	292,000	57%	574,000
June 30, 2013	297,800	57%	701,900
June 30, 2014	310,000	38%	806,700

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

City: (Continued)

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014 (based on the valuation dated July 1, 2013), is as follows:

Actuarial accrued liability (AAL)	\$	3,437,000
Actuarial value of plan assets	\$	
Unfunded actuarial accrued liability (UAAL)	\$	3,437,000
Funded ratio (actuarial value of plan assets / AAL)		
Covered payroll (active plan members)	\$	7,026,600
UAAL as a percentage of covered payroll		48.91%

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

E. Actuarial Methods and Assumptions

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

Cost Method

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

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

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

City: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

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

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

Interest Assumptions

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

School Board:

A. Plan Description

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

B. Funding Policy:

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

C. Annual OPEB Cost and Net OPEB Obligation:

The annual cost of other post-employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay-as-you-go cost for OPEB benefits is \$71,000 for fiscal year 2014. The School Board has paid an estimated \$50,000 towards this obligation during the fiscal year. The School Board is required to contribute the annual required contribution of the employer (ARC) an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

School Board: (Continued)

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

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

Annual required contribution	\$	71,200
Interest on net OPEB obligation		6,600
Adjustment to annual required contribution		<u>(6,800)</u>
Annual OPEB cost (expense)	\$	71,000
Estimated contributions made		<u>(50,000)</u>
Increase in net OPEB obligation	\$	21,000
Net OPEB obligation, beginning of year		<u>164,200</u>
Net OPEB obligation, end of year	\$	<u><u>185,200</u></u>

Annual OPEB Cost

For 2014 the School Board's expected cash payment of \$50,000 was \$21,000 less than the OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014, 2013 and 2012 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	66,900	62%	134,600
June 30, 2013	68,900	57%	164,200
June 30, 2014	71,200	38%	185,200

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

School Board: (Continued)

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014 is as follows:

Actuarial accrued liability (AAL)	\$	607,800
Actuarial value of plan assets	\$	
Unfunded actuarial accrued liability (UAAL)	\$	607,800
Funded ratio (actuarial value of plan assets / AAL)		
Covered payroll (active plan members)	\$	5,543,600
UAAL as a percentage of covered payroll		10.96%

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

E. Actuarial Methods and Assumptions

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

Cost Method

The entry age normal cost method is used to determine the plan's funding of liabilities and costs. Under this cost method, the actuarial present value of projected benefits of every active participant as if the plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. A normal cost for each year from the assumed entry date is determined by applying this level percentage of pay to the assumed earnings for that year (or if benefits are not pay related, the level amount for each year). Under these methods, inactive participants have no normal cost, and their actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The plan's total annual normal cost and actuarial liability are the sum of the individual participant amounts.

School Board: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

Cost Method: (Continued)

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

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

Interest Assumptions

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

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

A. Plan Description

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

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

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

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

B. Funding Policy

As a participating local political subdivision, the School Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2014 was .82% of annual covered payroll.

C. OPEB Cost and Net OPEB Obligations

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

For 2014, the School Board's contribution of \$1,051 was equal to the ARC and OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 are as follows:

<u>Fiscal Year Ended</u>		<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>		<u>Net OPEB Obligation</u>
June 30, 2014	\$	1,051	100%	\$	-

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	32,422
Actuarial value of plan assets		28,793
Unfunded actuarial accrued liability (UAAL)		3,629
Funded ratio (actuarial value of plan assets / AAL)		88.81%
Covered payroll (active plan members)		374,568
UAAL as a percentage of covered payroll		0.97%

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

D. Funded Status and Funding Progress: (Continued)

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

E. Actuarial Methods and Assumptions

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.5% investment rate of return, compounded annually, including an inflation component of 2.5%, a payroll growth rate of 3%, no escalation in retiree subsidies and an annual healthcare cost trend rate of 8.0%, trending down over the next five years to a rate of 5.0% for future years. The initial unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis over twenty seven years.

F. Professional Employees – Discretely Presented Component Unit School Board

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

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

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is .60% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2014, 2013, and 2012 were \$37,428, \$37,978, and \$36,858, respectively and equaled the required contributions for each year.

NOTE 13—LANDFILL POST-CLOSURE CARE COSTS:

State and federal laws and regulations require that the City perform certain maintenance and monitoring functions subsequent to closure of the City’s landfill site. The City ceased accepting solid waste at the landfill in 1984 and completed initial closure measures in 1987. In letters dated January 13, 1995, and February 1, 1995, the Virginia Department of Environmental Quality informed the City the thirty-year postclosure period would begin in 1995 and the landfill closure had been completed in accordance with the Virginia Solid Waste Management Regulations, respectively. The original estimated total cost of the postclosure care of approximately \$132,608 was based on the expected costs of all equipment, facilities, and services required to monitor and maintain the landfill’s postclosure care. However, the actual cost of postclosure care is higher due to inflation, changes in technology, and changes in applicable laws and regulations. The total reported as landfill postclosure care/corrective action cost liability in the amount of \$875,670 represents \$747,272 of postclosure care liability and \$128,398 of corrective action monitoring costs. The postclosure care costs and corrective action activities will continue through June 30, 2025.

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

NOTE 14—SURETY BONDS:

Surety bonds of the City of Franklin are as follows:

Division of Risk Management Surety:
Commonwealth Funds

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

NOTE 15—ANNEXATIONS:

Southampton County

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

NOTE 15—ANNEXATIONS: (CONTINUED)

Southampton County: (Continued)

The City adopted a Revenue-Sharing Agreement with the County in January 1997. County residents approved this agreement in November 1997. The agreement was reviewed and recommended for Court approval by the Commission on Local Government of the Commonwealth of Virginia in January 1999. The Revenue Sharing Agreement covers approximately 17.1 square miles in Southampton County immediately contiguous to the City of Franklin. The agreement provides that the County will pay to the City on October 15th of each year, 30% of local tax revenue collected through June 30 of that year by industries and commercial establishments located within this area that are served by City water and sewer treatment. The City is required to provide potable water for non-residential use to industrial and commercial businesses in the designated area and receive wastewater from such businesses. The agreement is to remain in effect in perpetuity as adopted, subject to amendment by agreement of the parties, except if the City, or a City water and/or sewer authority decides to discontinue operation of both its water and sewer treatment systems, the agreement may be voided upon two years' notice to the County. The designated area, which includes all portions of the County immediately contiguous to the City, is immune from annexation as long as the agreement remains in force and the City exists as a political subdivision in the nature of a city. For the year ending June 30, 2014, the City received \$15,915 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, 2014, the City received \$540,850 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2013.

NOTE 16—DEFICIT FUND BALANCE:

The following funds had a deficit fund balance at June 30, 2014:

<u>Fund</u>	<u>Amount</u>
Community Development Downtown Grant	\$ 611

NOTE 17—DEFERRED REVENUE:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting such amounts are measurable, but not available. Deferred revenue totaling \$419,084 is comprised of the following:

Deferred Property Tax Revenue: Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$419,084.

NOTE 18—ASSIGNED AND UNASSIGNED BALANCES

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

Fund balance in the amount of \$186,205 is assigned for capital projects.

Fund balance in the amount of \$927,409 is assigned for debt service.

Fund balance in the amount of \$4,071,412 is unassigned and available for subsequent expenditures.

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

Fund balance in the amount of \$1,185,642 is assigned for expenditures for school-related capital outlays.

NOTE 19—EXPENDITURES IN EXCESS OF APPROPRIATIONS:

There were no expenditures in excess of appropriations at June 30, 2014.

NOTE 20—FUND BALANCES - RESTATED:

The General Fund beginning fund balance was restated from 6/30/13 as a result of the conversion of the Solid Waste Fund to a separate enterprise fund effective 7/1/2013. The City committed prior year unassigned fund balance for Solid Waste operations on July 1, 2013 and accounted for the General Fund transfer of proceeds used to acquire capital assets to the Solid Waste fund. The net result was a restatement to fund balance in the amount of \$407,041.

The Debt Service Fund was restated as a result of the accounting for payments made in FY 12-13 associated with Sinking Fund transactions and accounting. The ending fund balance at 6/30/14 reflects the Sinking Fund account balance.

NOTE 21—EVALUATION OF SUBSEQUENT EVENTS:

The City has evaluated subsequent events through November 26, 2014, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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

CITY OF FRANKLIN, VIRGINIA

Exhibit 11

General Fund

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

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
General property taxes	\$ 6,966,432	\$ 6,966,432	\$ 6,810,144	\$ (156,288)
Other local taxes	5,183,500	5,183,500	5,198,763	15,263
Permits, privilege fees, and regulatory licenses	89,690	89,690	168,629	78,939
Fines and forfeitures	65,500	65,500	37,418	(28,082)
Revenue from the use of money and property	247,757	247,757	248,948	1,191
Charges for services	1,316,464	1,456,983	1,380,953	(76,030)
Miscellaneous	668,842	679,642	680,312	670
Recovered costs	100,470	135,904	283,729	147,825
Intergovernmental revenues:				
Commonwealth	3,799,462	3,995,085	3,937,726	(57,358)
Federal	467,711	544,396	528,027	(16,369)
Total revenues	\$ 18,905,828	\$ 19,364,889	\$ 19,274,649	\$ (90,240)
Expenditures				
Current:				
General government administration	\$ 2,391,746	\$ 2,530,700	\$ 2,173,109	\$ 357,591
Judicial administration	415,955	414,055	312,767	101,288
Public safety	6,513,992	6,929,806	6,829,366	100,440
Public works	3,109,847	4,387,557	3,874,669	512,888
Health and welfare	167,198	145,198	145,198	-
Education	5,480,569	5,489,769	5,027,124	462,645
Parks, recreation, and cultural	890,758	890,758	802,643	86,136
Community development	926,590	1,192,423	1,102,551	89,872
Nondepartmental	40,000	40,000	39,835	165
Total expenditures	\$ 19,936,655	\$ 22,020,266	\$ 20,307,263	\$ 1,711,024
Excess (deficiency) of revenues over (under) expenditures	\$ (1,030,827)	\$ (2,655,377)	\$ (1,032,614)	\$ 1,622,763
Other Financing Sources (Uses)				
Transfer to debt service	-	-	-	-
Transfers in	2,742,451	4,367,001	1,456,792	(2,910,209)
Transfers out	(1,711,624)	(1,711,624)	(1,823,829)	(112,205)
Total other financing sources and uses	\$ 1,030,827	\$ 2,655,377	\$ (367,038)	\$ (3,022,415)
Net change in fund balances	\$ -	\$ -	\$ (1,399,652)	\$ (1,399,652)
Fund balances - beginning, as restated	-	-	8,291,347	8,291,347
Fund balances - ending	\$ -	\$ -	\$ 6,891,695	\$ 6,891,695

CITY OF FRANKLIN, VIRGINIA

Exhibit 12

Virginia Public Assistance Fund

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

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues:				
Commonwealth	509,842	509,842	323,782	(186,060)
Federal	708,662	708,662	792,697	84,035
Total revenues	\$ 1,218,504	\$ 1,218,504	\$ 1,116,478	\$ (102,026)
EXPENDITURES				
Current:				
Health and welfare	\$ 1,615,842	\$ 1,615,842	\$ 1,499,227	\$ 116,615
Total expenditures	\$ 1,615,842	\$ 1,615,842	\$ 1,499,227	\$ 116,615
Excess (deficiency) of revenues over (under) expenditures	\$ (397,338)	\$ (397,338)	\$ (382,749)	\$ 14,589
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	\$ 397,338	\$ 397,338	\$ 375,173	\$ (22,165)
Total other financing sources and uses	\$ 397,338	\$ 397,338	\$ 375,173	\$ (22,165)
Net change in fund balances	\$ -	\$ -	\$ (7,575)	\$ (7,575)
Fund balances - beginning	-	-	7,575	7,575
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

CITY OF FRANKLIN, VIRGINIA

Exhibit 13

Required Supplementary Information

Schedule of Pension Funding Progress for the Virginia Retirement System

Last Three Fiscal Years

City:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c) (b) - (a)	Funded Ratio (d) (a)/(b)	Annual Covered Payroll (e)	UAAL as % of Payroll (f) (c)/(e)
6/30/2013	\$ 24,794,273	\$ 32,679,920	\$ 7,885,647	75.87%	\$ 7,335,473	107.50%
6/30/2012	24,147,190	33,169,771	9,022,581	72.80%	6,795,474	132.77%
6/30/2011	24,197,474	32,168,046	7,970,572	75.22%	6,636,170	120.11%

School Board Non-Professionals:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c) (b) - (a)	Funded Ratio (d) (a)/(b)	Annual Covered Payroll (e)	UAAL as % of Payroll (f) (c)/(e)
6/30/2013	\$ 1,396,854	\$ 1,674,609	\$ 277,755	83.41%	\$ 374,568	74.15%
6/30/2012	1,371,923	1,736,897	364,974	78.99%	346,651	105.29%
6/30/2011	1,371,923	1,736,897	364,974	78.35%	424,976	89.68%

CITY OF FRANKLIN, VIRGINIA

Exhibit 14

Required Supplementary Information

Schedule of Funding Progress for Other Post-Employment Benefits

Last Two Fiscal Years

City:

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

School Board:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)	Funded ratio (d)	Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			(b) - (a)	(a)/(b)		(c)/(e)
7/1/2010	\$ -	\$ 710,600	\$ 710,600	0.00%	\$ 5,870,000	12.11%
7/1/2011	-	607,800	607,800	0.00%	5,543,600	10.96%

School Board - VRS Health Insurance Credit:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)	Funded ratio (d)	Annual Covered Payroll (e)	UAAL as % of Payroll (f)
			(b) - (a)	(a)/(b)		(c)/(e)
6/30/2013	\$ 28,793	\$ 32,422	\$ 3,629	88.81%	\$ 374,568	0.97%
6/30/2012	25,413	28,339	2,926	89.68%	346,651	0.84%
6/30/2011	25,633	30,900	5,267	82.95%	424,976	1.24%

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CITY OF FRANKLIN, VIRGINIA
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014

Exhibit 15
Page 1 of 2

	Community Development								
	Disaster Recovery	Compre- hensive Services Act Fund	Regional Fire Training Ground Act	Foundation Grants Fund	Block Grant Fund	Block Grant Incubator	Down- town Grant Fund	Western Tidewater Home Consortium Fund	Neighbor- hood Stabilization Program Fund
Assets									
Cash and cash equivalents	\$ -	\$ 15,438	\$ 55	\$ 53,943	\$ 147,405	\$ -	\$ 19,629	\$ (54,626)	\$ 18,173
Receivables (net of allowance for uncollectibles):									
Accounts Receivable	-	-	-	-	-	-	-	75,621	-
Inventory	-	-	-	-	-	-	-	-	-
Due from other governmental units	-	4,253	-	-	-	-	-	-	-
Total assets	\$ 0	\$ 19,691	\$ 55	\$ 53,943	\$ 147,405	\$ 0	\$ 19,629	\$ 20,995	\$ 18,173
Liabilities and Fund Balances									
Liabilities:									
Reconciled overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued expenses	-	19,691	55	-	-	-	20,240	2,909	74
Deposits held in escrow	-	-	-	-	-	-	-	-	-
Total liabilities	\$ -	\$ 19,691	\$ 55	\$ -	\$ -	\$ -	\$ 20,240	\$ 2,909	\$ 74
Fund balances:									
Nonspendable:									
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted:									
Public safety	-	-	-	-	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	-	-	-	-	-	-
Community development	-	-	-	53,943	147,405	-	(611)	18,086	18,099
Unassigned:									
Special Revenue (deficit)	-	-	-	-	-	-	-	-	-
Total fund balances	\$ -	\$ -	\$ -	\$ 53,943	\$ 147,405	\$ -	\$ (611)	\$ 18,086	\$ 18,099
Total liabilities and fund balances	\$ -	\$ 19,691	\$ 55	\$ 53,943	\$ 147,405	\$ -	\$ 19,629	\$ 20,995	\$ 18,173

Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Homestead Fund	Economic Development Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Southview Cemetery Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
\$ (8,703)	\$ 11,972	\$ 5,293	\$ 2,150	\$ 51,613	\$ 204,466	\$ 53,965	\$ 10,691	\$ 3,482	\$ 108,056	\$ 12,734	\$ 655,734
42,400	-	836	-	-	-	-	-	-	-	-	118,857
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	4,253
<u>\$ 33,697</u>	<u>\$ 11,972</u>	<u>\$ 6,129</u>	<u>\$ 2,150</u>	<u>\$ 51,613</u>	<u>\$ 204,466</u>	<u>\$ 53,965</u>	<u>\$ 10,691</u>	<u>\$ 3,482</u>	<u>\$ 108,056</u>	<u>\$ 12,734</u>	<u>\$ 778,844</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	25,799	-	-	-	-	-	68,768
-	-	-	-	-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,799</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,768</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	11,972	6,129	2,150	-	-	-	10,691	-	-	-	30,942
-	-	-	-	-	-	-	-	-	-	-	-
33,697	-	-	-	51,613	178,667	53,965	-	3,482	108,056	9,889	676,290
-	-	-	-	-	-	-	-	-	-	2,845	2,845
<u>\$ 33,697</u>	<u>\$ 11,972</u>	<u>\$ 6,129</u>	<u>\$ 2,150</u>	<u>\$ 51,613</u>	<u>\$ 178,667</u>	<u>\$ 53,965</u>	<u>\$ 10,691</u>	<u>\$ 3,482</u>	<u>\$ 108,056</u>	<u>\$ 12,734</u>	<u>\$ 710,076</u>
<u>\$ 33,697</u>	<u>\$ 11,972</u>	<u>\$ 6,129</u>	<u>\$ 2,150</u>	<u>\$ 51,613</u>	<u>\$ 204,466</u>	<u>\$ 53,965</u>	<u>\$ 10,691</u>	<u>\$ 3,482</u>	<u>\$ 108,056</u>	<u>\$ 12,734</u>	<u>\$ 778,844</u>

CITY OF FRANKLIN, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended June 30, 2014

Exhibit 16

Page 1 of 2

				Community Development					
	Disaster Recovery Fund	Compre- hensive Services Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Block Grant Fund	Block Grant Incubator	Down- town Grant Fund	Western Tidewater Home Consortium Fund	Neighbor- hood Stabilization Program Fund
Revenues									
Revenue from the use of money and property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	88,273	199,532	-	-	-	7,820	-	-
Intergovernmental revenues:									
Commonwealth	-	-	-	109,359	-	-	-	75,621	-
Federal	-	-	-	-	-	-	-	-	20,413
Total Revenues	\$ -	\$ 88,273	\$ 199,532	\$ 109,359	\$ -	\$ -	\$ 7,820	\$ 75,621	\$ 20,413
Expenditures									
Current:									
Public safety	\$ -	\$ -	\$ 202,408	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Health and welfare	-	274,865	-	-	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	87,240	-	-	-	-	-
Community development	-	-	-	-	409	-	-	74,632	188,200
Total expenditures	\$ -	\$ 274,865	\$ 202,408	\$ 87,240	\$ 409	\$ -	\$ -	\$ 74,632	\$ 188,200
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (186,593)	\$ (2,876)	\$ 22,119	\$ (409)	\$ -	\$ 7,820	\$ 989	\$ (167,787)
OTHER FINANCING SOURCES (USES)									
Transfers in	\$ -	\$ 186,593	\$ 5,051	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (out)	(48,264)	-	-	-	-	-	-	-	-
Total other financing sources and uses	\$ (48,264)	\$ 186,593	\$ 5,051	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	(48,264)	-	2,175	22,119	(409)	-	7,820	989	(167,787)
Fund balances - beginning	48,264	-	(2,175)	31,824	147,814	-	(8,431)	17,097	185,887
Fund balances - ending	\$ -	\$ -	\$ -	\$ 53,943	\$ 147,405	\$ -	\$ (611)	\$ 18,086	\$ 18,099

Cobb- town Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Home- stead Fund	Economic Develop- ment Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	South- view Cemetery Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 129,569	\$ 325	\$ -	\$ -	\$ 43	\$ 18	\$ 129,956
-	454	5,846	673	1,500	-	-	10,915	-	-	-	315,012
-	-	-	-	-	-	-	-	-	-	-	184,980
-	-	-	-	-	-	-	-	-	-	-	20,413
\$ -	\$ 454	\$ 5,847	\$ 673	\$ 1,500	\$ 129,569	\$ 325	\$ 10,915	\$ -	\$ 43	\$ 18	\$ 650,360
\$ -	\$ 7,300	\$ 2,856	\$ -	\$ -	\$ -	\$ -	\$ 9,898	\$ -	\$ -	\$ -	\$ 222,462
-	-	-	-	-	-	-	-	-	-	-	274,865
-	-	-	-	-	-	702	-	-	5	-	87,947
-	-	-	-	28,856	319,654	-	-	71	-	-	611,822
\$ -	\$ 7,300	\$ 2,856	\$ -	\$ 28,856	\$ 319,654	\$ 702	\$ 9,898	\$ 71	\$ 5	\$ -	\$ 1,197,096
\$ -	\$ (6,846)	\$ 2,991	\$ 673	\$ (27,356)	\$ (190,085)	\$ (377)	\$ 1,017	\$ (71)	\$ 38	\$ 18	\$ (546,736)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,085	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 381,730
-	-	-	-	-	-	-	-	-	-	-	(48,264)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,085	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 333,465
-	(6,846)	2,991	673	(27,356)	-	(377)	1,017	(71)	38	18	(213,270)
33,697	18,819	3,138	1,477	78,969	178,667	54,342	9,673	3,554	108,018	12,716	923,347
\$ 33,697	\$ 11,972	\$ 6,129	\$ 2,150	\$ 51,613	\$ 178,667	\$ 53,965	\$ 10,691	\$ 3,482	\$ 108,056	\$ 12,734	\$ 710,077

	Agency Funds					
	Special Welfare Fund	Special Welfare - SSI Fund	Flexible Spending Fund	Employee Emergency Trust Fund	Early Childhood Comission Fund	Total
ASSETS						
Cash and cash equivalents	\$ 28,069	\$ 10,931	\$ 7,157	\$ 12,597	\$ 83,023	\$ 141,776
Total assets	<u>\$ 28,069</u>	<u>\$ 10,931</u>	<u>\$ 7,157</u>	<u>\$ 12,597</u>	<u>\$ 83,023</u>	<u>\$ 141,776</u>
LIABILITIES						
Amounts held for others	\$ 28,069	\$ 10,931	\$ 7,157	\$ 12,597	\$ 83,023	\$ 141,776
Total liabilities	<u>\$ 28,069</u>	<u>\$ 10,931</u>	<u>\$ 7,157</u>	<u>\$ 12,597</u>	<u>\$ 83,023</u>	<u>\$ 141,776</u>

CITY OF FRANKLIN, VIRGINIA

Exhibit 18

Combining Statements of Changes in Assets and Liabilities

Agency Funds

For The Year Ended June 30, 2014

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Special Welfare Fund:				
ASSETS				
Cash and cash equivalents	\$ 28,069	\$ -	\$ -	\$ 28,069
Total assets	\$ 28,069	\$ -	\$ -	\$ 28,069
LIABILITIES				
Amounts held for others	\$ 28,069	\$ -	\$ -	\$ 28,069
Total liabilities	\$ 28,069	\$ -	\$ -	\$ 28,069
Special Welfare - SSI Fund:				
ASSETS				
Cash and cash equivalents	\$ 10,931	\$ -	\$ -	\$ 10,931
Total assets	\$ 10,931	\$ -	\$ -	\$ 10,931
LIABILITIES				
Amounts held for others	\$ 10,931	\$ -	\$ -	\$ 10,931
Total liabilities	\$ 10,931	\$ -	\$ -	\$ 10,931
Flexible Spending Fund:				
ASSETS				
Cash and cash equivalents	\$ 6,509	\$ 32,939	\$ 32,291	\$ 7,157
Total assets	\$ 6,509	\$ 32,939	\$ 32,291	\$ 7,157
LIABILITIES				
Amounts held for others	\$ 6,509	\$ 32,939	\$ 32,291	\$ 7,157
Total liabilities	\$ 6,509	\$ 32,939	\$ 32,291	\$ 7,157
Employee Emergency Trust Fund:				
ASSETS				
Cash and cash equivalents	\$ 15,384	\$ (875)	\$ 1,912	\$ 12,597
Total assets	\$ 15,384	\$ (875)	\$ 1,912	\$ 12,597
LIABILITIES				
Amounts held for others	\$ 15,384	\$ (875)	\$ 1,912	\$ 12,597
Total liabilities	\$ 15,384	\$ (875)	\$ 1,912	\$ 12,597
Early Childhood Commission Fund:				
ASSETS				
Cash and cash equivalents	\$ 103,244	\$ 204,621	\$ 224,842	\$ 83,023
Total assets	\$ 103,244	\$ 204,621	\$ 224,842	\$ 83,023
LIABILITIES				
Amounts held for others	\$ 103,244	\$ 204,621	\$ 224,842	\$ 83,023
Total liabilities	\$ 103,244	\$ 204,621	\$ 224,842	\$ 83,023
Totals - All Agency Funds:				
ASSETS				
Cash and cash equivalents	\$ 159,910	\$ 236,685	\$ 259,045	\$ 137,550
Total assets	\$ 159,910	\$ 236,685	\$ 259,045	\$ 137,550
LIABILITIES				
Amounts held for others	\$ 159,910	\$ 236,685	\$ 259,045	\$ 137,550
Total liabilities	\$ 159,910	\$ 236,685	\$ 259,045	\$ 137,550

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

Exhibit 19

Combining Balance Sheet

Discretely Presented Component Unit – School Board

June 30, 2014

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 761,415	\$ 119,806	\$ 317,670	\$ 1,198,891
Receivables (net of allowance for uncollectibles):				
Accounts receivable	3,986	28,582	-	32,569
Due from other governmental units	642,168	-	-	642,168
Inventories	-	9,474	-	9,474
Prepaid items	-	-	-	-
Total assets	<u>\$ 1,407,569</u>	<u>\$ 157,862</u>	<u>\$ 317,670</u>	<u>\$ 1,883,101</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,200,153	\$ 9,489	\$ -	\$ 1,209,642
Accrued liabilities	207,416	38,229	-	245,645
Total liabilities	<u>\$ 1,407,569</u>	<u>\$ 47,718</u>	<u>\$ -</u>	<u>\$ 1,455,287</u>
Fund balances:				
Nonspendable:				
Inventory	-	110,145	317,670	427,815
Restricted:				
Special Revenue	-	-	-	-
Total fund balances	<u>\$ -</u>	<u>\$ 110,145</u>	<u>\$ 317,670</u>	<u>\$ 427,815</u>
Total liabilities and fund balances	<u>\$ 1,407,569</u>	<u>\$ 157,863</u>	<u>\$ 317,670</u>	<u>\$ 1,883,102</u>

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

Total fund balances per above	\$ 427,815
-------------------------------	------------

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

Capital assets	\$ 16,789,274	
Less: accumulated depreciation	<u>(7,381,461)</u>	9,407,813

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	\$ (185,200)	
Compensated absences	<u>(263,615)</u>	(448,815)

Net position of governmental activities	\$ <u>9,386,813</u>
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CITY OF FRANKLIN, VIRGINIA

Exhibit 20

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds – Discretely Presented Component Unit – School Board
 For the Year Ended June 30, 2014

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
REVENUES				
Revenue from the use of money and property	\$ -	\$ -	\$ 48	\$ 48
Charges for services	-	-	-	-
Miscellaneous	164,083	131,037	-	295,120
Recovered costs	-	-	327	327
Intergovernmental revenues:				
Local government	5,027,124	-	-	5,027,124
Commonwealth	8,648,992	16,253	-	8,665,244
Federal	1,800,987	569,414	-	2,370,401
Total revenues	<u>\$ 15,641,186</u>	<u>\$ 716,704</u>	<u>\$ 375</u>	<u>\$ 16,358,265</u>
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 11,821,568	\$ -	\$ 57,328	\$ 11,878,897
Administration, attendance and health	1,019,323	-	-	1,019,323
Transportation	562,036	-	-	562,036
Operations and maintenance	1,432,298	-	-	1,432,298
Technology	805,961	-	-	805,961
Food services	-	676,426	-	676,426
Total expenditures	<u>\$ 15,641,186</u>	<u>\$ 676,426</u>	<u>\$ 57,328</u>	<u>\$ 16,374,940</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 40,279</u>	<u>\$ (56,953)</u>	<u>\$ (16,675)</u>
OTHER FINANCING SOURCES (USED)				
Debt Issuance	\$ -	\$ -	\$ -	\$ -
Transfers in	-	-	103,603	103,603
Transfers out	-	-	-	-
Total other financing sources and uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,603</u>	<u>\$ 103,603</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ 40,279</u>	<u>\$ 46,650</u>	<u>\$ 86,928</u>
Fund balances - beginning	-	69,867	271,020	340,887
Fund balances - ending	<u>\$ -</u>	<u>\$ 110,146</u>	<u>\$ 317,670</u>	<u>\$ 427,815</u>

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

Net change in fund balances - total governmental funds - per above \$ 86,928

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

Capital asset additions	\$ 765,238	
Depreciation expense	<u>(373,704)</u>	391,534

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (accrued leave & OPEB) 71,511

Change in net position of governmental activities \$ 549,974

CITY OF FRANKLIN, VIRGINIA

Exhibit 21

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

Discretely Presented Component Unit – School Board

For the Year Ended June 30, 2014

School Operating Fund				
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Revenue from the use of money and property	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Miscellaneous	-	-	164,083	164,083
Recovered costs	-	-	-	-
Intergovernmental revenues:				
Local government	5,480,569	6,293,992	5,027,124	(1,266,868)
Commonwealth	8,466,180	8,503,980	8,648,992	145,012
Federal	1,990,156	2,078,108	1,800,987	(277,121)
Total revenues	\$ 15,936,905	\$ 16,876,080	\$ 15,641,186	\$ (1,234,894)
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 12,586,979	\$ 13,537,685	\$ 11,821,568	\$ 1,716,117
Administration, attendance and health	937,803	946,053	1,019,323	(73,270)
Transportation	561,268	561,268	562,036	(768)
Operations and maintenance	1,297,413	1,280,653	1,432,298	(151,645)
Technology	764,060	826,820	805,961	20,859
Food services	-	-	-	-
Total expenditures	\$ 16,147,523	\$ 17,152,479	\$ 15,641,186	\$ 1,511,293
Excess (deficiency) of revenues over (under) expenditures	\$ (210,618)	\$ (276,399)	\$ -	\$ 276,399
OTHER FINANCING SOURCES (USES)				
Debt Issuance	\$ -	\$ -	\$ -	\$ -
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ (210,618)	\$ (276,399)	\$ -	\$ 276,399
Fund balances - beginning	210,618	276,399	-	(276,399)
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

CITY OF FRANKLIN, VIRGINIA

Exhibit 22

Statement of Net Position

Discretely Presented Component Unit - Industrial Development Authority

June 30, 2014

	<u>Industrial Development Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>14,312</u>
Total assets	\$ <u><u>14,312</u></u>
 NET ASSETS	
Unrestricted	\$ <u>14,312</u>
Total net assets	\$ <u><u>14,312</u></u>

CITY OF FRANKLIN, VIRGINIA**Exhibit 23**

Statement of Revenues, Expenses, and Changes in Net Position

Discretely Presented Component Unit - Industrial Development Authority

For the Year Ended June 30, 2014

	<u>Industrial Development Authority</u>
NONOPERATING REVENUES	
Contribution from Primary Government	\$
Interest income	<u>4</u>
Total nonoperating income	\$ <u>4</u>
Change in net assets	\$ 4
Total net assets - beginning	<u>14,308</u>
Total net assets - ending	\$ <u>14,312</u>

CITY OF FRANKLIN, VIRGINIA

Exhibit 24

Statement of Cash Flows

Discretely Presented Component Unit - Industrial Development Authority

For the Ended June 30, 2014

	<u>Industrial Development Authority</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Contribution from Primary Government	\$ -
Repayment of amount due Primary Government	-
Net cash provided by capital and related financing activities	<u>\$ -</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	\$ 4
Net cash provided by investing activities	<u>\$ 4</u>
Net increase (decrease) in cash and cash equivalents	\$ 4
Cash and cash equivalents - beginning	14,308
Cash and cash equivalents - ending	<u><u>\$ 14,312</u></u>

CITY OF FRANKLIN, VIRGINIA
Schedule of Revenues – Budget and Actual
General Fund
For the Year Ended June 30, 2014

Schedule 1
Page 1 of 3

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 5,325,432	\$ 5,325,432	\$ 5,168,657	\$ (156,775)
Real and personal public service corporation taxes	66,000	66,000	62,750	(3,250)
Personal property taxes	1,395,000	1,395,000	1,361,798	(33,202)
Machinery and tools taxes	60,000	60,000	63,548	3,548
Penalties	80,000	80,000	92,432	12,432
Interest	40,000	40,000	60,959	20,959
Total general property taxes	\$ 6,966,432	\$ 6,966,432	\$ 6,810,144	\$ (156,288)
Other local taxes:				
Local sales and use taxes	\$ 1,725,000	\$ 1,725,000	\$ 1,722,799	\$ (2,201)
Consumers' utility taxes	571,000	571,000	478,152	(92,848)
Probate taxes	-	-	3,021	3,021
Electric consumption taxes	-	-	-	-
Business license taxes	930,500	930,500	952,525	22,025
Motor vehicle license taxes	172,000	172,000	151,986	(20,014)
Bank stock taxes	55,000	55,000	58,775	3,775
Taxes on recordation and wills	30,000	30,000	44,337	14,337
Cigarette taxes	300,000	300,000	342,433	42,433
Lodging taxes	150,000	150,000	149,854	(146)
Restaurant food taxes	1,250,000	1,250,000	1,294,882	44,882
Total other local taxes	\$ 5,183,500	\$ 5,183,500	\$ 5,198,763	\$ 15,263
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 3,200	\$ 3,200	\$ 4,301	\$ 1,101
Building and related permits	-	-	-	-
Transfer fees	-	-	-	-
Permits and other licenses	86,490	86,490	164,328	77,838
Total permits, privilege fees, and regulatory licenses	\$ 89,690	\$ 89,690	\$ 168,629	\$ 78,939
Fines and forfeitures:				
Court fines and forfeitures	\$ 65,500	\$ 65,500	\$ 37,418	\$ (28,082)
Total fines and forfeitures	\$ 65,500	\$ 65,500	\$ 37,418	\$ (28,082)
Revenue from use of money and property:				
Revenue from use of money	\$ 2,000	\$ 2,000	\$ 2,810	\$ 810
Revenue from use of property	245,757	245,757	246,138	381
Total revenue from use of money and property	\$ 247,757	\$ 247,757	\$ 248,948	\$ 1,191
Charges for services:				
Law library and court fees	\$ 7,200	\$ 7,200	\$ 4,376	\$ (2,824)
J & D Services - Southampton County	4,100	4,100	4,100	-
Fire and emergency services	108,354	108,354	110,093	1,739

CITY OF FRANKLIN, VIRGINIA
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2014

Schedule 1
Page 2 of 3

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Ambulance services	290,000	302,000	308,254	6,254
Southampton County - fire truck	-	-	-	-
Animal boarding and adoption fees	300	300	160	(140)
Janitorial services	16,500	16,500	17,734	1,234
Social services - telephone system	-	-	17,141	17,141
Waste collection and disposal	-	118,519	575	(117,944)
Weed Cutting Charges	5,000	5,000	26,916	21,916
Demolition and debris removal	1,000	1,000	987	(13)
Administration - water and sewer	257,305	257,305	257,305	-
Administration - airport	17,833	17,833	17,833	-
Administration - electric	388,960	388,960	388,960	-
Recreation fees and admissions	15,750	15,750	10,853	(4,897)
Other charges for services	204,162	214,162	215,666	1,504
Total charges for services	\$ 1,316,464	\$ 1,456,983	\$ 1,380,953	\$ (76,030)
Miscellaneous revenue:				
Miscellaneous	\$ 14,100	\$ 24,900	\$ 9,201	\$ (15,699)
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	7,000	7,000	6,164	(836)
Isle of Wight - revenue sharing	530,000	530,000	540,850	10,850
Southampton County - revenue sharing	16,000	16,000	15,915	(85)
Sale of cemetery lots	16,000	16,000	22,440	6,440
Total miscellaneous revenue	\$ 668,842	\$ 679,642	\$ 680,312	\$ 670
Recovered costs:				
Workers' compensation	\$ -	\$ -	\$ 720	\$ 720
Insurance recovery - liability	13,500	13,500	17,753	4,253
Other recovered costs	86,970	122,404	265,256	142,852
Total recovered costs	\$ 100,470	\$ 135,904	\$ 283,729	\$ 147,825
Total revenue from local sources	\$ 14,638,655	\$ 14,825,408	\$ 14,808,896	\$ (16,512)
Revenue from the Commonwealth:				
Noncategorical aid:				
Railroad rolling stock tax	\$ 6,500	\$ 6,500	\$ 7,033	\$ 533
Motor vehicle rental tax	30,000	30,000	30,566	566
Communication taxes	575,000	575,000	558,779	(16,221)
State recordation tax	10,000	10,000	18,241	8,241
Personal property tax relief funds	1,048,897	1,048,897	1,048,897	-
Total noncategorical aid	\$ 1,670,397	\$ 1,670,397	\$ 1,663,516	\$ (6,881)

CITY OF FRANKLIN, VIRGINIA
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2014

Schedule 1
Page 3 of 3

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 76,633	\$ 76,633	\$ 76,962	\$ 329
Treasurer	64,356	64,356	61,321	(3,035)
Registrar/electoral board	34,000	34,000	34,657	657
Total shared expenses	\$ 174,989	\$ 174,989	\$ 172,941	\$ (2,048)
Other categorical aid:				
HB 599 Law enforcement grant	\$ 404,250	\$ 404,250	\$ 404,520	\$ 270
Fire and rescue grant	-	25,774	50,250	24,476
Street and highway maintenance funds	1,486,031	1,529,731	1,529,731	-
Litter control grants	-	6,366	6,366	-
Wireless 911 grant	48,751	48,751	49,449	698
Other categorical aid	15,044	134,827	60,954	(73,873)
DHDC Planning Grant	-	-	-	-
Arts grant	-	-	-	-
Total other categorical aid	\$ 1,954,076	\$ 2,149,699	\$ 2,101,270	\$ (48,429)
Total categorical aid	\$ 2,129,065	\$ 2,324,688	\$ 2,274,211	\$ (50,477)
Total revenue from the Commonwealth	\$ 3,799,462	\$ 3,995,085	\$ 3,937,726	\$ (57,358)
Revenue from the federal government:				
Categorical aid:				
ARRA - summer youth work program	\$ -	\$ -	\$ -	\$ -
Emergency services grant	16,595	16,595	16,595	-
Police grants	-	37,157	37,127	(30)
Forest land management	-	-	-	-
USGS grant - river gauge	-	-	-	-
Fire department - safer grant	451,116	451,116	443,150	(7,966)
Other federal categorical aid	-	39,528	31,155	(8,373)
Total categorical aid	\$ 467,711	\$ 544,396	\$ 528,027	\$ (16,369)
Total revenue from the federal government	\$ 467,711	\$ 544,396	\$ 528,027	\$ (16,369)
Total General Fund	\$ 18,905,828	\$ 19,364,889	\$ 19,274,649	\$ (90,240)

CITY OF FRANKLIN, VIRGINIA
Statement of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2014

Schedule 2
Page 1 of 3

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
City council	\$ 280,971	\$ 219,325	\$ 195,570	\$ 23,755
General and financial administration:				
City manager	\$ 233,803	\$ 233,803	\$ 178,103	\$ 55,700
City attorney	158,880	158,880	140,986	17,894
Management services and human resources	139,907	139,907	138,572	1,335
Commissioner of revenue	242,417	242,417	240,157	2,260
Real estate assessor	114,029	114,029	96,323	17,706
Treasurer	262,645	262,645	253,386	9,259
Accounting	303,640	302,640	258,668	43,972
Purchasing	81,619	82,619	83,076	(457)
Utility billings and collections	225,390	225,390	225,269	121
Insurance	105,000	118,300	117,691	609
Information Technology	141,468	326,468	141,052	185,416
Total general and financial administration	\$ 2,008,798	\$ 2,207,098	\$ 1,873,281	\$ 333,817
Board of elections:				
Electoral board and officials	\$ 101,977	\$ 104,277	\$ 104,258	\$ 19
Total board of elections	\$ 101,977	\$ 104,277	\$ 104,258	\$ 19
Total general government administration	\$ 2,391,746	\$ 2,530,700	\$ 2,173,109	\$ 357,591
Judicial administration:				
Courts:				
Circuit court - joint operations	\$ 9,307	\$ 9,307	\$ 9,308	\$ (1)
General district court	169,386	167,486	86,846	80,640
Magistrates	-	-	-	-
Clerk of the circuit court	75,689	75,689	55,039	20,650
Juvenile and domestic relations court	-	-	-	-
Sheriff - courts	102,282	102,282	102,282	-
Total courts	\$ 356,664	\$ 354,764	\$ 253,476	\$ 101,289
Commonwealth's attorney:				
Commonwealth's attorney	\$ 59,291	\$ 59,291	\$ 59,291	\$ -
Total commonwealth's attorney	\$ 59,291	\$ 59,291	\$ 59,291	\$ -
Total judicial administration	\$ 415,955	\$ 414,055	\$ 312,767	\$ 101,288
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,695,554	\$ 2,975,885	\$ 2,958,771	\$ 17,114
Total law enforcement and traffic control	\$ 2,695,554	\$ 2,975,885	\$ 2,958,771	\$ 17,114

CITY OF FRANKLIN, VIRGINIA
Statement of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2014

Schedule 2
Page 2 of 3

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Public safety: (Continued)				
Emergency services:				
E-911 operations	\$ 642,468	\$ 642,468	\$ 601,735	\$ 40,733
Emergency management services	2,050,437	2,109,403	2,092,616	16,787
Total emergency services	<u>\$ 2,692,905</u>	<u>\$ 2,751,871</u>	<u>\$ 2,694,351</u>	<u>\$ 57,520</u>
Correction and detention:				
Detention - Western Tidewater Regional Jail	\$ 570,990	\$ 570,990	\$ 570,990	\$ -
Total correction and detention	<u>\$ 570,990</u>	<u>\$ 570,990</u>	<u>\$ 570,990</u>	<u>\$ -</u>
Inspections:				
Building	\$ 370,854	\$ 447,371	\$ 436,439	\$ 10,932
Total inspections	<u>\$ 370,854</u>	<u>\$ 447,371</u>	<u>\$ 436,439</u>	<u>\$ 10,932</u>
Other protection:				
Animal control	\$ 111,206	\$ 111,206	\$ 102,915	\$ 8,291
Civil defense	70,983	70,983	65,901	5,082
Safety and health	1,500	1,500	-	1,500
Total other protection	<u>\$ 183,689</u>	<u>\$ 183,689</u>	<u>\$ 168,815</u>	<u>\$ 14,874</u>
Total public safety	<u>\$ 6,513,992</u>	<u>\$ 6,929,806</u>	<u>\$ 6,829,366</u>	<u>\$ 100,440</u>
Public works:				
Maintenance of highways, streets, bridges, and sidewalks:				
Streets and highways	\$ 1,882,481	\$ 2,621,165	\$ 2,361,532	\$ 259,633
Snow removal	26,500	40,780	40,780	-
Garage	226,527	226,527	209,930	16,597
Total maintenance of highways, streets, bridges, and sidewalks	<u>\$ 2,135,508</u>	<u>\$ 2,888,472</u>	<u>\$ 2,612,242</u>	<u>\$ 276,230</u>
Sanitation and waste removal:				
Refuse collection	\$ -	\$ 212,709	\$ -	\$ 212,709
Total sanitation and waste removal	<u>\$ -</u>	<u>\$ 212,709</u>	<u>\$ -</u>	<u>\$ 212,709</u>
Maintenance of general buildings and grounds:				
Maintenance of general buildings and grounds	\$ 624,639	\$ 899,676	\$ 898,813	\$ 863
Maintenance of armory	53,688	53,688	58,843	(5,155)
Maintenance of city hall	194,051	231,051	218,324	12,727
Maintenance of social services	74,663	74,663	63,867	10,796
Maintenance of health department	27,298	27,298	22,581	4,717
Total maintenance of general buildings and grounds	<u>\$ 974,339</u>	<u>\$ 1,286,376</u>	<u>\$ 1,262,427</u>	<u>\$ 23,949</u>
Total public works	<u>\$ 3,109,847</u>	<u>\$ 4,387,557</u>	<u>\$ 3,874,669</u>	<u>\$ 512,888</u>

CITY OF FRANKLIN, VIRGINIA
Statement of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2014

Schedule 2
Page 3 of 3

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Health and welfare:				
Health:				
Local health department	\$ 110,000	\$ 110,000	\$ 110,000	\$ -
Mosquito control	22,000	-	-	-
Mental health	35,198	35,198	35,198	-
Total health	<u>\$ 167,198</u>	<u>\$ 145,198</u>	<u>\$ 145,198</u>	<u>\$ -</u>
Total health and welfare	<u>\$ 167,198</u>	<u>\$ 145,198</u>	<u>\$ 145,198</u>	<u>\$ -</u>
Education:				
Contribution to local school board	<u>\$ 5,480,569</u>	<u>\$ 5,489,769</u>	<u>\$ 5,027,124</u>	<u>\$ 462,645</u>
Total education	<u>\$ 5,480,569</u>	<u>\$ 5,489,769</u>	<u>\$ 5,027,124</u>	<u>\$ 462,645</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Programs and operations	\$ 405,802	\$ 405,802	\$ 350,907	\$ 54,895
Senior citizen programs	97,144	97,144	72,072	25,072
Senior citizen nutrition	40,462	40,462	40,971	(509)
Cemeteries	57,050	57,050	50,372	6,678
Total parks and recreation	<u>\$ 600,458</u>	<u>\$ 600,458</u>	<u>\$ 514,322</u>	<u>\$ 86,136</u>
Library:				
Library administration	<u>\$ 290,300</u>	<u>\$ 290,300</u>	<u>\$ 288,321</u>	<u>\$ -</u>
Total library	<u>\$ 290,300</u>	<u>\$ 290,300</u>	<u>\$ 288,321</u>	<u>\$ -</u>
Total parks, recreation, and cultural	<u>\$ 890,758</u>	<u>\$ 890,758</u>	<u>\$ 802,643</u>	<u>\$ 86,136</u>
Community development:				
Planning and community development:				
Planning and zoning	\$ 162,883	\$ 286,078	\$ 204,153	\$ 81,925
Beautification commission	5,000	24,973	15,685	9,288
Downtown development	108,707	108,707	110,048	(1,341)
Contribution to component unit IDA	-	-	-	-
Payments to Southampton County	650,000	772,665	772,665	-
Total planning and community development	<u>\$ 926,590</u>	<u>\$ 1,192,423</u>	<u>\$ 1,102,551</u>	<u>\$ 89,872</u>
Total community development	<u>\$ 926,590</u>	<u>\$ 1,192,423</u>	<u>\$ 1,102,551</u>	<u>\$ 89,872</u>
Nondepartmental:				
Nondepartmental capital	\$ -	\$ -	\$ -	\$ -
Other nondepartmental	40,000	40,000	39,835	165
Total nondepartmental	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 39,835</u>	<u>\$ 165</u>
Total General Fund	<u><u>\$ 19,936,655</u></u>	<u><u>\$ 22,020,266</u></u>	<u><u>\$ 20,307,263</u></u>	<u><u>\$ 1,711,024</u></u>

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

STATISTICAL SECTION

Contents

Tables

Financial Trends

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

1-8

Revenue Capacity

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

9-14

Debt Capacity

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

15-18

Demographic and Economic Information

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

19-20

Operating Information

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

21-23

Sources:

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

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

Table 1

Fiscal Year	Program Revenues			General Revenues						Total
	Charges for Services	Operating Grants and Contribution	Capital Grants and Contributions	Taxes	Revenue Sharing from Counties	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous		
2014	\$ 21,275,915	\$ 4,036,731	\$ 93,223	\$ 12,008,907	\$ 556,765	\$ 1,663,516	\$ 706,839	\$ 438,559	\$ 40,780,454	
2013	20,063,868	3,935,552	178,275	12,028,857	243,503	1,668,047	* 430,218	346,392	38,894,711	
2012	19,021,975	3,790,723	22,006	11,752,727	1,212,182	1,666,230	* 367,899	359,583	38,193,325	
2011	19,898,355	4,638,338	109,004	11,431,190	438,746	1,663,699	* 341,820	249,154	38,770,306	
2010	18,285,763	4,077,928	2,072,735	11,579,344	1,316,661	1,673,064	* 354,881	305,705	39,666,081	
2009	19,491,230	4,056,878	758,780	12,482,692	1,310,461	1,108,120	* 362,362	533,867	40,104,390	
2008	18,313,540	2,520,711	2,537,650	11,988,424	1,279,456	1,323,968	* 474,392	1,015,319	39,453,460	
2007	17,601,728	4,096,205	1,607,455	11,735,772	1,175,879	1,132,497	* 132,207	1,556,708	39,038,451	
2006	18,767,600	3,698,397	93,952	10,627,041	1,136,199	1,132,497	* 38,191	1,431,952	36,925,829	
2005	16,228,102	3,645,508	2,168,480	10,982,904	1,103,685	0	* 9,025	374,154	34,511,858	

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

Table 2

Fiscal Year	General Government	Judicial	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Non- Departmental	Interest on Long-Term Debt	Water and Sewer	Electric	Airport	Total Expenditures
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	39,467,177
2012	2,797,507	408,025	6,331,863	4,702,151	1,883,150	4,373,992	1,026,675	1,457,880	41,283	434,988	2,972,701	13,153,530	351,863	39,935,607
2011	2,451,215	417,073	6,638,673	4,123,252	2,092,175	4,762,168	1,045,170	2,134,311	-	240,711	3,025,608	12,315,508	571,057	39,816,921
2010	2,301,552	227,580	5,786,765	4,497,628	2,406,592	4,633,929	1,049,424	1,370,039	-	549,261	3,069,237	10,319,351	572,686	36,784,044
2009	2,570,721	238,213	6,175,136	4,328,943	2,607,817	4,866,262	1,156,868	1,249,752	-	554,434	2,994,753	12,844,876	584,294	40,172,069
2008	2,648,658	254,382	5,244,287	4,360,802	2,479,570	5,005,226	1,030,677	1,551,031	-	594,528	3,028,136	11,084,995	637,885	37,920,177
2007	2,418,619	276,708	5,199,732	4,049,898	2,328,871	5,877,702	1,035,540	1,658,873	-	879,419	2,931,072	10,833,758	628,378	38,118,570
2006	3,579,360	220,786	4,581,392	3,273,363	2,476,948	4,358,068	908,320	1,154,255	580,617	717,482	2,895,536	10,704,954	571,601	36,022,682
2005	2,154,840	227,962	4,385,901	4,452,836	2,138,779	4,155,196	993,109	213,146	577,465	734,457	2,794,462	8,887,833	614,946	32,330,932

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

Table 3

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General property taxes	\$ 6,810,144	\$ 6,761,228	\$ 6,531,186	\$ 6,564,430	\$ 6,530,638	\$ 6,738,891	\$ 6,583,034	\$ 5,996,085	\$ 6,359,770	\$ 5,782,264
Other local taxes	5,198,763	5,267,629	5,221,541	4,931,497	5,496,343	5,508,466	5,612,005	5,598,044	5,245,322	5,037,186
Permits, fees and licenses	168,629	54,736	65,986	43,827	42,070	50,721	85,785	84,958	111,310	69,920
Fines and forfeitures	37,418	63,941	60,735	67,659	62,877	59,119	51,650	67,106	42,865	51,248
Use of money and property	423,159	390,886	368,747	344,072	355,363	363,039	380,946	463,110	612,208	456,174
Charges for services	1,380,953	2,740,501	2,673,776	2,813,659	2,716,955	2,395,449	2,205,796	2,109,470	1,688,388	1,773,283
Miscellaneous and donations	1,290,444	755,490	1,783,730	925,311	1,965,875	2,212,987	2,561,414	2,375,228	1,856,200	1,481,570
Recovered costs	284,056	51,320	132,719	69,151	140,199	109,572	208,839	832,764	162,534	130,621
Intergovernmental	16,823,269	16,412,826	16,262,051	16,919,937	16,640,925	17,063,702	17,187,544	17,823,513	18,955,586	20,107,570
Total	<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>	<u>\$ 34,877,013</u>	<u>\$ 35,350,278</u>	<u>\$ 35,034,183</u>	<u>\$ 34,889,836</u>

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

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

Table 4

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General government administration	\$ 2,173,109	\$ 2,017,868	\$ 2,064,443	\$ 2,060,446	\$ 2,083,550	\$ 2,231,540	\$ 2,342,771	\$ 2,170,465	\$ 2,033,571	\$ 1,916,668
Judicial administration	312,767	390,639	408,025	417,073	226,508	236,455	260,681	277,318	220,786	227,962
Public safety	7,051,828	6,082,876	5,916,167	6,039,390	5,379,484	5,871,389	5,132,088	5,179,909	4,352,306	4,363,831
Public works	3,874,669	3,591,932	4,277,392	4,644,403	4,253,984	4,155,038	4,279,138	4,729,833	4,131,807	4,031,172
Health and welfare	1,919,290	1,990,673	1,856,751	2,047,487	2,314,766	2,531,118	2,418,143	2,395,651	2,411,904	2,068,157
Education	17,167,862	16,064,811	15,680,694	15,627,197	16,189,511	16,245,264	16,260,078	15,648,683	14,264,376	15,767,293
Parks, recreation and cultural	890,590	845,750	852,091	867,991	877,561	1,098,785	1,142,871	978,109	989,414	910,516
Community development	1,714,373	1,238,138	1,457,880	2,162,246	1,486,489	1,306,902	1,553,177	1,668,299	866,223	953,592
Nondepartmental	39,835	64,245	41,283	104,155	61,375	50,554	782,653	20,869	718,739	578,963
Capital Projects	-	-	-	-	46,127	152,417	1,231,340	2,413,468	1,332,763	1,569,281
Debt service:										
Principal retirement	355,041	4,193,126	480,037	674,229	1,173,938	1,157,421	1,041,923	2,557,013	2,575,710	1,008,779
Interest and fiscal charges	417,441	2,074,953	434,988	318,941	1,066,708	577,131	589,825	679,916	761,876	737,999
Totals	<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>	<u>37,034,688</u>	<u>38,719,533</u>	<u>34,659,475</u>	<u>34,134,213</u>

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

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

Table 5

Pre-GASB 54 Implementation:

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

Post-GASB 54 Implementation:

	2014	2013	2012	2011
General Fund				
Nonspendable	\$ 969,874	\$ 969,874	\$ 969,874	\$ 978,500
Restricted	240,686	1,070,252	80,000	146,044
Committed	496,110	643,174	230,972	343,194
Assigned	1,113,614	2,366,148	2,588,020	1,212,612
Unassigned	4,071,412	3,648,940	3,084,828	2,381,262
Total general fund	<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	2,354,530	1,780,661	1,478,166	1,728,261
Committed	-	7,575	-	-
Assigned	1,185,642	1,976,098	98,268	180,277
Unassigned, reported in:				
Special revenue funds	2,845	(10,606)	(20,380)	(49,310)
Total all other governmental funds	<u>\$ 3,543,017</u>	<u>\$ 3,973,312</u>	<u>\$ 1,782,102</u>	<u>\$ 2,085,276</u>

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

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

Table 6

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
General property taxes	\$ 6,810,144	\$ 6,761,228	\$ 6,531,186	\$ 6,564,430	\$ 6,530,638	\$ 6,738,891	\$ 6,583,034	\$ 5,996,085	\$ 6,359,770	\$ 5,782,264
Other local taxes	5,198,763	5,267,629	5,221,541	4,931,497	5,496,343	5,508,466	5,612,005	5,598,044	5,245,322	5,037,186
Permits, privilege fees, and regulatory licenses	168,629	54,736	65,986	43,827	42,070	50,721	85,785	84,958	111,310	69,920
Fines and forfeitures	37,418	63,941	60,735	67,659	62,877	59,119	51,650	67,106	42,865	51,248
Revenue from use of money and property	423,111	386,324	367,899	341,820	354,881	362,362	380,114	460,631	612,131	426,048
Charges for services	1,380,953	2,615,929	2,557,279	2,700,399	2,573,185	2,235,778	2,053,757	1,945,295	1,688,388	1,618,827
Miscellaneous	995,324	589,895	1,500,459	687,900	1,622,366	1,844,328	2,294,775	2,250,451	1,759,510	1,405,454
Recovered costs	283,729	43,894	71,306	27,261	100,749	61,314	82,857	773,902	86,545	29,354
Intergovernmental	5,787,624	5,603,598	5,456,953	6,302,037	5,214,853	5,821,774	6,376,876	6,436,014	4,221,465	5,739,714
Total revenues	\$ 21,085,694	\$ 21,387,175	\$ 21,833,344	\$ 21,666,830	\$ 21,997,962	\$ 22,682,753	\$ 23,520,853	\$ 23,612,486	\$ 20,127,306	\$ 20,160,015
Expenditures										
Current:										
General government administration	\$ 2,173,109	\$ 2,017,868	\$ 2,064,443	\$ 2,060,446	\$ 2,083,550	\$ 2,231,540	\$ 2,342,771	\$ 2,170,465	\$ 2,033,571	\$ 1,916,668
Judicial administration	312,767	390,639	408,025	417,073	226,508	236,455	260,681	277,318	220,786	227,962
Public safety	7,051,828	6,082,876	5,916,167	6,039,390	5,379,484	5,871,389	5,132,088	5,179,909	4,352,306	4,363,831
Public works	3,874,669	3,591,932	4,277,392	4,644,403	4,253,984	4,155,038	4,279,138	4,729,833	4,131,807	4,031,172
Health and welfare	1,919,290	1,990,673	1,856,751	2,047,487	2,314,766	2,531,118	2,418,143	2,395,651	2,411,904	2,068,157
Education	5,820,046	4,677,791	4,276,230	4,664,406	4,490,040	4,620,576	4,651,368	4,472,469	4,260,306	4,057,434
Parks, recreation and cultural	890,590	845,750	852,091	867,991	877,561	1,098,785	1,142,871	978,109	989,414	910,516
Community development	1,714,373	1,238,138	1,457,880	2,162,246	1,486,489	1,306,902	1,553,177	1,668,299	866,223	953,592
Nondepartmental	39,835	64,245	41,283	104,155	61,375	50,554	782,653	20,869	718,739	578,963
Capital projects	-	-	-	-	46,127	152,417	1,231,340	2,413,468	1,332,763	1,569,281
Debt service:										
Principal retirement	355,041	4,193,126	480,037	674,229	1,173,938	1,157,421	1,041,923	2,557,013	2,575,710	1,008,779
Interest and other fiscal charges	417,441	2,074,593	434,988	318,941	1,066,708	577,131	589,825	679,916	717,482	734,455
Bond issuance cost	-	-	-	-	-	-	-	-	44,394	3,544
Total expenditures	\$ 24,568,989	\$ 27,167,630	\$ 22,065,287	\$ 24,000,767	\$ 23,460,530	\$ 23,989,326	\$ 25,425,978	\$ 27,543,319	\$ 24,655,405	\$ 22,424,354
Excess (deficiency) of revenues over expenditures	\$ (3,483,295)	\$ (5,780,454)	\$ (231,943)	\$ (2,333,937)	\$ (1,462,568)	\$ (1,306,573)	\$ (1,905,125)	\$ (3,930,833)	\$ (4,528,099)	\$ (2,264,339)
Other Financing Sources (Uses)										
Proceeds from long-term debt	\$ -	\$ 8,137,578	\$ -	\$ -	\$ 5,235,000	\$ -	\$ 400,000	\$ -	\$ 3,755,429	\$ 310,000
Payment to refunding bond escrow agent	-	-	-	-	(4,828,997)	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	84,500	-	-	-	-	-
Discount on sale of bonds	-	-	-	-	-	-	-	-	-	-
Transfers in	3,185,390	3,581,305	3,428,856	4,634,273	4,139,028	3,878,065	4,271,190	6,082,270	4,333,951	4,295,452
Transfers out	(1,872,093)	(2,020,222)	(1,599,773)	(2,625,576)	(2,648,863)	(2,258,174)	(2,504,983)	(4,155,363)	(2,233,079)	(2,182,435)
Issuance of capital leases	-	-	-	318,975	-	-	745,578	1,577,117	-	-
Total other financing sources (uses)	\$ 1,313,296	\$ 9,698,662	\$ 1,829,083	\$ 2,327,672	\$ 1,980,668	\$ 1,619,891	\$ 2,911,785	\$ 3,504,024	\$ 5,856,301	\$ 2,423,017
Net change in fund balances	\$ (2,169,999)	\$ 3,918,207	\$ 1,597,140	\$ (6,265)	\$ 518,100	\$ 313,318	\$ 1,006,660	\$ (426,809)	\$ 1,328,202	\$ 158,678
Debt service as a percentage of noncapital expenditures	3.54%	23.35%	4.27%	4.39%	9.87%	7.56%	7.25%	12.87%	14.57%	9.05%

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

Table 7

	2014	2013	2012	2011	2010	2009	2008	2007
Governmental activities								
Invested in capital assets - net of related debt	\$ 12,910,601	\$ 9,300,806	\$ 15,514,000	\$ 16,568,294	\$ 17,477,560	\$ 17,319,997	\$ 16,777,541	\$ 15,949,140
Restricted	2,595,216	2,850,913	1,062,775	1,032,007	-	-	-	-
Unrestricted	<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>	<u>4,188,340</u>	<u>3,188,314</u>
Total governmental activities	<u>\$ 21,061,820</u>	<u>\$ 21,972,505</u>	<u>\$ 22,363,698</u>	<u>\$ 22,158,782</u>	<u>\$ 22,396,707</u>	<u>\$ 21,694,400</u>	<u>\$ 20,965,881</u>	<u>\$ 19,137,454</u>
Business-type activities								
Invested in capital assets - net of related debt	\$ 6,677,554	\$ 5,949,747	\$ 8,095,793	\$ 8,400,534	\$ 9,228,349	\$ 8,004,309	\$ 8,388,252	\$ 8,363,160
Restricted	-	700,333	-	-	-	-	-	-
Unrestricted	<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>	<u>2,191,355</u>	<u>2,511,591</u>
Total business-type activities	<u>\$ 9,475,800</u>	<u>\$ 8,352,708</u>	<u>\$ 8,533,981</u>	<u>\$ 10,481,179</u>	<u>\$ 11,977,344</u>	<u>\$ 9,791,169</u>	<u>\$ 10,579,607</u>	<u>\$ 10,874,751</u>
Primary government								
Invested in capital assets - net of related debt	\$ 19,588,154	\$ 15,250,553	\$ 23,609,792	\$ 24,968,828	\$ 26,705,909	\$ 25,324,306	\$ 25,165,793	\$ 24,312,300
Restricted	2,595,216	3,551,246	1,062,775	1,032,007	-	-	-	-
Unrestricted	<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>	<u>6,379,695</u>	<u>5,699,905</u>
Total primary government	<u>\$ 30,537,620</u>	<u>\$ 30,325,213</u>	<u>\$ 30,897,678</u>	<u>\$ 32,639,961</u>	<u>\$ 34,374,051</u>	<u>\$ 31,485,569</u>	<u>\$ 31,545,488</u>	<u>\$ 30,012,205</u>

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

Table 8
Page 1 of 2

	2014	2013	2012	2011	2010	2009	2008	2007
Expenses								
Governmental activities:								
General government	\$ 1,581,531	\$ 2,464,954	\$ 2,797,507	\$ 2,451,215	\$ 2,301,552	\$ 2,570,721	\$ 2,648,658	\$ 2,418,619
Judicial	312,767	390,639	408,025	417,073	227,580	238,213	254,382	276,708
Public safety	6,806,355	6,477,498	6,331,863	6,638,673	5,799,871	6,175,136	5,244,287	5,199,732
Public works	3,457,133	4,042,630	4,702,151	4,123,252	4,497,628	4,328,943	4,360,802	4,049,898
Health and welfare	1,890,689	2,029,046	1,883,150	2,092,175	2,406,592	2,607,817	2,479,570	2,328,871
Education	5,753,084	4,757,834	4,373,992	4,762,168	4,633,929	4,866,262	5,005,226	5,877,702
Parks, recreation, and cultural	778,365	987,498	1,026,675	1,045,170	1,049,424	1,156,868	1,030,677	1,035,540
Community development	1,714,373	1,238,138	1,457,880	2,134,311	1,273,639	1,249,752	1,551,031	1,658,873
Interest on long-term debt	458,420	862,901	434,988	240,711	549,261	554,434	594,528	879,419
Nondepartmental	63,905	88,315	41,283	-	-	-	-	-
Total governmental activities	\$ 22,816,622	\$ 23,339,452	\$ 23,457,513	\$ 23,904,748	\$ 22,739,476	\$ 23,748,146	\$ 23,169,161	\$ 23,725,362
Business-type activities:								
Water and sewer	\$ 2,927,576	\$ 2,784,937	\$ 2,972,701	\$ 3,025,608	\$ 3,069,237	\$ 2,994,753	\$ 3,028,136	\$ 2,931,072
Solid waste	1,319,111	-	-	-	-	-	-	-
Electric	13,464,599	12,742,843	13,153,530	12,315,508	11,107,273	12,844,876	11,084,995	10,833,758
Airport	631,437	599,945	351,863	571,057	572,686	584,294	637,885	628,378
Total business-type activities	\$ 18,342,723	\$ 16,127,725	\$ 16,478,094	\$ 15,912,173	\$ 14,749,196	\$ 16,423,923	\$ 14,751,016	\$ 14,393,208
Total expenses	\$ 41,159,345	\$ 39,467,177	\$ 39,935,607	\$ 39,816,921	\$ 37,488,672	\$ 40,172,069	\$ 37,920,177	\$ 38,118,570
Program revenue								
Governmental activities:								
Charges for services:								
General government	\$ 384,455	\$ 148,629	\$ 630,502	\$ 613,208	\$ 662,101	\$ 615,929	\$ 607,034	\$ 613,334
Judicial	41,794	69,127	68,562	88,075	14,432	17,509	9,601	8,831
Public safety	422,447	381,946	441,386	529,385	510,261	464,978	384,793	493,587
Public works	710,310	2,119,550	1,517,698	1,535,386	1,469,356	1,207,847	1,101,485	877,464
Health and welfare	17,141	-	-	16,112	-	9,503	34,060	-
Parks, recreation, and cultural	10,853	15,356	13,783	17,327	14,418	20,197	22,216	19,185
Community development	-	-	12,070	12,392	7,564	9,655	32,003	-
Operating grants and contributions	4,036,731	3,935,552	3,790,723	4,638,338	4,077,928	4,056,878	2,520,711	4,096,205
Capital grants and contributions	-	-	-	-	49,197	656,776	2,532,197	1,207,312
Total governmental activities	\$ 5,623,731	\$ 6,670,158	\$ 6,474,724	\$ 7,450,223	\$ 6,805,257	\$ 7,059,272	\$ 7,244,100	\$ 7,315,918

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

Table 8
Page 2 of 2

Program revenue									
Business-type activities:									
Charges for services:									
Water and sewer	\$ 3,049,282	\$ 3,154,656	\$ 3,043,329	\$ 3,035,547	\$ 3,276,636	\$ 3,283,366	\$ 3,396,655	\$ 3,330,432	
Solid waste	1,343,522	-	-	-	-	-	-	-	
Electric	15,117,660	13,996,271	13,093,877	13,871,929	12,142,738	13,687,790	12,493,995	12,007,869	
Airport	178,450	178,334	200,768	178,994	188,257	174,456	231,698	251,026	
Capital grants and contributions:									
Airport	93,223	178,275	22,006	109,004	2,040,691	102,004	5,453	400,143	
Total business-type activities	\$ 19,782,137	\$ 17,507,536	\$ 16,359,980	\$ 17,195,474	\$ 17,648,322	\$ 17,247,616	\$ 16,127,801	\$ 15,989,470	
Total program revenue	\$ 25,405,868	\$ 24,177,694	\$ 22,834,704	\$ 24,645,697	\$ 24,453,579	\$ 24,306,888	\$ 23,371,901	\$ 23,305,388	
Governmental activities net expense	\$ (17,192,891)	\$ (16,669,294)	\$ (16,982,789)	\$ (16,454,525)	\$ (15,934,219)	\$ (16,688,874)	\$ (15,925,061)	\$ (16,409,444)	
Business-type activities net expense	1,439,414	1,379,811	(118,114)	1,283,301	2,899,126	823,693	1,376,785	1,596,262	
Total primary government net expense	\$ (15,753,477)	\$ (15,289,483)	\$ (17,100,903)	\$ (15,171,224)	\$ (13,035,093)	\$ (15,865,181)	\$ (14,548,276)	\$ (14,813,182)	
General revenues and other changes in net position									
Governmental activities:									
Taxes:									
Property taxes	\$ 6,810,144	\$ 6,761,228	\$ 6,531,186	\$ 6,499,693	\$ 6,668,337	\$ 6,974,226	\$ 6,376,419	\$ 6,052,770	
Other taxes	5,198,763	5,267,629	5,221,541	4,931,497	4,911,007	5,508,466	5,612,005	5,683,002	
Revenue sharing from counties	556,765	243,503	1,212,182	438,746	1,316,661	1,310,461	1,279,456	1,175,879	
Revenue from use of money and property	706,839	430,218	367,899	341,820	354,881	362,362	380,114	460,631	
Grants & Gifts non-restricted	1,663,516	1,668,047	1,666,230	1,663,699	1,673,064	1,108,120	1,323,968	1,132,497	
Miscellaneous	438,559	346,392	359,583	249,154	305,705	533,867	1,015,319	1,154,938	
Transfers	1,314,660	1,561,084	1,829,084	2,008,697	1,490,165	1,619,891	1,766,207	1,926,907	
Total governmental activities	\$ 16,689,246	\$ 16,278,101	\$ 17,187,705	\$ 16,133,306	\$ 16,719,820	\$ 17,417,393	\$ 17,753,488	\$ 17,586,624	
Business-type activities:									
Revenue from use of money and property	-	-	-	-	6,445	7,760	94,278	73,346	
Transfers	\$ (1,314,660)	\$ (1,561,084)	\$ (1,829,084)	\$ (2,008,697)	\$ (1,490,165)	\$ (1,619,891)	\$ (1,766,207)	\$ (1,926,907)	
Total business-type activities	(1,314,660)	(1,561,084)	(1,829,084)	(2,008,697)	(1,483,720)	(1,612,131)	(1,671,929)	(1,853,561)	
Total general revenues and other changes in net position	\$ 15,374,586	\$ 14,717,017	\$ 15,358,621	\$ 14,124,609	\$ 15,236,100	\$ 15,805,262	\$ 16,081,559	\$ 15,733,063	
Change in Net position									
Governmental activities	\$ (503,645)	\$ (391,193)	\$ 204,916	\$ (321,219)	\$ 785,601	\$ 728,519	\$ 1,828,427	\$ 1,177,180	
Business-type activities	124,754	(181,273)	(1,947,198)	(725,396)	1,415,406	(788,438)	(295,144)	(257,299)	
Total primary government	\$ (378,891)	\$ (572,467)	\$ (1,742,282)	\$ (1,046,615)	\$ 2,201,007	\$ (59,919)	\$ 1,533,283	\$ 919,881	

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

Table 9

Year	Total Tax Levy ⁽¹⁾	Current Tax Collections ⁽¹⁾	Percent of Levy Collected	Delinquent Tax Collections ⁽¹⁾⁽²⁾	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2014	\$ 7,804,613	\$ 7,582,188	97.15%	\$ 380,551	\$ 7,962,739	102.03%	\$ 700,940	8.98%
2013	7,764,626	7,547,602	97.20%	321,534	7,869,136	101.35%	612,060	7.88%
2012	7,277,357	7,197,984	98.91%	183,306	7,381,290	101.43%	671,990	9.23%
2011	7,333,436	7,135,568	97.30%	304,318	7,439,886	101.45%	756,365	10.31%
2010	7,355,039	7,326,977	99.62%	125,647	7,452,624	101.33%	863,109	11.73%
2009	7,774,091	7,482,861	96.25%	182,767	7,665,628	98.60%	758,751	9.76%
2008	7,510,356	7,240,857	96.41%	232,401	7,473,258	99.51%	756,356	10.07%
2007	7,023,237	6,827,150	97.21%	179,681	7,006,831	99.77%	649,891	9.25%
2006	6,229,526	5,913,050	94.92%	279,881	6,192,931	99.41%	619,208	9.94%
2005	5,640,259	5,323,582	94.39%	290,026	5,613,608	99.53%	485,700	8.61%

Source: City of Franklin Commissioner of Revenue

⁽¹⁾ Exclusive of penalties and interest.

⁽²⁾ Does not include land redemptions.

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

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

Table 10

						Public Service Corporations			Total Direct Tax Rate						
Year	Real Estate		Personal Property	Mobile Home	Machinery and Tools	Real Estate	Personal Property	Total							
2014	\$	546,840,453	\$	60,195,857	\$	-	\$	2,471,371	\$	6,551,183	\$	43,818	\$	616,102,682	1.36
2013		571,544,231		58,915,121		-		3,136,696		6,588,695		77,003		640,261,746	1.34
2012		550,495,439		55,575,941		-		2,993,303		6,927,392		13,914		616,005,989	1.22
2011		606,470,410		55,398,273		-		3,032,569		7,371,365		16,575		672,289,192	1.19
2010		629,410,310		57,061,332		-		3,018,957		7,761,879		42,224		697,294,702	1.19
2009		671,857,100		59,307,993		900		2,909,231		7,646,642		27,151		741,749,017	1.18
2008		561,634,400		57,716,863		-		573,729		8,480,797		39,340		628,445,129	1.34
2007		567,081,965		62,652,410		-		703,167		6,596,676		21,591		637,055,809	1.32
2006		418,087,841		59,659,923		-		738,901		8,611,442		39,123		487,137,230	1.49
2005		413,484,184		55,210,009		-		757,167		8,617,223		39,123		478,107,706	1.42

Source: City of Franklin Treasurer

CITY OF FRANKLIN, VIRGINIA

Property Tax Rates

Tax Rates per Hundred Dollars of Assessed Value

Last Ten Fiscal Years Ended June 30,

Table 11

Year	Real Estate		Personal Property	Mobile Home	Machinery and Tools	Public Service Corporation	
						Real Estate (1)	Personal Property
2014	\$ 0.90 / \$ 1.14		\$ 4.50	\$ 0.90	\$ 2.00	\$ 0.90	\$ 4.50
2013	\$ 0.90 / \$ 1.14		4.50	0.90	2.00	0.90	4.50
2012	\$ 0.77 / \$ 1.01	(5)	4.50	0.77	2.00	0.77	4.50
2011	\$ 0.77 / \$ 1.01	(5)	4.50	0.77	2.00	0.77	4.50
2010	\$ 0.77 / \$ 1.01	(5)	4.50	0.77	2.00	0.77	4.50
2009	\$ 0.77 / \$ 1.01	(5)	4.50	0.77	2.00	0.77	4.50
2008	\$ 0.90 / \$ 1.14	(3)	4.50	0.90	2.00	0.90	4.50
2007	\$ 0.85 / \$ 1.09	(2)	4.50	0.85	2.00	0.85	4.50
2006	\$ 0.95 / \$ 1.19	(4)	4.50	0.95	2.00	0.95	4.50
2005	\$ 0.90 / \$ 1.14	(3)	4.50	0.90	2.00	0.90	4.50

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

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

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

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

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

Source: City of Franklin Commissioner of Revenue

CITY OF FRANKLIN, VIRGINIA
Principal Taxpayers – Real Estate
Current Years and Nine Years Ago

Table 12

Fiscal Year 2014			
Taxpayer	Type of Business	2013 Assessed Valuation	Percent of Total Assessed Valuation of Real Estate
Franklin Hospital Corporation	Hospital	\$ 25,820,800	4.45%
James L. Rifkin Estate	Shopping Center	11,434,100	1.97%
The Village at Woods Edge	Retirement Home	9,809,900	1.69%
Lowe's Home Centers, Inc	Retail - Hardware	8,163,700	1.41%
FEDEQ NL001 LLC		6,108,700	1.05%
ACJCS LLC	Direct Mail Advertising	5,385,000	0.93%
Southampton Shopping Center L.P.	Shopping Center	5,072,100	0.87%
Meadowridge Associates L.P.	Apartments	4,554,600	0.78%
Dorchester Apartments L.P.	Apartments	4,043,600	0.70%
FP Associates INC		3,915,700	0.67%
		<u>\$ 84,308,200</u>	<u>14.52%</u>
Fiscal Year 2005			
Taxpayer	Type of Business	2005 Assessed Valuation	Percent of Total Assessed Valuation of Real Estate
Franklin Hospital Corporation	Hospital	\$ 15,493,900	3.67%
James L. Rifkin Estate	Shopping Center	8,277,300	1.96%
Southampton Center, Joint Venture	Shopping Center	6,504,900	1.54%
The Village at Woods Edge	Retirement Home	5,960,400	1.41%
Meadowridge Association	Apartments	4,308,100	1.02%
Wood Properties LLP	Shopping Center	3,744,450	0.89%
F.P. Associates	Apartments	3,718,800	0.88%
Dorchester Associates	Apartments	3,664,089	0.87%
FPA LLC	Apartments	3,378,700	0.80%
Adjacent Properties	Apartments	3,351,400	0.79%
		<u>\$ 58,402,039</u>	<u>13.83%</u>

Source: City of Franklin Treasurer

CITY OF FRANKLIN, VIRGINIA
Principal Taxpayers – Personal Property
Current Year and Nine Years Ago

Table 13

Fiscal Year 2014			
Taxpayer	Type of Business	2013 Assessed Valuation	Percent of Total Assessed Personal Property
Franklin Hospital Corporation	Hospital	2,478,633	3.65%
Money Mailer LLC	Direct Mail Advertising	2,298,442	3.38%
Charter Communications	Service - Telecommunications	781,789	1.15%
Lowes Home Centers #2698	Retail - Hardware	685,142	1.01%
Richfood Procurement LLC	Retail - Grocery	644,019	0.95%
Butler Paper Recycling, Inc	Paper Recycling	466,439	0.69%
Wal-Mart Stores, Inc	Retail-Variety	435,436	0.64%
Food Lion Inc	Retail-Grocery	384,370	0.57%
The Village at Woods Edge	Retirement Home	356,213	0.52%
Tidewater Publications	Newspaper	198,608	0.29%
		\$ 8,729,091	12.85%
Fiscal Year 2005			
Taxpayer	Type of Business	2005 Assessed Valuation	Percent of Total Assessed Personal Property
Franklin Hospital Corporation	Hospital	\$ 847,920	1.53%
Wal-Mart Stores, Inc.	Retail - Variety	714,148	1.29%
Charter Communications, Inc.	Cable	435,630	0.79%
Winn Dixie Raleigh, Inc.	Retail - Grocery	369,966	0.67%
Butler Paper Recycling, Inc.	Retail	261,734	0.47%
Food Lion, Inc. LLC	Retail - Grocery	248,458	0.45%
S.W. Rawls, Inc.	Retail - Variety	231,149	0.42%
CIT Financial USA, Inc.	Retail - Variety	187,863	0.34%
HVT, Inc.	Retail - Finance	138,112	0.25%
Eckerd Drug	Retail - Variety	136,259	0.25%
		\$ 3,571,239	6.46%

Source: City of Franklin Treasurer

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

Table 14

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Merchant Wholesaler, Durable Goods	\$ 3,188,873	\$ 2,201,607	\$ N/A	\$ 540,973	\$ 319,700	\$ 160,501	\$ 206,624	\$ 370,011	\$ N/A	\$ N/A
Motor Vehicle & Parts Dealers	4,721,876	4,692,831	3,873,423	5,049,510	4,177,804	3,978,697	4,485,996	4,740,931	N/A	N/A
Furniture & Home Furnishings	2,279,473	3,157,818	3,057,434	3,367,524	3,415,004	3,766,476	3,460,241	3,768,080	N/A	N/A
Crop Production	-	-	N/A	67,636	N/A	N/A	N/A	N/A	N/A	N/A
Building Materials, Farm & Garden Supplies	15,626,661	20,589,426	-	-	-	-	-	3,683,597	N/A	N/A
Food and Beverage Stores	18,978,071	19,052,994	18,485,435	17,562,519	18,543,874	20,153,777	14,117,933	11,325,087	N/A	N/A
Health and Personal Care	995,056	N/A	N/A	1,620,007	1,708,589	1,181,688	914,493	-	N/A	N/A
Gasoline Stations	6,912,466	6,984,919	6,386,331	5,728,484	5,064,456	5,484,253	4,347,208	2,841,936	N/A	N/A
Clothing & Clothing Accessories Stores	1,800,686	1,907,205	1,913,678	1,918,978	1,992,877	1,910,099	1,954,980	2,057,085	N/A	N/A
Sporting Goods, Hobby, Book & Music Stores	213,433	855,199	268,093	-	34,340	-	-	229,560	N/A	N/A
General Merchandise Stores	59,383,364	66,102,148	59,970,095	57,836,189	60,044,952	60,639,197	60,217,521	53,083,978	N/A	N/A
Miscellaneous Store Retailers	1,668,453	1,457,346	1,896,322	2,094,847	1,745,625	1,735,875	2,469,992	2,912,936	N/A	N/A
Nonstore Retailers	1,050,957	1,109,388	957,052	1,392,909	1,169,469	1,518,049	2,895,028	3,550,649	N/A	N/A
Rental & Lease Services	43,429	95,371	538,438	676,770	929,073	796,030	1,291,440	960,998	N/A	N/A
Professional, Scientific and Technical Services	N/A	1,532,544	1,621,123	1,765,592	1,605,670	634,005	177,766	-	N/A	N/A
Accommodation	N/A	2,512,857	N/A	816,451	N/A	N/A	N/A	N/A	N/A	N/A
Food Services & Drinking Places	15,989,545	17,408,704	15,530,633	16,947,347	17,052,909	15,814,206	13,903,248	12,888,112	N/A	N/A
Repair & Maintenance	3,594,792	2,906,481	2,843,412	2,906,222	2,772,329	2,528,870	2,650,097	2,388,335	N/A	N/A
Personal & Laundry Services	1,302,214	1,300,644	1,323,188	1,115,148	905,405	1,309,468	1,252,258	922,640	N/A	N/A
Chemical Manufacturing	200,572	686,394	579,665	-	-	-	-	-	-	-
All Other Businesses	2,589,207	-	1,951,057	1,155,848	213,205	318,129	1,352,993	5,437,841	N/A	N/A
Miscellaneous & Unidentifiable	17,006,970	7,764,925	27,833,602	25,414,636	27,559,023	28,788,615	24,690,382	22,719,304	N/A	N/A
Total	\$ <u>157,546,098</u>	\$ <u>162,318,801</u>	\$ <u>149,028,981</u>	\$ <u>147,977,590</u>	<u>149,254,304</u>	\$ <u>150,717,935</u>	\$ <u>140,388,200</u>	\$ <u>133,881,080</u>	\$ <u>-</u>	\$ <u>-</u>

Source - City of Franklin Department of Taxation

CITY OF FRANKLIN, VIRGINIA

Ratio of Net General Bonded Debt to Assessed Value

Last Ten Fiscal Years Ended June 30,

Table 15

Assessed Value (in Thousands) ⁽⁴⁾		Bonded Debt Outstanding ⁽³⁾						Less:			Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita ⁽⁵⁾						
		Governmental Activities			Business-type Activities			Debt Payable from										
		General Obligation Bonds	Literary Fund Loans	Other Notes	General Obligation Bonds	Revolving Loans	Gross Bonded Debt ⁽¹⁾	Debt Service Escrow	Enterprise Revenues ⁽²⁾	Net Bonded Debt								
Year																		
2014	\$	553,392	\$	14,733,683	\$	-	\$	4,876,000	\$	-	19,609,683	1,715,923	4,876,000	13,017,760	2.35%	\$	1,517	
2013		578,133		15,087,295		-		5,326,000		-	20,413,295	1,488,751	5,326,000	13,598,544	2.35%		1,585	
2012		557,423		12,860,239		-		3,435,000		448,518	16,743,757	1,230,196	3,883,518	11,630,043	2.09%		1,355	
2011		613,842		13,170,270		-		3,435,000		505,296	17,110,566	1,032,007	3,940,296	12,138,263	1.98%		1,414	
2010		637,172		13,456,141		100,000		160,000		3,435,000	560,409	17,711,550	834,736	3,995,409	12,881,405	2.02%		1,461
2009		679,504		13,899,488		200,000		280,000		3,689,865	613,905	18,683,258	644,623	4,303,770	13,734,865	2.02%		1,547
2008		570,115		14,714,584		300,000		400,000		4,122,300	665,832	20,202,716	460,698	4,788,132	14,953,886	2.62%		1,679
2007		573,679		15,112,072		400,000		520,000		4,603,341	716,235	21,351,648	279,236	5,319,576	15,752,836	2.75%		1,790
2006		426,699		N/A		N/A		N/A		N/A	24,486,173	-	5,920,883	18,565,290	4.35%		2,160	
2005		422,101		N/A		N/A		N/A		N/A	23,479,028	-	6,597,451	16,881,577	3.53%		1,964	

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

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

⁽³⁾ Itemization of outstanding debt not applicable for fiscal years 2004 - 2006 due to changes in reporting.

⁽⁴⁾ See Table 10 for actual assessed values.

⁽⁵⁾ See Table 19 for population.

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

Table 16

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Debt limit	\$ 42,210	\$ 41,809	\$ 56,708	\$ 57,409	\$ 67,950	\$ 67,239	60,647	\$ 55,050	\$ 57,154	\$ 54,684
Total net debt applicable to limit	<u>23,479</u>	<u>24,707</u>	<u>21,540</u>	<u>20,955</u>	<u>19,339</u>	<u>18,130</u>	<u>17,111</u>	<u>16,744</u>	<u>20,413</u>	<u>19,610</u>
Legal debt margin	\$ <u>18,731</u>	\$ <u>17,102</u>	\$ <u>35,168</u>	\$ <u>36,454</u>	\$ <u>48,611</u>	\$ <u>49,109</u>	\$ <u>43,536</u>	\$ <u>38,306</u>	\$ <u>36,741</u>	\$ <u>35,074</u>
Total net debt applicable to the limit as a percentage of the debt limit	55.62%	59.09%	37.98%	36.50%	28.46%	26.96%	28.21%	30.42%	35.72%	35.86%

Note: The amounts reported above are presented in thousands.

Assessed value	\$ <u>546,840,453</u>
Total assessed value	\$ <u>546,840,453</u>
Debt limit (10% of total assessed value)	\$ 54,684,045
Amount of debt applicable to debt limit	
General obligation debt:	
Primary Government	14,733,683
Business-Type	<u>4,876,000</u>
Net debt applicable to limit	<u>19,609,683</u>
Legal debt margin	\$ <u>35,074,362</u>

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

CITY OF FRANKLIN, VIRGINIA

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

Table 17

<u>Fiscal Year</u>		<u>Expenditures - All Governmental Fund Types</u>	<u>Total Debt Service ⁽¹⁾</u>	<u>Percentage of Debt Service to Expenditures</u>
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%
2008		37,034,688	1,631,748	4.41%
2007		38,719,533	3,236,929	8.36%
2006		34,659,475	3,337,586	9.63%
2005		34,134,213	1,746,778	5.12%

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

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

Table 18

Fiscal Year	Governmental Activities				Business-Type Activities				Total Outstanding Debt as Percentage of Personal Income ⁽¹⁾	Total Outstanding Debt Per Capita ⁽¹⁾
	General Obligation Bonds	Literary Fund Loans	Other Notes	Capital Leases	General Obligations Bonds	Capital Leases	Revolving Loans	Total Primary Government		
2014	\$ 14,733,683	\$ -	\$ -	\$ 326,434	\$ 4,876,000	\$ -	\$ -	\$ 19,936,117	2.36%	\$ 2,323
2013	15,087,295	-	-	258,240	5,326,000	-	-	20,671,535	2.45%	2,409
2012	12,860,239	-	-	407,945	3,435,000	-	448,518	17,151,702	2.03%	1,999
2011	13,170,270	-	-	533,520	3,435,000	-	505,296	17,644,086	2.09%	2,056
2010	13,456,141	100,000	160,000	418,883	3,435,000	-	560,409	18,130,433	2.20%	2,057
2009	13,899,488	200,000	280,000	587,983	3,689,865	19,252	613,905	19,290,493	2.30%	2,173
2008	14,714,584	300,000	400,000	710,308	4,122,300	41,573	665,832	20,954,597	2.41%	2,353
2007	15,112,072	400,000	520,000	125,608	4,603,341	63,069	716,235	21,540,325	2.63%	2,448
2006	17,179,900	645,000	640,000	236,395	5,156,427	83,771	765,159	24,706,652	3.21%	2,875
2005	15,630,714	890,000	-	360,863	5,681,097	103,707	812,647	23,479,028	3.24%	2,732

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

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

<u>Fiscal Year</u>	<u>Population ⁽¹⁾</u>	<u>Total Personal Income ⁽²⁾ (In Thousands)</u>	<u>Per Capita Income ⁽²⁾</u>	<u>School Enrollment ⁽³⁾</u>	<u>Unemployment Rate ⁽⁴⁾</u>
2014	8,582 ⁽⁵⁾	845,339 ⁽⁵⁾	\$ 31,313 ⁽⁵⁾	1,245	7.6%
2013	8,582 ⁽⁵⁾	845,339 ⁽⁵⁾	31,313 ⁽⁵⁾	1,265	9.2%
2012	8,582 ⁽⁵⁾	845,339 ⁽⁵⁾	31,313 ⁽⁵⁾	1,271	10.4%
2011	8,582	845,339	31,313	1,283	10.9%
2010	8,814	823,835	30,287	1,303	12.8%
2009	8,877	839,040	30,965	1,299	11.0%
2008	8,906	869,281	31,907	1,362	5.9%
2007	8,800	820,350	30,180	1,394	4.4%
2006	8,594	770,261	29,048	1,324	5.0%
2005	8,594	724,939	27,788	1,383	5.3%

Source:

⁽¹⁾ United States Census Estimates

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

⁽³⁾ Virginia Department of Education (Fall Membership Data @ September 30th, 2013); School Enrollment at September 30th of each year

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

⁽⁵⁾ Most recent data available

Fiscal Year 2014		
Employer	Employees ⁽¹⁾	Rank
Southampton Memorial Hospital	250-499	1
Franklin City Public Schools	250-499	2
Wal Mart	250-509	3
City of Franklin	100-249	4
Paul D. Camp Community College	100-249	5
VDOT	100-249	6
Lowes' Home Centers, Inc.	100-249	7
Care Advantage	50-99	8
Farm Fresh	50-99	9
Bakers Home for Adults	50-99	10
Totals	N/A	

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

*Fiscal Year 2005 Information Not Available

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

CITY OF FRANKLIN, VIRGINIA

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

Table 21

Function/Program	Full-Time Equivalent Employees as of June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
GENERAL FUND										
General Government	25	26	26	23	24	24	26	26	26	25
Police & Communications	39	41	40	42	39	40	38	42	42	42
Animal Control	2.0	1.5	1.5	1.5	1.5	1	1	1	1	1
Fire & Rescue - EMS	27	27	21	15	15	15	15	15	12	12
Community Services	9	5	5	5	5	7	7	6	6	5
Public Works-Streets	17	16	14	15	14	14	18	23	23	23
Garage	3	3	3	4	4	4	4	4	4	4
Refuse collection	0	7	9	9	9	8	7	9	9	9
Public Works-Bldgs & Grounds	9	9	10	10	10	10	12	9	9	9
Cemetery & Mosquito Control	0	0	0	0	0	0	0	0	0	0
Park and Recreation	3.5	5.5	5	5	5	4	4	8	8	8
Senior Program	1	2	2	2	3	3	2	2	2	2
Library	1	1	1	1	1	1	1	1	1	1
Economic Development	-	-	-	-	-	-	-	-	-	-
Downtown Development	1	1	1	1	1	1	1	1	1	1
Total General Fund	<u>137</u>	<u>145</u>	<u>137</u>	<u>132</u>	<u>129</u>	<u>130</u>	<u>134</u>	<u>146</u>	<u>143</u>	<u>141</u>
SOCIAL SERVICES FUND	21	20	20	19	19	20	18	19	19	19
ELECTRIC	11	16	13	14	14	16	15	20	20	20
WATER & SEWER	12	13	13	16	14	14	16	16	16	17
SOLID WASTE FUND	7	-	-	-	-	-	-	-	-	-
INCUBATOR	1	-	-	-	-	-	1	1	1	-
AIRPORT	2	2	2	2	2	2	2	2	2	2
SMART BEGINNINGS	3	4	4	2	2	2	1	-	-	-
	<u>57</u>	<u>55</u>	<u>52</u>	<u>53</u>	<u>51</u>	<u>54</u>	<u>52</u>	<u>58</u>	<u>58</u>	<u>58</u>
Total	<u>193</u>	<u>200</u>	<u>189</u>	<u>185</u>	<u>180</u>	<u>184</u>	<u>186</u>	<u>204</u>	<u>201</u>	<u>199</u>

Source: Individual City departments

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

Table 22

Function/Program	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Police										
Physical arrests	724	734	693	671	638	686	721	1,223	955	954
Parking violations	40	79	106	78	39	37	39	45	108	80
Traffic violations	987	1,751	1,943	1,845	1,792	1,406	1,172	1,370	1,955	1,069
Fire										
Emergency responses	2,716	2,718	1,971	2,111	2,390	2,324	2,422	2,304	2,170	2,072
Fires extinguished	70	78	83	31	68	202	96	98	108	95
Inspections	30	26	22	24	22	17	1,726	18	11	10
Building Inspections(a)										
Inspections Performed (Franklin)	1,451	1,484	3,495	1,647	N/A	N/A	N/A	N/A	N/A	N/A
Permits Issued	848	406	518	413	N/A	N/A	N/A	N/A	N/A	N/A
Refuse collection										
Refuse collected (tons per day)	9	10	15	15	13	14	13	13	13	-
Recyclables collected (tons per day)	1	1	1	1	1	1	1	1	1	N/A
Other public works										
Street resurfacing (tons)	5,137	0	2,315	10,542	2,728	3,576	1,503	215	2,750	-
Potholes repaired	149	163	138	152	178	207	234	250	200	-
Park and recreation										
Athletic field permits issued	200	240	307	355	285	275	250	56	N/A	-
Community center admissions	57,025	50,885	54,825	44,486	30,214	29,634	33,026	25,956	25,956	26,605
Library										
Volumes in collection	29,832	31,094	32,000	32,600	37,000	47,000	53,000	50,000	50,000	N/A
Total volumes borrowed	96,674	96,749	109,000	121,000	121,000	116,000	106,000	97,000	107,672	102,455
Water										
New connections	3	-	3	1	5	11	24	25	40	42
Water mains breaks	50	42	51	42	50	54	75	68	20	-
Average daily consumption (thousands of gallons)	1	953	943	1,067	1,082	1,037	1,100	1,072	1,169	-
Peak daily consumption (thousands of gallons)	1,300	1,300	1,300	1,700	1,700	1,453	1,800	1,610	1,700	-
Wastewater										
Average daily sewage treatment	1,330	1,603	1,656	1,100	1,780	1,090	1,090	903	980	-
Sewer connections - New	2	-	2	1	5	9	21	25	40	42
Transit										
Total route miles	None	None	None	None	None	None	None	None	None	None
Passengers	None	None	None	None	None	None	None	None	None	None

Source: Individual City departments
(a) data collection began in FY 2011

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

Table 23

Function/Program	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	16	16	16	16	16	16	28	27	27	27
Fire stations	2	2	2	2	2	2	2	2	2	2
Refuse collection										
Collection trucks	5	5	5	5	5	5	5	4	4	3
Other public works										
Street (miles)	36	36	36	36	36	36	36	36	36	0
Highways (miles)	15	15	15	15	15	15	15	15	15	0
Streetlights	945	945	945	945	945	937	945	953	953	0
Traffic signals	14	14	14	14	14	14	14	14	14	13
Park and recreation										
Acreage	29	29	29	29	29	29	29	29	29	29
Playgrounds	4	4	4	4	4	4	4	4	4	4
Baseball/softball diamonds	6	6	6	6	6	6	6	6	6	6
Soccer/football fields	2	2	2	2	2	2	2	2	2	2
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	67	67	67	67	67	67	67	67	66	0
Fire hydrants	336	336	336	336	336	336	336	333	333	0
Storage capacity (thousands of gallons)	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	0
Wastewater										
Sanitary sewers (miles)	43	43	43	43	43	43	43	43	43	0
Storm sewers (miles)	210	210	210	210	210	210	210	210	210	0
Treatment capacity (thousands of gallons)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	0

Source: Individual City departments

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

To the Honorable Governing Body
City of Franklin, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The City of Franklin, Virginia, as of and for the year ended June 30, 2014, 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 26, 2014.

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 a 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.

We noted certain immaterial matters involving internal control and its operation that we have reported to the management of the City of Franklin in our Management Letter.

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.

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

Davis & Associates, PLLC

Alexandria, Virginia
November 26, 2014

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

To the Honorable Governing Body
City of Franklin, Virginia

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 Circular A-133 *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, 2014. The City of Franklin, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; 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 OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Franklin, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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's, 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, 2014.

Compliance

We have audited the compliance of the City of Franklin, Virginia with the types of requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2014. The City of Franklin, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express an opinion on the City of Franklin, Virginia's compliance based on our audit.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The City 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.

We noted certain immaterial instances of noncompliance that we have reported to the management of the City of Franklin in our Management Letter.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The City of Franklin, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise The City of Franklin, Virginia's basic financial statements. We issued our report thereon dated November 26, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Davis & Associates, PLLC

Alexandria, Virginia
November 26, 2014

CITY OF FRANKLIN, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title (Pass - Through Grantor's Number)	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass Through Payments:			
Department of Social Services:			
Promoting safe and stable families	93.556	0950109/0950110	\$ 14,725
Temporary assistance to needy families (TANF)	93.558	0400109/0400110	163,673
Refugee and entrant assistance - state administered programs	93.566	0500109/0500110	1,170
Low income home energy assistance	93.568	0600409/0600410	16,828
CCDF Cluster:			
Child care and development block grant	93.575	0770109/0770110	-
ARRA - Child care and development block grant	93.713	0740109/0780109	-
Child care mandatory and matching funds of the child care and development fund	93.596	0760109/0760110	27,790
Chafee Education & Training Vouchers Programs	93.599	N/A	941
Stephanie Tubbs Jones child welfare services program	93.645	0900109/0900110	1,269
Foster Care Cluster:			
Foster care - Title IV-E	93.658	1100109/1100110	76,180
ARRA - Foster care - Title IV-E	93.658	1100109/1100110	-
Adoption assistance	93.659	1120109/1120110	6,243
Social services block grant	93.667	1000109/1000110	109,993
Chafee foster care independence program	93.674	9150108/9150109/9150110	1,529
Children's Health Insurance Program (CHIP)	93.767	0540109/0540110	5,848
Medical assistance program	93.778	1200109/1200110	172,201
Total Department of Health and Human Services:			\$ 598,389
Department of Defense:			
Direct Payments:			
Junior ROTC program	12.000	N/A	\$ 57,359
Department of Agriculture:			
Pass Through Payments:			
Department of Agriculture:			
Cooperative Forestry Assistance	10.664	50105-653	\$ -
Community Facility Loans and Grants	10.766	N/A	-
Rural Business Enterprise Grants	10.769	N/A	-
Child Nutrition Cluster:			
Food distribution - schools: school lunch program	10.555	10.555/2010/2009	57,205
Department of Education:			
Child Nutrition Cluster:			
National school lunch program	10.555	10.555/2010/2009	351,901
National school breakfast program	10.553	10.553/2010/2009	160,309
Summer food service program	10.559	10.559/2010/2009	-
Department of Social Services:			
SNAP Cluster:			
State administrative grants for the supplemental nutrition assistance program	10.561	00101109/0040109/0040110	194,308
ARRA - State administrative grants for the supplemental nutrition assistance program	10.561	00101109/0040109/0040110	-
Total Department of Agriculture			\$ 763,722
Department of Labor:			
Direct payments:			
ARRA - WIA youth activities	17.259	N/A	\$ -

CITY OF FRANKLIN, VIRGINIA

Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended June 30, 2014

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title (Pass - Through Grantor's Number)	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Housing and Community Development: Pass Through Payments: Department of Housing and Community Development: Community development block grant	14.228	N/A	\$ 30,000
Department of Transportation: Direct Payments: Airport improvement program	20.106	N/A	\$ 82,993
Highway planning and construction	20.205	N/A	-
Pass Through Payments: Department of Motor Vehicles: State and community highway safety program	20.600	N/A	-
Alcohol open container requirements	20.607	154AL10504084031	-
Total Department of Transportation			\$ 82,993
Department of Homeland Security: Direct Payments: Staffing for adequate fire and emergency response	97.083	N/A	\$ 443,149
Pass Through Payments: Department of Emergency Management: Emergency management performance grant	97.042	N/A	\$ 54,878
State Homeland Security Program	97.073	N/A	-
Law enforcement terrorism prevention grant	97.074	N/A	-
Total Department of Homeland Security			\$ 498,027
Appalachian Regional Commission: Pass Through Payments: Department of Housing and Community Development Appalachian regional development	23.001	N/A	\$ 20,413
Department of Education: Pass Through Payments: Department of Education: ARRA - State fiscal stabilization fund (SFSF) - education state grants	84.394	S394A090047	\$ -
Adult basic education	84.002	V002A080046	19,901
Title I, Part A Cluster: Title I: Grants to local educational agencies	84.010	S010A080046	1,099,930
ARRA - Title I: Grants to local educational agencies	84.389	S389A090046	-
School improvement grants	84.377	S377A080047	60,364
Special Education Cluster: Special education - grants to states	84.027	H027A080107	344,553
ARRA - Title VI-B: Special education - grants to states	84.391	H391A090107	-
Special education preschool grants	84.173	H173A080112	7,059
Career and technical education: basic grants to states	84.048	V048A090046	34,962
Safe and drug free schools and communities state grant	84.186	Q186A080048	-
Rural education	84.358	S358B090046	11,960
21st Century Community Learning Centers	84.287	N/A	97,898
Reading first state grants	84.357	S357A070048	-
Education technology Cluster: Education technology state grants	84.318	S318X080046	-
ARRA - Education technology state grants	84.386	S386A090046	-
Improving teacher quality state grants	84.367	S367A080044	67,000
Total Department of Education			\$ 1,743,628
Total Expenditures of Federal Awards			\$ 3,794,530

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

CITY OF FRANKLIN, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal grant activity of the City of Franklin, Virginia under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City of Franklin, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Franklin, Virginia.

Note 2 – Summary of Significant Accounting Policies

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

Note 3 – Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:

Primary government:	
General fund	\$ 528,027
Special revenue funds:	
Virginia public assistance fund	792,697
Disaster Recovery Fund	-
Neighborhood stabilization program fund	20,413
Downtown Grant Fund	-
Enterprise funds:	
Airport fund	82,993
Total primary government	\$ <u>1,424,128</u>
Component Unit - City of Franklin Public Schools	
School operating fund	1,800,987
School cafeteria fund	569,414
Total component unit public schools	\$ <u>2,370,401</u>
Total federal expenditures per basic financial statements	\$ <u>3,794,530</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>3,794,530</u></u>

CITY OF FRANKLIN, VIRGINIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness (es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency (ies) identified?	<u> </u> yes	<u> x </u> no	
Noncompliance Material to financial statements noted?	<u> </u> yes	<u> x </u> no	

Federal Awards

Internal control over major programs:			
Material weakness (es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency (ies) identified?	<u> </u> yes	<u> x </u> no	
Type of auditor’s report issued on compliance for major programs:	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u> </u> yes	<u> x </u> no	
Identification of major programs:			

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

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<u> x </u> yes <u> </u> no

Section II – Financial Statement Findings

There are no financial statement findings to report.

Section III – Federal Award Findings and Questioned Costs

There are no federal award findings to report.

Section IV – Financial Statement Findings – Prior Year

There are no financial statement findings from the prior year.