

Community



Growth



CITY OF FRANKLIN, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL
REPORT

For the Period Ended June 30, 2016
Prepared by the Department of Finance



Spirit



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THE CITY OF FRANKLIN, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016



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 West Second Avenue, Franklin, Virginia 23851. For information about the City, refer to the City's web page at www.franklinva.com.

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City of Franklin, Virginia

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City of Franklin, Virginia

Directory of Principal Officials

June 30, 2016

Mayor

Raystine D. Johnson-Ashburn

Vice Mayor

Barry Cheatham

Council Members

Frank M. Rabil
Brenton D. Burgess
Mona L. Murphy

Mary E. Hilliard
Gregory McLemore

Constitutional Officers

Dinah M. Babb
Brenda B. Rickman

Treasurer
Commissioner of Revenue

Franklin City Public Schools

Edna King
Willie Bell, Jr.
Laveka Jarrell

Chairman of School Board
Superintendent
Coordinator of Finance

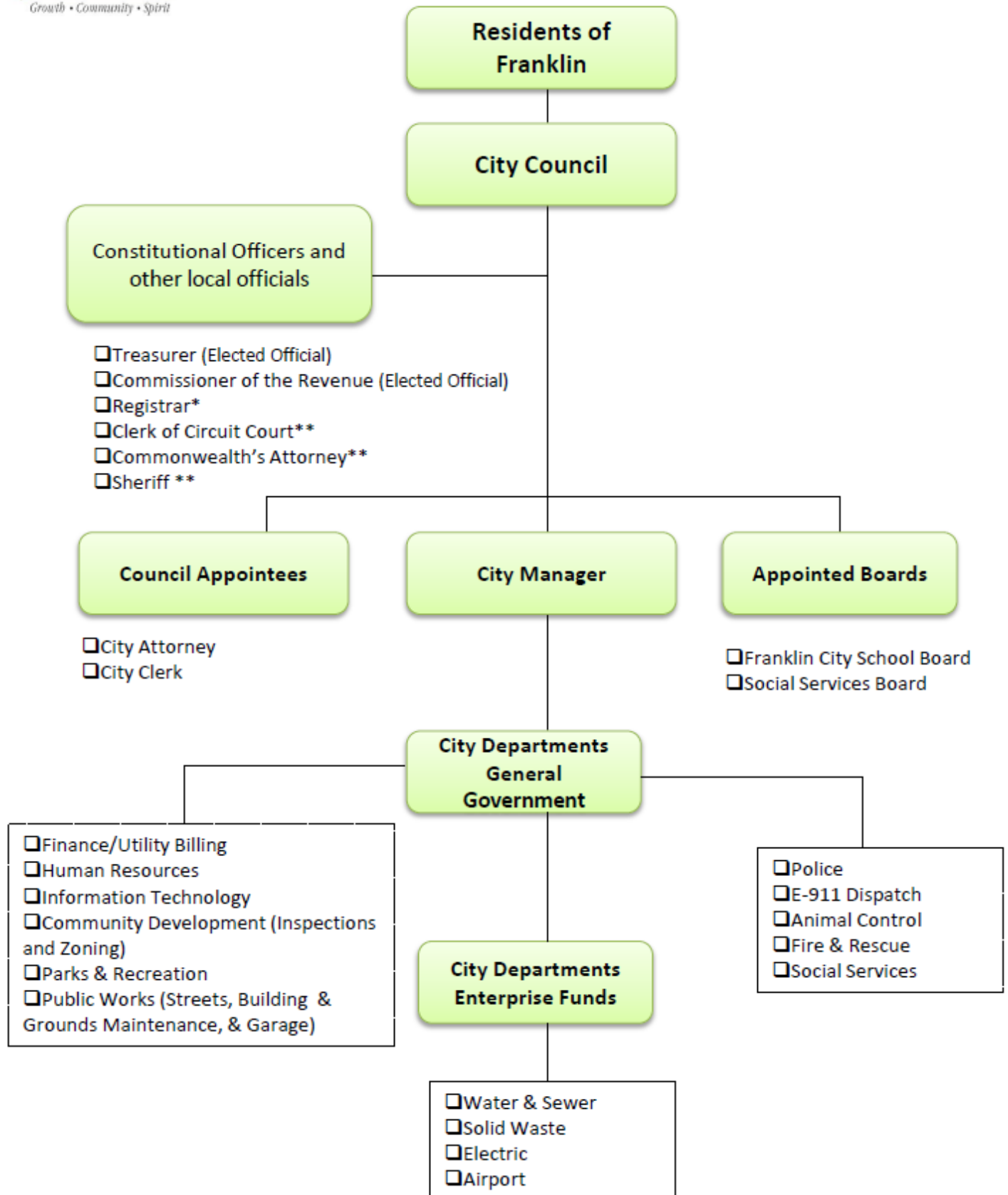
City Administration

R. Randy Martin
H. Taylor Williams, IV
Melissa D. Rollins
Phillip M. Hardison
Mark Bly
Frank A. Davis
Jennifer L. Maynard
Vincent P. Holt
Russell L. Pace
Gwen L. Wilson
Donald E. Goodwin

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

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CITY OF FRANKLIN ORGANIZATIONAL CHART



*Appointed by State Board of Elections

** Shared Services with Southampton County

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January 27, 2017

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, 2016. The report is required in accordance with section 3.08 (c) of the Franklin City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City of Franklin. GAAP requires management to provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management’s Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City’s MD&A can be found immediately following the independent auditor’s report.

The Reporting Entity and Its Services

Background

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

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

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

The City of Franklin provides a full range of general governmental services for its citizens, including police and fire protection and emergency medical services; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services and cultural events. The City’s Community Development Office provides building and planning related services throughout Southampton County through a shared services agreement with the County. Other services provided include public education, health and social services, and judicial activities. The City owns and operates a municipal electric company (Franklin Power & Light), which provides electrical services to City

residents and certain geographical locations within surrounding jurisdictions (Southampton, Suffolk and Isle of Wight). The City also owns and operates water and sewage facilities that extend into portions of Southampton and Isle of Wight Counties; provides curb-side solid waste disposal and recycling services; owns and operates a City pool; and manages various paid recreational activities. Franklin owns and maintains a municipal airport located one mile east of Franklin in Isle of Wight County.

Component Units

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

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

Economic Conditions & Outlook

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

Local Economy

The City's development activities are executed primarily through Franklin Southampton Economic Development Council, Inc. (FSEDI), whose core mission is to grow and diversify the tax and employment base of the City. This mission is accomplished by promoting Franklin City as an ideal location for business start-up, relocation, and expansion and capital investment. The City enjoys its unique relationship with Isle of Wight and Southampton Counties and through collaboration with these neighbor counties, and partnership with FSEDI, the City is better positioned to promote economic growth and stability. Major initiatives of the City from FSEDI activities include: (1) the construction of a manufacturing and distribution facility in Pretlow Industrial Park bringing \$1.5 million in real estate improvements and \$500,000 in machinery and tools into the City; (2) the construction of a new Dollar Tree on the City's main corridor, Armory Drive, the (3) sale and demolition of the former boot factory on Armory Drive resulting in significant site area improvements in preparation for future development and (4) the renaming and rebranding of the Franklin Business Incubator as the Franklin Business Center to help market the City's premier location for prospective businesses.

Local taxes indicative of Franklin's economy also showed signs of growth at the end of 6/30/16, increasing slightly by \$55,921 overall or 1.2% from the prior year period primarily resulting from increased meals and business licenses taxes.

| FYE | Business Licenses | Meals Tax | Lodging Tax | Cigarette Taxes | Sales & Use Taxes | TOTALS |
|-------|-------------------|--------------|-------------|--------------------------------|-------------------|---------------------|
| 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 |
| FY 15 | \$ 921,270 | \$ 1,439,601 | \$ 149,166 | \$ 373,904 | \$ 1,767,063 | \$ 4,651,004 |
| FY 16 | \$ 969,182 | \$ 1,494,137 | \$ 123,626 | \$ 352,199 | \$ 1,767,781 | \$ 4,706,925 |
| | | | | Growth Trend Since FYE 6-30-11 | | \$ 691,118 |
| | | | | | | 14.9% |
| | | | | Growth Trend Since FYE 6-30-15 | | \$ 55,921 |
| | | | | | | 1.2% |

Enterprise Zones

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

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

Bond Rating

The City maintained the AA credit rating from Standard & Poor's (S & P) bond rating agency received in April 2014. S & P referred to the City's strong reserves, strong cash position to cover debt service, and sound budgetary and financial management practices for support of the rating. The City holds an Aa2 rating from Moody's Investors Services.

Financial Information and Significant Financial Policies

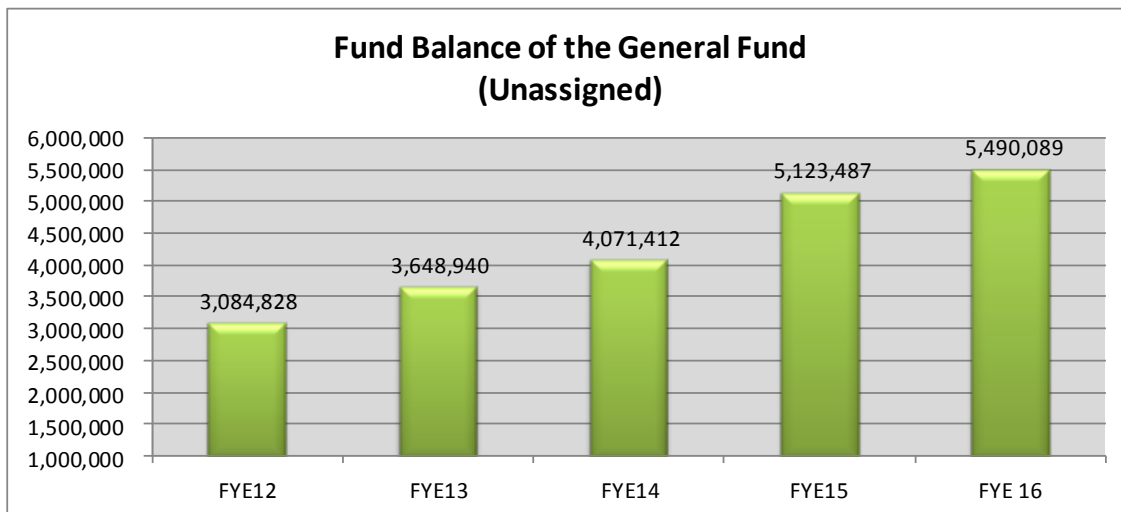
One of the financial policies closely monitored is the City's unassigned fund balance policy which indicates the ability of the City to cope with unexpected financial challenges or emergencies. The healthier the unassigned General Fund balance, the greater the City's ability to (1) survive potential financial emergencies and adverse fluctuations in revenue cycles, (2) take advantage of unexpected opportunities and, (3) retain its sound financial position. The City has established by policy, the ratio of unassigned General Fund balance as a percentage of budgeted annual expenditures in the General Fund at a minimum of 15%. At June 30, 2016, the City's unassigned fund balance of \$5.49 million represented 22.9% of the budgeted annual expenditures (as revised) exceeding the minimum policy level.

During FY 2016, General Fund expenditures including other financial uses exceeded revenue and other financing sources by \$306,600. Although total fund balanced decreased from the prior year, the City has been able to improve its unassigned fund balance significantly over time by fiscally sound budget management practices to include improved revenue forecasting, expenditure reductions, program savings and structured debt management practices (i.e. use of planned debt service reserve funds). The City's unassigned fund balance increased by \$366, 602 from the FY 2014-15 fund balance.

Summary of Changes in General Fund Unassigned Fund Balance

| | | | |
|---|----|------------|-----------|
| Unassigned Fund balance at June 30, 2015 | | \$ | 5,123,487 |
| Revenues & other financing sources: | \$ | 22,975,616 | |
| Expenditures & other financing uses: | \$ | 23,282,216 | |
| Net Change in Fund Balance | | -306,600 | |
| Decrease in reservations (Restricted, Committed and Assigned) | \$ | 673,202 | |
| Increase in Unassigned Fund Balance | | \$ | 366,602 |
| Unassigned Fund Balance at June 30, 2016 | | \$ | 5,490,089 |

Below is a history of the City's Unassigned Fund Balance for the General Fund for the current and past four fiscal periods. The FY 6/30/16 Unassigned fund balance increased by 7.1% from the 6/30/15 Unassigned Fund Balance.



Budgetary Controls

Budgetary controls are maintained to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council and 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. Although encumbered amounts lapse at year end, the outstanding encumbrances are reviewed and generally re-appropriated as part of the following year's budget provided there is availability of funding at year end. Budget-to-actual comparisons for the General Fund are provided on Schedules 11 and 12 of the report.

Financial Advisor

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

Other Information

Independent Audit

The City of Franklin's financial statements have been audited by Creed, Jones & Alga, P.C. a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Franklin for the fiscal year ended June 30, 2016 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, 2016, are fairly presented in conformity with GAAP. The independent auditor's report is presented in the Financial Section of this report.

Single Audit

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

Financial Outlook

The financial outlook for Fiscal Year 2016-17 remains stable, with minimum revenue growth expected and continued cost-saving efforts planned. The City has been consistently able to achieve a balanced budget in recent years without eliminating direct services to Franklin residents and with the minimum responsible impact to the real estate tax rate. This has been accomplished in the wake of fiscal challenges which to some extent were beyond the City's control (i.e. rising cost of regional jail administration in which the City is a member jurisdiction along with Isle of Wight and Suffolk). We feel that current management initiatives, along with prudent long-range strategic and comprehensive planning, will enable the City to continue to generate sufficient resources to meet future service demands, maintain a stable financial position, protect the City's good credit rating, and maintain realistic and affordable tax burdens on the citizens of the City.

Other Accomplishments for FY2016

We are pleased to report some significant accomplishments and initiatives undertaken during the year ended June 30, 2016:

Legislative

- ❖ City's software enhancement project progressed with implementation of the financial modules (Payroll, Accounts Payable, Purchasing & General Ledger) and Human Resources in January 2016. Planning stages are underway for the implementation of Tax, Collections and Utility Billing.
- ❖ Completed upgrades and improvements to the City's technology infrastructure including both the City's voice (telephone) and data management systems and enhancements to the City's public education government (PEG) channel.
- ❖ Acquired new voter election equipment to replace the obsolete machines as recommended by the State Board of Elections

Public Safety

- ❖ Awarded \$95,000 in Camp Foundation Grant Funds to acquire specialized equipment for the City's Fire and Rescue and Police Departments to include CPR assistance devices.
- ❖ A grant in the amount of \$55,254 was received from the E911 Wireless Board to replace the E911 Mapping server and related components critical to enhanced E911 communications in the City. In cooperation with Southampton County, enhanced emergency communication system backup capabilities for both communities utilizing grant funds and resulting in reduced emergency response time.

- ❖ Continued progress by the City's Employee Safety Committee to include receiving a second year 5% discount on Workers' Compensation insurance by completing 100% of the VML Risk Management Guidelines and realizing a reduction in worker's compensation claims/losses resulting in a reduction in the City's modification rating and consequently lower premiums for the subsequent fiscal year.

Community Development & Neighborhood Services

- ❖ Managed and implemented the 1st year of a \$1.6 mil multi-year CDBG grant for the Madison Street Neighborhood Revitalization project to include having 19 income eligible housing units under contract for rehabilitation by January 2017.
- ❖ Completion of three (3) housing rehab projects for low and moderate income owner occupied households to HQS standards from grant funds totaling approximately \$125,000 through the Western Tidewater HOME Consortium program.
- ❖ Worked with FRHA to facilitate the alterations and renovations of all 175 Public Housing units in the City.
- ❖ Adopted amended floodplain ordinances as required by FEMA in both the City and County. Increased City freeboard requirements to improve rating system that results in lower flood insurance premiums.

Parks & Recreation

- ❖ The Department received the Pioneer Field of Excellence National Award for Armory Field for the second consecutive year.
- ❖ New Recreational equipment was acquired and existing facilities improved to enhance the availability and safety of recreational and leisure activities for Franklin City youth.
- ❖ Significant improvements were made to City ball fields and park areas to include surface improvements; the City's aging skate park infrastructure was removed and the area vastly improved and repurposed for other needed departmental activities in the future.

Public Works

- ❖ The City continued its annual street resurfacing activities focused on major thoroughfares to include a portion of College Drive. Successfully applied for and received \$485,270 in state grant funds for significant road improvements to South and Clay Streets.
- ❖ In cooperation with Southampton County, completed the grant funded study by a joint management team charged with evaluating the feasibility of future water and wastewater utility needs and collaboration opportunities with a preliminary engineering report completed and presented to elected officials.

Other Funds

- ❖ The Electric Department initiated an LED street lighting replacement project to improve vehicular and pedestrian safety and overall lighting levels which is expected to have significant public safety benefits while lowering maintenance cost and energy consumption.
- ❖ The Water & Sewer Division and other Public Works staff coordinated completion of street extension improvements to provide Providence Agriculture access off the Pretlow Industrial Park entrance road and completed a utility line extension to serve this and other future prospective businesses locating in the Park.

As stated, this is a condensed listing of several major items addressed in FY 2015 – 2016. As evidenced, the City continued its history of (1) seeking grant funds for public safety and community improvements, (2) utilizing resources to provide quality governmental services to Franklin Citizens, (3) expanding technology to improve operational efficiencies and control costs, (4) promoting safety and wellness throughout all City departments, (5) maintaining sound financial management and (6) improving activities and programs to enhance overall quality of life. These highlights and accomplishments are in sync with the priorities established by City Council.

Internal Control and Budget Accounting

The City is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not outweigh their benefits, the City of Franklin's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. The City's control environment reflects the attitude of fiscal responsibility of the City's resources amongst all departments. City Finance abides by the Government Finance Officers Association Code of Ethics. Budget controls ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Additional controls are exercised administratively amongst City departments. As a recipient of federal financial assistance, the City also is responsible for maintaining an adequate internal control structure. This structure allows the City to ensure and document compliance with the U.S. Office of Management and Budget for major federal award programs. These reports are available in the Compliance (Single Audit) section of this report.

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

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

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, 2015. This is the fourth consecutive year that the City has applied for and received this prestigious award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

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

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 and all departments who played a role in achieving a favorable year-end audit. We also express sincere appreciation to City Council whose oversight of the financial affairs of the City has resulted in the City's strong financial position. Council is commended for their interest and support in the strategic planning for the City's future and for conducting the operations of the City of Franklin in a responsible and progressive manner.

Respectfully Submitted,



R. Randy Martin
City Manager



Melissa D. Rollins
Director of Finance



Government Finance Officers Association

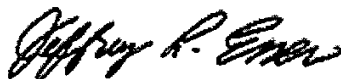
**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Franklin
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015



Executive Director/CEO

FINANCIAL SECTION





**Creedle
Jones
& Alga**

A Professional Corporation

Robin B. Jones, CPA, CFP
David V. Alga, CPA, CVA, CFF
Denise C. Williams, CPA, CSEP
Scott A. Thompson, CPA, CGMA
Kimberly W. Jackson, CPA

James A. Allen, Jr., CPA
Nadine L. Chase, CPA

Sherwood H. Creedle, Emeritus

Members of
American Institute of Certified Public Accountants
Virginia Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Franklin, Virginia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-14 and budgetary comparison information, schedule of pension funding progress for the Virginia Retirement System, schedule of funding progress for other post-employment benefits, schedule of changes in the political subdivision's net pension liability and related ratios, schedule of employer's share of net pension liability VRS Teacher Retirement Plan, schedule of employer contributions, and notes to required supplementary information on pages 81-90 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin, Virginia's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, component unit financial statements, schedule of revenues and expenses—budget to actual, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, component unit financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund and component unit financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, 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.

Prior Period Financial Statements

The financial statements of City of Franklin, Virginia as of June 30, 2015 were audited by other auditors whose report dated July 31, 2016 expressed an unmodified opinion on those statements.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
January 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year July 1, 2015 – June 30, 2016

This section of the City of Franklin, Virginia's (the City's) annual financial report presents an overall review of the City's financial activities for the fiscal year ended June 30, 2016. To enhance your understanding of the City's financial performance, please read this discussion and analysis in conjunction with the transmittal letter in the front of this report, the City's basic financial statements, and supplementary information following this section.

Financial Highlights

General Fund

- The City's real estate tax rate increased from .96 cents per \$100 of assessed valuation to .99 cents per \$100 of assessed value.
- Overall, General Fund revenues (less transfers) increased by \$339,433 from FY 2015 from \$20,616,343 to \$20,955,776 maintaining moderate growth.
- At the close of FY 2016, unassigned fund balance for the General Fund was \$5,490,089. At the close of FY 2015, the unassigned fund balance of the General Fund was \$5,123,487. This represents an increase of \$366,602 or 7.2%.
- The composition of the \$6,762,505 fund balance at the end of the year was 81% unassigned, 15% nonspendable, 1% restricted, and 3.0% assigned.
- The General Fund, on a current financial resources basis, reported revenues and other financing sources of \$306,700 under expenditures and financing uses. This is after making a \$5,482,038 payment to Franklin City Schools, \$80,087 payment to the Airport Fund (Enterprise), \$697,740 to Special Revenue Funds, and \$965,840 to the Debt Service Fund. Expenditures increased by \$1,563,262 when compared to FY 2015.

Governmental Activities

- The assets and deferred outflows of resources of the City of Franklin, Virginia exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2016 by \$20,041,159 (net position). Of this amount, \$1,842,195 represents an unrestricted net position, which may be used to meet the City's ongoing obligation; \$3,119,104 represents a restricted net position. The residual \$15,079,860 relates to net investment in capital assets and is not available for expenditure.
- The City's total net position decreased by \$2,363,199 from the prior year. Of this amount, the business-type activities net position decreased \$1,457,389 while governmental activities net position decreased by \$905,810.
- The City's total outstanding general obligation debt at June 30, 2016 was \$23,733,621. This includes \$4,634,899 in business-activity debt and \$19,098,722 in general government activities. The City refinanced debt in FY 2016 in the amount of \$6,117,000 to obtain better interest rates. Prior debt decreased by \$6,405,691 in governmental activities and \$780,554 in business-type activities which includes the refinancing.

Overview of the Financial Statements

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

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

The City adopts an annual budget for its various funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided.

- **Proprietary Funds** – The City maintains proprietary funds to account for enterprise fund operations that report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, electrical, solid waste, and airport operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on each fund.
- **Fiduciary Funds** – The fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs. The accounting for fiduciary funds is similar to the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City, including financial information of the School Board and Industrial Development Authority component units. Supplementary information follows the Notes to the Financial Statements.

Government-Wide Financial Statements Analysis

Over time, net position may serve as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$20,041,159.

Summary of Net Position
As of June 30, 2016 and 2015

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--|--------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|----------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Assets | | | | | | |
| Current and other assets | \$ 11,293,288 | \$ 12,635,473 | \$ 4,248,793 | \$ 5,202,585 | \$ 15,542,081 | \$ 17,838,058 |
| Capital assets (net) | 26,742,515 | 26,206,605 | 11,493,050 | 11,135,876 | 38,235,565 | 37,342,481 |
| Deferred Outflows of Resources | 746,024 | 667,514 | 266,994 | 280,273 | 1,013,018 | 947,787 |
| Total Assets and Deferred Outflows of Resources | <u>\$ 38,781,827</u> | <u>\$ 39,509,592</u> | <u>\$ 16,008,837</u> | <u>\$ 16,618,734</u> | <u>\$ 54,790,664</u> | <u>\$ 56,128,326</u> |
| Liabilities | | | | | | |
| Current and other liabilities | \$ 1,277,184 | \$ 1,236,415 | \$ 3,475,747 | \$ 3,519,296 | \$ 4,752,931 | \$ 4,755,711 |
| Long-term liabilities | 23,586,990 | 22,608,457 | 5,617,610 | 4,691,536 | 29,204,600 | 27,299,993 |
| Total Liabilities | 24,864,174 | 23,844,872 | 9,093,357 | 8,210,832 | 33,957,531 | 32,055,704 |
| Deferred Inflows of Resources | 644,458 | 1,485,715 | 147,516 | 326,992 | 791,974 | 1,812,707 |
| Net Position | | | | | | |
| Net investment in capital assets | 7,885,690 | 6,510,408 | 7,194,170 | 5,984,636 | 15,079,860 | 12,495,044 |
| Restricted | 3,119,104 | 1,237,617 | - | - | 3,119,104 | 1,237,617 |
| Unrestricted | 2,268,401 | 6,430,980 | (426,206) | 2,096,274 | 1,842,195 | 8,527,254 |
| Total Net Position | <u>13,273,195</u> | <u>14,179,005</u> | <u>6,767,964</u> | <u>8,080,910</u> | <u>20,041,159</u> | <u>22,259,915</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 38,781,827</u> | <u>\$ 39,509,592</u> | <u>\$ 16,008,837</u> | <u>\$ 16,618,734</u> | <u>\$ 54,790,664</u> | <u>\$ 56,128,326</u> |

The largest portion of the City's total net position of \$20,041,159 is its \$15,079,860 investment in capital assets (e.g., land, buildings and improvements, machinery and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. The remaining net position is comprised of \$1,842,195 in unrestricted net position, which may be used to meet the City's ongoing obligations, and \$3,119,104 in restricted assets.

The City's financial position includes \$1,842,195, or 9.2% of the net position, as unrestricted net position. The \$2,268,401 from governmental activities and \$(426,206) deficit from business-type activities are available to allow the City to provide obligations to citizens and creditors.

Statement of Activities

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

Summary of Changes in Net Position

For the Fiscal Years Ended June 30, 2016 and 2015

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total Primary Government</u> | |
|---|--------------------------------|----------------------|---------------------------------|---------------------|---------------------------------|----------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$ 1,580,520 | \$ 1,705,441 | \$ 17,984,923 | \$ 20,006,665 | \$ 19,565,443 | \$ 21,712,106 |
| Operating grants and contributions | 4,416,976 | 3,819,194 | 56,052 | 1,113,036 | 4,473,028 | 4,932,230 |
| General Revenues | | | | | | |
| Real estate and personal property taxes | 7,304,907 | 7,037,730 | - | - | 7,304,907 | 7,037,730 |
| Other local taxes | 5,566,974 | 5,586,057 | - | - | 5,566,974 | 5,586,057 |
| Revenue sharing from counties | 709,171 | 704,969 | - | - | 709,171 | 704,969 |
| Noncategorical aid from state | 1,639,089 | 1,662,463 | - | - | 1,639,089 | 1,662,463 |
| Use of money and property | 417,798 | 676,115 | 9,495 | - | 427,293 | 676,115 |
| Miscellaneous | 872,161 | 614,408 | 7,032 | - | 879,193 | 614,408 |
| Transfers in (out) | <u>1,454,330</u> | <u>1,309,870</u> | <u>(1,454,330)</u> | <u>(1,309,870)</u> | <u>-</u> | <u>-</u> |
| Total Revenues | 23,961,926 | 23,116,247 | 16,603,172 | 19,809,831 | 40,565,098 | 42,926,078 |
| Expenses | | | | | | |
| General government | | | | | | |
| administration | 2,607,038 | 1,803,002 | - | - | 2,607,038 | 1,803,002 |
| Judicial administration | 307,583 | 320,562 | - | - | 307,583 | 320,562 |
| Public safety | 7,037,551 | 7,928,989 | - | - | 7,037,551 | 7,928,989 |
| Public works | 2,988,081 | 3,636,028 | - | - | 2,988,081 | 3,636,028 |
| Health and welfare | 2,026,852 | 2,036,037 | - | - | 2,026,852 | 2,036,037 |
| Education | 6,231,066 | 6,999,529 | - | - | 6,231,066 | 6,999,529 |
| Parks, recreation, and cultural | 848,064 | 906,940 | - | - | 848,064 | 906,940 |
| Community development | 2,013,965 | 1,431,913 | - | - | 2,013,965 | 1,431,913 |
| Interest and fees on long-term debt | 758,348 | 463,122 | - | - | 758,348 | 463,122 |
| Nondepartmental | 49,188 | 46,326 | - | - | 49,188 | 46,326 |
| Water and sewer | - | - | 2,742,836 | 3,427,144 | 2,742,836 | 3,427,144 |
| Electric | - | - | 13,566,039 | 14,546,199 | 13,566,039 | 14,546,199 |
| Solid waste | - | - | 1,235,963 | 1,386,428 | 1,235,963 | 1,386,428 |
| Airport | - | - | 515,723 | 800,791 | 515,723 | 800,791 |
| Total Expenses | <u>24,867,736</u> | <u>25,572,448</u> | <u>18,060,561</u> | <u>20,160,562</u> | <u>42,928,297</u> | <u>45,733,010</u> |
| Decrease in Net Position | (905,810) | (2,456,201) | (1,457,389) | (350,731) | (2,363,199) | (2,806,932) |
| Beginning Net Position | 14,179,005 | 16,635,206 | 8,080,910 | 8,431,641 | 22,259,915 | 25,066,847 |
| Prior Period Adjustment | <u>-</u> | <u>-</u> | <u>144,443</u> | <u>-</u> | <u>144,443</u> | <u>-</u> |
| Ending Net Position | <u>\$ 13,273,195</u> | <u>\$ 14,179,005</u> | <u>\$ 6,767,964</u> | <u>\$ 8,080,910</u> | <u>\$ 20,041,159</u> | <u>\$ 22,259,915</u> |

Government Activities

Real estate and personal property tax revenue, the City's largest revenue source, totaled \$7,343,086, an increase from the previous year at \$7,037,730. The City's real estate tax rate increased to .99 cents per hundred dollars of assessed valuation from .96 cents. Personal property was taxed at \$4.50 per \$100 of assessed value and represents \$1,562,470 of total general property taxes (excludes tax relief portion of \$1,048,897). Other local tax revenues, which totaled \$5,566,974, consist primarily of local option sales, consumer utility, business license, motor vehicle license, lodging, and meals taxes.

Revenue Sharing from Counties of \$715,519 represents 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 2015 revenue sharing payments of \$704,969. Charges for services represent revenue received primarily from ambulance services and administration reimbursements from certain General Fund costs of the Enterprise Funds.

The City's expenses for governmental activities cover a wide range of services as seen in the above table. Overall, expenses for governmental activities decreased \$704,712. The table below provides an overview of program expenses and related revenues.

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2016 and 2015

| | <u>2016</u> | | <u>2015</u> | |
|-----------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
| General government administration | \$ 2,607,038 | \$ (1,689,521) | \$ 1,803,002 | \$ (1,339,102) |
| Judicial administration | 307,583 | (295,708) | 320,562 | (283,311) |
| Public safety | 7,037,551 | (5,945,002) | 7,928,989 | (6,513,711) |
| Public works | 2,988,081 | (456,178) | 3,636,028 | (1,670,763) |
| Health and welfare | 2,026,852 | (759,363) | 2,036,037 | (419,184) |
| Education | 6,231,066 | (6,231,066) | 6,999,529 | (6,996,318) |
| Parks, recreation, and cultural | 848,064 | (840,498) | 906,940 | (888,518) |
| Community development | 2,013,965 | (1,845,368) | 1,431,913 | (1,427,457) |
| Interest on long-term debt | 758,348 | (758,348) | 463,122 | (463,122) |
| Nondepartmental | <u>49,188</u> | <u>(49,188)</u> | <u>46,326</u> | <u>(46,326)</u> |
| Total | <u>\$ 24,867,736</u> | <u>\$ (18,870,240)</u> | <u>\$ 25,572,448</u> | <u>\$ (20,047,812)</u> |

Business-Type Activities

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

Business-type activities decreased the City's net position by \$1,457,389. Total revenues for business-type activities decreased from FY 2015 by \$3,206,659. Total business-type expenses decreased by \$2,100,001.

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 \$9,579,267, compared to \$10,924,042 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 \$6,762,505, which reflects a \$306,700 decrease over the prior year ending fund balance of \$7,069,205. Of this balance, \$5,490,089, or 81%, represents unassigned funds, which are available for operations of the government. The remaining \$1,272,416 is allocated among nonspendable, restricted, 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, 2016, this percentage totaled 25.5%, 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 \$182,859, which is related to school capital expenditures.
- **Debt Service Fund.** The debt service fund has a restricted fund balance of \$2,097,630, 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 \$6,767,964, a decrease of \$1,457,389 over the prior balance of \$8,080,910.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations. Annual operating budgets are adopted by ordinance for the General Fund, Debt Service Fund, Water and Sewer Fund, Solid Waste, Electric Fund, Airport Fund, and 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 \$494,643 higher than anticipated at the close of the fiscal year. Initially planned for use in the Fiscal Year 2016-2017 budget for Education capital outlay expenditures, this amount was allocated to the School Division to cover certain operating expenditures in FY 2015-2016. Consequently, these funds will not be appropriated in FY 2016-2017.

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

Budgetary Comparison

General Fund

For the Fiscal Years Ended June 30, 2016 and 2015

| | <u>2016</u> | | | <u>2015</u> | | |
|--|----------------------------|-------------------------|---------------------|----------------------------|-------------------------|--------------------|
| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> |
| Revenues | | | | | | |
| Taxes | \$ 7,397,314 | \$ 7,432,144 | \$ 7,343,086 | \$ 7,168,006 | \$ 7,168,006 | \$ 7,037,730 |
| Other | 8,654,432 | 8,704,722 | 8,987,187 | 8,239,758 | 8,196,159 | 8,888,114 |
| Intergovernmental | <u>3,954,170</u> | <u>4,640,924</u> | <u>4,625,503</u> | <u>4,436,203</u> | <u>4,738,343</u> | <u>4,690,499</u> |
| Total | <u>20,005,916</u> | <u>20,777,790</u> | <u>20,955,776</u> | <u>19,843,967</u> | <u>20,102,508</u> | <u>20,616,343</u> |
| Expenditures | <u>20,439,136</u> | <u>21,930,185</u> | <u>21,514,642</u> | <u>20,762,231</u> | <u>21,940,426</u> | <u>19,951,380</u> |
| Excess (Deficiency) of Revenues Over Expenditures | (433,220) | (1,152,395) | (558,866) | (918,264) | (1,837,918) | 664,963 |
| Other Financing Sources (Uses) | | | | | | |
| Proceeds from issuance of debt | - | - | 461,416 | - | - | - |
| Transfers in | 1,547,601 | 1,547,601 | 1,558,424 | 2,809,394 | 3,729,048 | 1,409,891 |
| Transfers (out) | <u>(1,933,004)</u> | <u>(1,954,124)</u> | <u>(1,767,674)</u> | <u>(1,891,130)</u> | <u>(1,891,130)</u> | <u>(1,897,291)</u> |
| Total | <u>(385,403)</u> | <u>(406,523)</u> | <u>252,166</u> | <u>918,264</u> | <u>1,837,918</u> | <u>(487,400)</u> |
| Net Change in Fund Balance Before Transfer from Surplus | (818,623) | (1,558,918) | (306,700) | - | - | 177,563 |
| Transfer from Surplus Funds | <u>818,623</u> | <u>1,558,918</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in Fund Balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (306,700)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 177,563</u> |

The difference between the original budget and the final amended budget for the City's General Fund expenditures was approximately \$1,491,049 representing an increase in appropriations. The variance is mainly due to the following appropriation and anticipated expenditure made during FY 2016:

- \$913,421 increase in Public Works for streets of which \$485,370 was VDOT funded projects.
- \$156,673 increase in General Government Administration for capital projects (software upgrades).
- \$142,425 increase in grant funds received for Public Safety.
- \$151,098 net increase in the original appropriation to the school division.

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, 2016, totaled \$38,235,565 net of accumulated depreciation. Investment in capital assets includes land and easements, buildings, improvements other than buildings, infrastructure, machinery and equipment, and construction in progress. Net capital assets increased \$535,909, in the governmental activities and \$357,173 in the proprietary activities. Additional details on school board capital assets can be located in the notes to the financial statements.

The following table summarizes capital assets, net of depreciation:

Change in Capital Assets

Primary Government

Governmental Activities

| | <u>Balance July 1, 2015</u> | <u>Net Additions and Deletions</u> | <u>Balance June 30, 2016</u> |
|--|---------------------------------|--|----------------------------------|
| Land | \$ 5,159,209 | \$ (50,000) | \$ 5,109,209 |
| Buildings | 18,462,577 | (101,790) | 18,360,787 |
| Improvements other than buildings | 3,258,408 | 20,927 | 3,279,335 |
| Machinery and equipment | 9,152,753 | 975,126 | 10,127,879 |
| School joint tenancy assets | 4,888,086 | - | 4,888,086 |
| Infrastructure | 16,334,721 | 1,308,149 | 17,642,870 |
| Total Capital Assets | 57,255,754 | 2,152,412 | 59,408,166 |
| Less: Accumulated depreciation and amortization | (31,049,148) | (1,616,503) | (32,665,651) |
| Total Capital Assets, Net Before Allocation of Component Units | <u>\$ 26,206,606</u> | <u>\$ 535,909</u> | <u>\$ 26,742,515</u> |

Business-Type Activities

| | <u>Balance July 1, 2015</u> | <u>Net Additions and Deletions</u> | <u>Balance June 30, 2016</u> |
|---|---------------------------------|--|----------------------------------|
| Land | \$ 179,258 | \$ - | \$ 179,258 |
| Construction in progress | 700,468 | (700,468) | - |
| Infrastructure | 34,858,772 | 1,512,101 | 36,370,873 |
| Buildings and improvements | 1,449,418 | - | 1,449,418 |
| Machinery and equipment | 5,430,463 | 753,010 | 6,183,473 |
| Total Capital Assets | 42,618,379 | 1,564,643 | 44,183,022 |
| Less: Accumulated depreciation and amortization | (31,482,502) | (1,207,470) | (32,689,972) |
| Total Capital Assets, Net | <u>\$ 11,135,877</u> | <u>\$ 357,173</u> | <u>\$ 11,493,050</u> |

Component Unit

School Board

| | <u>Balance July 1, 2015</u> | <u>Net Additions and Deletions</u> | <u>Balance June 30, 2016</u> |
|---|---------------------------------|--|----------------------------------|
| Land and land improvements | \$ 151,010 | \$ - | \$ 151,010 |
| Buildings and improvements | 13,444,543 | - | 13,444,543 |
| Infrastructure | 4,530,593 | 443,779 | 4,974,372 |
| Joint tenancy assets | (4,888,086) | - | (4,888,086) |
| Furniture, equipment, and vehicles | 3,611,369 | 305,249 | 3,916,618 |
| Total Capital Assets | 16,849,429 | 749,028 | 17,598,457 |
| Less: Accumulated depreciation and amortization | (7,751,701) | (370,917) | (8,122,618) |
| Total Capital Assets, Net | <u>\$ 9,097,728</u> | <u>\$ 378,111</u> | <u>\$ 9,475,839</u> |

Debt Administration. The City's total outstanding general obligation debt at June 30, 2016 was \$15,873,619, which is considered to be tax supported debt. Other general fund long-term liabilities are also provided. Enterprise Fund (water and sewer, electric, and solid waste) debt, which is directly supported by revenues generated from operations and not supported by taxes is \$4,634,899. Additional details on the long-term debt activity can be located in Note 8, Long-Term Obligations.

| | <u>Balance July 1, 2015</u> | <u>Net Additions and Deletions</u> | <u>Balance June 30, 2016</u> |
|---------------------------------|---------------------------------|--|----------------------------------|
| Governmental Activities | | | |
| General obligation bonds | \$ 15,888,999 | \$ (15,380) | \$ 15,873,619 |
| Capital leases | 136,059 | 348,489 | 484,548 |
| Landfill obligation | 888,806 | (123,498) | 765,308 |
| OPEB obligation | 670,350 | 48,000 | 718,350 |
| Compensated absences | 785,212 | (9,683) | 775,529 |
| | 18,369,426 | 247,928 | 18,617,354 |
| Add: Premiums | 508,570 | (27,202) | 481,368 |
| Total Governmental Activities | <u>\$ 18,877,996</u> | <u>\$ 220,726</u> | <u>\$ 19,098,722</u> |
| Business-Type Activities | | | |
| Bonds payable | \$ 4,651,400 | \$ (471,400) | \$ 4,180,000 |
| Capital leases | 128,761 | (41,564) | 87,197 |
| OPEB obligation | 223,450 | 16,000 | 239,450 |
| Compensated absences | 112,198 | (15,630) | 96,568 |
| | 5,115,809 | (512,594) | 4,603,215 |
| Add: Premiums | 35,644 | (3,960) | 31,684 |
| Total Business-Type Activities | <u>\$ 5,151,453</u> | <u>\$ (516,554)</u> | <u>\$ 4,634,899</u> |

State statutes limit the amount of general obligation debt a government may issue to 10% of its total assessed valuation of real and public service corporations. The City's ratio of net general bonded debt to assessed value totals 2.88%.

| | <u>FY 2016</u> | <u>FY 2015</u> |
|--------------------------------------|----------------------|----------------------|
| General Government Activities | | |
| Bonds payable - general | \$ 9,308,190 | \$ 8,872,600 |
| School related bonds and notes | <u>6,565,429</u> | <u>7,016,399</u> |
| Total Tax Supported Debt | 15,873,619 | 15,888,999 |
| Business-Type Activities | <u>4,180,000</u> | <u>4,651,400</u> |
| Total Long-Term Debt | <u>\$ 20,053,619</u> | <u>\$ 20,540,399</u> |
| Per Capita Tax Supported | <u>\$ 1,850</u> | <u>\$ 1,851</u> |
| Total Per Capita Debt | <u>\$ 2,337</u> | <u>\$ 2,424</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The June 30, 2016 unemployment rate for the City of Franklin, Virginia was 5.9% compared to 4.0% for Virginia and the national rate of 5.1%. The June 30, 2015 unemployment rate for the City of Franklin, Virginia was 7.6%, compared to the state's unemployment rate of 5.3% and the average national rate of 6.1%.
- In FY 16-17, the City's adopted budget anticipates the general fund budget to be \$22,447,251, an increase of \$2,441,335 over prior year's original budget.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS



City of Franklin, Virginia
Statement of Net Position
At June 30, 2016

| | <u>Primary Government</u> | | | <u>Component Units</u> | |
|--|--------------------------------|---------------------------------|---------------------------------|------------------------|---|
| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total Primary Government</u> | <u>School Board</u> | <u>Industrial Development Authority</u> |
| Assets | | | | | |
| Cash and cash equivalents | \$ 8,601,053 | \$ 2,449,593 | \$ 11,050,646 | \$ 180,723 | \$ 14,314 |
| <i>Receivables (net of allowance for uncollectibles)</i> | | | | | |
| Property taxes receivable | 533,696 | - | 533,696 | - | - |
| Accounts receivable | 515,362 | 1,776,761 | 2,292,123 | 8,848 | - |
| Due from other funds | 969,874 | - | 969,874 | - | - |
| Due from primary government | | | | 494,643 | |
| Due from other governmental units | 574,560 | - | 574,560 | 749,097 | - |
| Inventories | - | 9,806 | 9,806 | 11,308 | - |
| Restricted Assets | | | | | |
| <i>Temporarily restricted</i> | | | | | |
| Cash and cash equivalents | 98,743 | - | 98,743 | - | - |
| <i>Other assets</i> | | | | | |
| Deposits | - | 12,633 | 12,633 | - | - |
| Capital Assets (net of accumulated depreciation) | <u>26,742,515</u> | <u>11,493,050</u> | <u>38,235,565</u> | <u>9,475,839</u> | <u>-</u> |
| Total Assets | 38,035,803 | 15,741,843 | 53,777,646 | 10,920,458 | 14,314 |
| Deferred Outflows of Resources | | | | | |
| Deferred outflows - pension | 746,024 | 163,662 | 909,686 | 1,496,334 | - |
| Deferred outflows - loss on refunding | - | 103,332 | 103,332 | - | - |
| Total Deferred Outflows of Resources | <u>746,024</u> | <u>266,994</u> | <u>1,013,018</u> | <u>1,496,334</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 38,781,827</u> | <u>\$ 16,008,837</u> | <u>\$ 54,790,664</u> | <u>\$ 12,416,792</u> | <u>\$ 14,314</u> |
| Liabilities | | | | | |
| Accounts payable and accrued liabilities | \$ 699,493 | \$ 1,656,613 | \$ 2,356,106 | \$ 1,177,763 | \$ - |
| Customers' deposits | - | 788,215 | 788,215 | - | - |
| Accrued interest payable | - | 61,045 | 61,045 | - | - |
| Due to component unit school board | 494,643 | - | 494,643 | - | - |
| Due to other funds | - | 969,874 | 969,874 | - | - |
| Deposits held in escrow | 83,048 | - | 83,048 | - | - |
| Long-Term Liabilities | | | | | |
| <i>Due within one year</i> | | | | | |
| Long-term liabilities | 688,576 | 518,977 | 1,207,553 | - | - |
| <i>Due in more than one year</i> | | | | | |
| OPEB liability | 718,350 | 239,450 | 957,800 | 235,600 | - |
| Compensated absences | 775,529 | 96,568 | 872,097 | 241,515 | - |
| Landfill obligation - closure/post-closure costs | 765,308 | - | 765,308 | - | - |
| Capital lease obligations | 484,548 | 87,197 | 571,745 | - | - |
| Bonds, loans, and premiums | 15,666,411 | 3,692,707 | 19,359,118 | - | - |
| Net pension liability | <u>4,488,268</u> | <u>982,711</u> | <u>5,470,979</u> | <u>12,792,041</u> | <u>-</u> |
| Total Liabilities | 24,864,174 | 9,093,357 | 33,957,531 | 14,446,919 | - |
| Deferred Inflows of Resources | | | | | |
| Deferred inflows VRS pension | <u>644,458</u> | <u>147,516</u> | <u>791,974</u> | <u>1,822,942</u> | <u>-</u> |
| Total Deferred Inflows of Resources | 644,458 | 147,516 | 791,974 | 1,822,942 | - |
| Net Position | | | | | |
| Net investment in capital assets | 7,885,690 | 7,194,170 | 15,079,860 | 9,475,839 | - |
| Restricted for | | | | | |
| Debt service | 2,097,630 | - | 2,097,630 | - | - |
| Capital projects | 485,201 | - | 485,201 | - | - |
| Community development | 296,565 | - | 296,565 | - | 14,314 |
| Public safety and parks and recreation | 239,708 | - | 239,708 | - | - |
| Unrestricted (deficit) | <u>2,268,401</u> | <u>(426,206)</u> | <u>1,842,195</u> | <u>(13,328,908)</u> | <u>-</u> |
| Total Net Position (Deficit) | <u>13,273,195</u> | <u>6,767,964</u> | <u>20,041,159</u> | <u>(3,853,069)</u> | <u>14,314</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 38,781,827</u> | <u>\$ 16,008,837</u> | <u>\$ 54,790,664</u> | <u>\$ 12,416,792</u> | <u>\$ 14,314</u> |

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

City of Franklin, Virginia
Statement of Activities
For the Year Ended June 30, 2016

| <u>Functions/Programs</u> | <u>Program Revenues</u> | | | | <u>Net (Expense) Revenue and Changes in Net Position</u> | | | | |
|--|-------------------------|-----------------------------|---|---|--|--|----------------------|---|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Primary Government Business-Type Activities</u> | <u>Total</u> | <u>Component Units</u> <u>School Board</u> | <u>Industrial Development Authority</u> |
| Primary Government | | | | | | | | | |
| Governmental Activities | | | | | | | | | |
| General government administration | \$ 2,607,038 | \$ 732,066 | \$ 185,451 | \$ - | \$ (1,689,521) | | \$ (1,689,521) | | |
| Judicial administration | 307,583 | 11,875 | - | - | (295,708) | | (295,708) | | |
| Public safety | 7,037,551 | 416,434 | 676,115 | - | (5,945,002) | | (5,945,002) | | |
| Public works | 2,988,081 | 407,055 | 2,124,848 | - | (456,178) | | (456,178) | | |
| Health and welfare | 2,026,852 | 5,524 | 1,261,965 | - | (759,363) | | (759,363) | | |
| Education | 6,231,066 | - | - | - | (6,231,066) | | (6,231,066) | | |
| Parks, recreation, and cultural | 848,064 | 7,566 | - | - | (840,498) | | (840,498) | | |
| Community development | 2,013,965 | - | 168,597 | - | (1,845,368) | | (1,845,368) | | |
| Interest on long-term debt | 758,348 | - | - | - | (758,348) | | (758,348) | | |
| Nondepartmental | 49,188 | - | - | - | (49,188) | | (49,188) | | |
| Total Governmental Activities | 24,867,736 | 1,580,520 | 4,416,976 | - | (18,870,240) | | (18,870,240) | | |
| Business-Type Activities | | | | | | | | | |
| Water and sewer | 2,742,836 | 2,904,767 | - | - | | \$ 161,931 | 161,931 | | |
| Solid waste | 1,235,963 | 1,305,582 | - | - | | 69,619 | 69,619 | | |
| Electric | 13,566,039 | 13,664,164 | - | - | | 98,125 | 98,125 | | |
| Airport | 515,723 | 110,410 | 56,052 | - | | (349,261) | (349,261) | | |
| Total Business-Type Activities | 18,060,561 | 17,984,923 | 56,052 | - | | (19,586) | (19,586) | | |
| Total Primary Government | <u>\$ 42,928,297</u> | <u>\$ 19,565,443</u> | <u>\$ 4,473,028</u> | <u>\$ -</u> | | | (18,889,826) | | |
| Component Units | | | | | | | | | |
| School Board | \$ 16,687,616 | \$ 41,810 | \$ 10,293,254 | \$ - | | | | \$ (6,352,552) | \$ - |
| Industrial Development Authority | - | - | - | - | | | | - | - |
| Total - Component Units | <u>\$ 16,687,616</u> | <u>\$ 41,810</u> | <u>\$ 10,293,254</u> | <u>\$ -</u> | | | | (6,352,552) | - |
| General Revenues | | | | | | | | | |
| General property taxes | | | | | 7,304,907 | - | 7,304,907 | - | - |
| Other local taxes | | | | | 5,566,974 | - | 5,566,974 | - | - |
| Revenue sharing from counties | | | | | 709,171 | - | 709,171 | - | - |
| Use of property | | | | | 413,120 | 8,426 | 421,546 | - | - |
| Investment earnings | | | | | 4,678 | 1,069 | 5,747 | 7,654 | 1 |
| Miscellaneous | | | | | 872,161 | 7,032 | 879,193 | 571,399 | - |
| Contribution from City of Franklin, Virginia | | | | | - | - | - | 6,231,066 | - |
| Noncategorical aid from Commonwealth of Virginia | | | | | 1,639,089 | - | 1,639,089 | - | - |
| Transfers in (out) | | | | | 1,454,330 | (1,454,330) | - | - | - |
| Total General Revenues and Transfers | | | | | 17,964,430 | (1,437,803) | 16,526,627 | 6,810,119 | 1 |
| Change in Net Position | | | | | (905,810) | (1,457,389) | (2,363,199) | 457,567 | 1 |
| Net Position (Deficit) - Beginning of Year | | | | | 14,179,005 | 8,080,910 | 22,259,915 | (4,310,636) | 14,313 |
| Prior Period Adjustment | | | | | - | 144,443 | 144,443 | - | - |
| Net Position (Deficit) - End of Year | | | | | <u>\$ 13,273,195</u> | <u>\$ 6,767,964</u> | <u>\$ 20,041,159</u> | <u>\$ (3,853,069)</u> | <u>\$ 14,314</u> |

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

City of Franklin, Virginia

Balance Sheet

Governmental Funds

At June 30, 2016

| | <u>General Fund</u> | <u>Virginia Public Assistance</u> | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|---|-----------------------------|-------------------------|---|---|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 5,909,118 | \$ - | \$ 202,613 | \$ 2,097,630 | \$ 557,292 | \$ 8,766,653 |
| <i>Receivables - net of allowance for uncollectibles</i> | | | | | | |
| Property taxes receivable | 533,696 | - | - | - | - | 533,696 |
| Accounts receivable | 407,067 | 14,053 | - | - | 94,242 | 515,362 |
| Due from other funds | 969,874 | - | - | - | - | 969,874 |
| Due from other governmental units | 443,347 | 111,643 | - | - | 19,570 | 574,560 |
| <i>Restricted assets</i> | | | | | | |
| Cash and cash equivalents | 98,743 | - | - | - | - | 98,743 |
| Total Assets | <u>\$ 8,361,845</u> | <u>\$ 125,696</u> | <u>\$ 202,613</u> | <u>\$ 2,097,630</u> | <u>\$ 671,104</u> | <u>\$ 11,458,888</u> |
| Liabilities | | | | | | |
| Pooled cash deficit | \$ - | \$ 109,467 | \$ - | \$ - | \$ 56,133 | \$ 165,600 |
| Accounts payable and accrued liabilities | 621,360 | 16,229 | 19,754 | - | 42,150 | 699,493 |
| Due to component unit school board | 494,643 | - | - | - | - | 494,643 |
| Deposits held in escrow | 46,500 | - | - | - | 36,548 | 83,048 |
| Total Liabilities | 1,162,503 | 125,696 | 19,754 | - | 134,831 | 1,442,784 |
| Deferred Inflows of Resources | 436,837 | - | - | - | - | 436,837 |
| Fund Balances | | | | | | |
| <i>Nonspendable</i> | | | | | | |
| Long-term receivables - airport | 969,874 | - | - | - | - | 969,874 |
| <i>Restricted</i> | | | | | | |
| Public safety | - | - | - | - | 28,891 | 28,891 |
| Parks, recreation, and cultural | - | - | - | - | 210,817 | 210,817 |
| Community development | - | - | - | - | 296,565 | 296,565 |
| Debt service | - | - | - | 2,097,630 | - | 2,097,630 |
| Capital projects | 98,743 | - | 182,859 | - | - | 281,602 |
| <i>Assigned</i> | | | | | | |
| Capital projects | 203,799 | - | - | - | - | 203,799 |
| <i>Unassigned</i> | | | | | | |
| General fund | 5,490,089 | - | - | - | - | 5,490,089 |
| Total Fund Balances | <u>6,762,505</u> | <u>-</u> | <u>182,859</u> | <u>2,097,630</u> | <u>536,273</u> | <u>9,579,267</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 8,361,845</u> | <u>\$ 125,696</u> | <u>\$ 202,613</u> | <u>\$ 2,097,630</u> | <u>\$ 671,104</u> | <u>\$ 11,458,888</u> |

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

City of Franklin, Virginia

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

At June 30, 2016

| | | |
|--|------------------|----------------------|
| Total Fund Balances for Governmental Funds | | \$ 9,579,267 |
| Total net position reported for governmental activities in the Statement of Net Position is different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of: | | |
| Land and construction in progress | \$ 5,109,209 | |
| Buildings and improvements, net of accumulated depreciation | 12,841,615 | |
| Infrastructure, net of accumulated depreciation | 4,125,064 | |
| School joint tenancy assets | 2,028,866 | |
| Furniture, equipment, and vehicles, net of accumulated depreciation | <u>2,637,761</u> | |
| Total Capital Assets | | 26,742,515 |
| Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | |
| Unavailable revenue - taxes and licenses | | 436,837 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. | | |
| Deferred outflows of resources related to pensions | 746,024 | |
| Deferred inflows of resources related to pensions | <u>(644,458)</u> | |
| Total Deferred Outflows and Inflows of Resources | | 101,566 |
| Liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. | | |
| Balances of long-term liabilities affecting net position are as follows: | | |
| Bonds, capital leases, and notes payable with related premiums | (16,839,535) | |
| OPEB obligation | (718,350) | |
| Net VRS pension liability | (4,488,268) | |
| Landfill closure and post-closure liability | (765,308) | |
| Compensated absences | <u>(775,529)</u> | |
| Total | | <u>(23,586,990)</u> |
| Total Net Position of Governmental Activities | | <u>\$ 13,273,195</u> |

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

City of Franklin, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2016

| | General Fund | Virginia Public Assistance | Capital Projects | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|----------------------------------|---------------------|---------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| General property taxes | \$ 7,343,086 | \$ - | \$ - | \$ - | \$ - | \$ 7,343,086 |
| Other local taxes | 5,566,974 | - | - | - | - | 5,566,974 |
| Permits, privilege fees, and regulatory licenses | 173,306 | - | - | - | - | 173,306 |
| Fines and forfeitures | 31,899 | - | - | - | - | 31,899 |
| Revenue from the use of money and property | 298,432 | - | 1,991 | 63,484 | 160,526 | 524,433 |
| Charges for services | 1,375,315 | - | - | - | - | 1,375,315 |
| Miscellaneous | 1,244,273 | 62,244 | - | - | 274,814 | 1,581,331 |
| Recovered costs | 296,988 | - | - | - | - | 296,988 |
| <i>Intergovernmental</i> | | | | | | |
| Revenue from the Commonwealth of Virginia | 4,542,899 | 322,919 | - | - | 262,330 | 5,128,148 |
| Revenue from the Federal Government | 82,604 | 836,773 | - | - | 8,540 | 927,917 |
| Total Revenues | 20,955,776 | 1,221,936 | 1,991 | 63,484 | 706,210 | 22,949,397 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government administration | 2,854,178 | - | - | - | - | 2,854,178 |
| Judicial administration | 295,583 | - | - | - | - | 295,583 |
| Public safety | 7,189,416 | - | - | - | 8,174 | 7,197,590 |
| Public works | 3,610,007 | - | - | - | - | 3,610,007 |
| Health and welfare | 185,242 | 1,636,149 | - | - | 198,700 | 2,020,091 |
| Education | 5,482,038 | - | 1,081,393 | - | - | 6,563,431 |
| Parks, recreation, and cultural | 684,390 | - | - | - | 10,504 | 694,894 |
| Community development | 1,046,577 | - | - | - | 964,521 | 2,011,098 |
| Nondepartmental | 49,188 | - | - | - | - | 49,188 |
| <i>Debt service</i> | | | | | | |
| Principal retirement | 112,928 | - | - | 6,132,380 | - | 6,245,308 |
| Interest and other fiscal charges | 5,095 | - | - | 780,455 | - | 785,550 |
| Total Expenditures | 21,514,642 | 1,636,149 | 1,081,393 | 6,912,835 | 1,181,899 | 32,326,918 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (558,866) | (414,213) | (1,079,402) | (6,849,351) | (475,689) | (9,377,521) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | 1,558,424 | 414,213 | - | 965,840 | 283,527 | 3,222,004 |
| Transfers (out) | (1,767,674) | - | - | - | - | (1,767,674) |
| Proceeds from issuance of long-term debt | 461,416 | - | - | 6,117,000 | - | 6,578,416 |
| Total Other Financing Sources (Uses) | 252,166 | 414,213 | - | 7,082,840 | 283,527 | 8,032,746 |
| Net Change in Fund Balances | (306,700) | - | (1,079,402) | 233,489 | (192,162) | (1,344,775) |
| Fund Balances - Beginning of Year | 7,069,205 | - | 1,262,261 | 1,864,141 | 728,435 | 10,924,042 |
| Fund Balances - End of Year | <u>\$ 6,762,505</u> | <u>\$ -</u> | <u>\$ 182,859</u> | <u>\$ 2,097,630</u> | <u>\$ 536,273</u> | <u>\$ 9,579,267</u> |

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

City of Franklin, Virginia

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

Year Ended June 30, 2016

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

| | |
|--|----------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (1,344,775) |
|--|----------------|

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.

| | | |
|--|--------------------|---------|
| Net capital asset additions and dispositions | \$ 2,216,563 | |
| Depreciation expense | <u>(1,680,653)</u> | 535,910 |

| | |
|--|----------|
| Revenues in the Statement of Activities that do not provide current financial resources are deferred in the fund statements. | (38,179) |
|--|----------|

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The following is the net effect of these differences in the treatment of long-term debt and related items.

| | | |
|--|---------------|-----------|
| Issuance of long-term debt, net of premiums and deferred amount on refunding | (6,117,000) | |
| Capital leases | (461,417) | |
| Principal payments | 6,132,380 | |
| Lease payments | 112,928 | |
| Premium on bond issue and interest charges | <u>27,202</u> | |
| Net Adjustment | | (305,907) |

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

| | | |
|---|-----------------|----------------|
| Compensated absences | 9,683 | |
| Landfill closure and post-closure costs | 123,498 | |
| Net pension liability | (757,807) | |
| Deferred inflows - VRS pension | 841,257 | |
| Deferred outflows - VRS pension | 78,510 | |
| Other postemployment benefits | <u>(48,000)</u> | |
| Net Adjustment | | <u>247,141</u> |

| | |
|---|---------------------|
| Change in Net Position of Governmental Activities | <u>\$ (905,810)</u> |
|---|---------------------|

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

City of Franklin, Virginia

Statement of Net Position

Proprietary Funds

At June 30, 2016

| | <u>Water and Sewer Fund</u> | <u>Solid Waste Fund</u> | <u>Electric Fund</u> | <u>Airport Fund</u> | <u>Total</u> |
|--|---------------------------------|-----------------------------|--------------------------|-------------------------|----------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 1,719,637 | \$ 409,400 | \$ 367,370 | \$ 200 | \$ 2,496,607 |
| Receivables, net | 174,284 | 64,848 | 1,509,356 | 28,273 | 1,776,761 |
| Inventories | - | - | - | 9,806 | 9,806 |
| Total Current Assets | 1,893,921 | 474,248 | 1,876,726 | 38,279 | 4,283,174 |
| Noncurrent Assets | | | | | |
| Capital assets, net | 3,461,046 | 446,370 | 3,845,752 | 3,739,882 | 11,493,050 |
| Total Noncurrent Assets | 3,461,046 | 446,370 | 3,845,752 | 3,739,882 | 11,493,050 |
| Other Assets | | | | | |
| | - | - | - | 12,633 | 12,633 |
| Total Assets | 5,354,967 | 920,618 | 5,722,478 | 3,790,794 | 15,788,857 |
| Deferred Outflows of Resources | | | | | |
| Deferred outflows of resources - pension | 57,036 | 22,358 | 75,289 | 8,979 | 163,662 |
| Deferred outflows - loss on refunding | 58,137 | - | 45,195 | - | 103,332 |
| Total Deferred Outflows of Resources | 115,173 | 22,358 | 120,484 | 8,979 | 266,994 |
| Total Assets and Deferred Outflows of Resources | <u>\$ 5,470,140</u> | <u>\$ 942,976</u> | <u>\$ 5,842,962</u> | <u>\$ 3,799,773</u> | <u>\$ 16,055,851</u> |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Pooled cash deficit | \$ - | \$ - | \$ - | \$ 47,014 | \$ 47,014 |
| Accounts payable and accrued liabilities | 85,873 | 56,522 | 1,509,539 | 4,679 | 1,656,613 |
| Customers' deposits | - | - | 788,215 | - | 788,215 |
| Accrued interest payable | 37,133 | 2,991 | 20,921 | - | 61,045 |
| Due to other funds | - | - | - | 969,874 | 969,874 |
| Current portion of long-term liabilities | 289,617 | - | 229,360 | - | 518,977 |
| Total Current Liabilities | 412,623 | 59,513 | 2,548,035 | 1,021,567 | 4,041,738 |
| Noncurrent Liabilities, Net of Current Portion | | | | | |
| Net pension liability | 341,240 | 134,377 | 453,069 | 54,025 | 982,711 |
| OPEB liability | 76,624 | 47,890 | 105,358 | 9,578 | 239,450 |
| Compensated absences | 27,237 | 21,661 | 39,446 | 8,224 | 96,568 |
| Capital lease obligations | - | - | 87,197 | - | 87,197 |
| Long-term notes and bonds and premiums | 2,232,321 | 248,000 | 1,212,386 | - | 3,692,707 |
| Total Noncurrent Liabilities | 2,677,422 | 451,928 | 1,897,456 | 71,827 | 5,098,633 |
| Total Liabilities | 3,090,045 | 511,441 | 4,445,491 | 1,093,394 | 9,140,371 |
| Deferred Inflows of Resources | | | | | |
| VRS pension | 55,345 | 19,743 | 64,692 | 7,736 | 147,516 |
| Total Deferred Inflows of Resources | 55,345 | 19,743 | 64,692 | 7,736 | 147,516 |
| Net Position | | | | | |
| Net investment in capital assets | 939,108 | 198,370 | 2,316,809 | 3,739,882 | 7,194,169 |
| Unrestricted | 1,385,642 | 213,422 | (984,030) | (1,041,239) | (426,205) |
| Total Net Position | 2,324,750 | 411,792 | 1,332,779 | 2,698,643 | 6,767,964 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 5,470,140</u> | <u>\$ 942,976</u> | <u>\$ 5,842,962</u> | <u>\$ 3,799,773</u> | <u>\$ 16,055,851</u> |

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

City of Franklin, Virginia

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

Year Ended June 30, 2016

| | <u>Water and Sewer Fund</u> | <u>Solid Waste Fund</u> | <u>Electric Fund</u> | <u>Airport Fund</u> | <u>Total</u> |
|--|---------------------------------|-----------------------------|--------------------------|-------------------------|---------------------|
| Operating Revenues | | | | | |
| Charges for services | \$ 2,904,767 | \$ 1,305,582 | \$ 13,664,164 | \$ 110,410 | \$ 17,984,923 |
| Miscellaneous | 278 | - | 6,388 | 366 | 7,032 |
| Operating grants - state | - | - | - | 6,321 | 6,321 |
| Operating grants - federal | - | - | - | 49,731 | 49,731 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>49,731</u> | <u>49,731</u> |
| Total Operating Revenues | 2,905,045 | 1,305,582 | 13,670,552 | 166,828 | 18,048,007 |
| Operating Expenses | | | | | |
| Salaries and wages | 512,711 | 194,305 | 660,071 | 80,456 | 1,447,543 |
| Fringe benefits | 177,380 | 92,784 | 208,475 | 28,305 | 506,944 |
| Contractual services | 322,966 | 4,028 | 400,354 | - | 727,348 |
| Repairs and maintenance | 127,089 | 61,885 | 196,246 | 25,692 | 410,912 |
| Utilities | 189,311 | - | 26,153 | 20,308 | 235,772 |
| Insurance | 61,927 | 6,002 | 16,446 | 10,006 | 94,381 |
| Materials and supplies | 350,565 | 60,839 | 48,424 | 2,149 | 461,977 |
| Other charges | 89,833 | 510,021 | 11,032,735 | 31,987 | 11,664,576 |
| Payment to general fund for services and taxes | 289,502 | 215,815 | 499,500 | 20,749 | 1,025,566 |
| Depreciation and amortization | 515,369 | 77,483 | 419,757 | 296,071 | 1,308,680 |
| | <u>2,636,653</u> | <u>1,223,162</u> | <u>13,508,161</u> | <u>515,723</u> | <u>17,883,699</u> |
| Total Operating Expenses | 2,636,653 | 1,223,162 | 13,508,161 | 515,723 | 17,883,699 |
| Operating Income (Loss) | 268,392 | 82,420 | 162,391 | (348,895) | 164,308 |
| Nonoperating Revenues (Expenses) | | | | | |
| Interest income | 728 | - | 341 | - | 1,069 |
| Interest expense | (106,183) | (12,801) | (57,878) | - | (176,862) |
| Sale of capital assets | - | - | 8,426 | - | 8,426 |
| | <u>-</u> | <u>-</u> | <u>8,426</u> | <u>-</u> | <u>8,426</u> |
| Total Nonoperating Revenues (Expenses) | (105,455) | (12,801) | (49,111) | - | (167,367) |
| Income (Loss) Before Transfers | 162,937 | 69,619 | 113,280 | (348,895) | (3,059) |
| Transfers in | 8,294 | 4,625 | 10,518 | 80,657 | 104,094 |
| Transfers (out) | (85,474) | (56,223) | (1,416,157) | (570) | (1,558,424) |
| Total Nonoperating Revenues (Expenses) | (77,180) | (51,598) | (1,405,639) | 80,087 | (1,454,330) |
| Change in Net Position | 85,757 | 18,021 | (1,292,359) | (268,808) | (1,457,389) |
| Total Net Position - Beginning of Year | 2,238,993 | 393,771 | 2,625,138 | 2,823,008 | 8,080,910 |
| Prior Period Adjustment - Capital Asset Adjustment | - | - | - | 144,443 | 144,443 |
| Total Net Position - End of Year | <u>\$ 2,324,750</u> | <u>\$ 411,792</u> | <u>\$ 1,332,779</u> | <u>\$ 2,698,643</u> | <u>\$ 6,767,964</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
Year Ended June 30, 2016

| | <u>Water and Sewer Fund</u> | <u>Solid Waste Fund</u> | <u>Electric Fund</u> | <u>Airport Fund</u> | <u>Total</u> |
|--|---------------------------------|-----------------------------|--------------------------|-------------------------|---------------------|
| Cash Flows from Operating Activities | | | | | |
| Receipts from customers and users | \$ 3,026,317 | \$ 1,315,760 | \$ 14,070,677 | \$ 285,600 | \$ 18,698,354 |
| Operating grants | - | - | (54,432) | 56,052 | 1,620 |
| Payments to suppliers for goods and services | (1,496,341) | (858,587) | (11,806,792) | (285,853) | (14,447,573) |
| Payments to and on behalf of employees | <u>(701,838)</u> | <u>(298,372)</u> | <u>(892,446)</u> | <u>(110,066)</u> | <u>(2,002,722)</u> |
| Net Cash Provided by (Used in) Operating Activities | 828,138 | 158,801 | 1,317,007 | (54,267) | 2,249,679 |
| Cash Flows from Noncapital Financing Activities | | | | | |
| Transfers from other funds | 8,294 | 4,625 | 10,518 | 80,657 | 104,094 |
| Transfers (to) other funds | <u>(85,474)</u> | <u>(56,223)</u> | <u>(1,416,157)</u> | <u>(570)</u> | <u>(1,558,424)</u> |
| Net Cash Provided by (Used in) Noncapital Financing Activities | (77,180) | (51,598) | (1,405,639) | 80,087 | (1,454,330) |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Sale of capital assets | - | - | 8,426 | - | 8,426 |
| Purchase of fixed assets | (866,122) | (161,011) | (446,757) | (47,520) | (1,521,410) |
| Proceeds from long-term debt | - | 248,000 | - | - | 248,000 |
| Payment on long-term debt | (256,239) | (262,447) | (216,211) | - | (734,897) |
| Interest paid on capital debt | <u>(109,369)</u> | <u>(12,233)</u> | <u>(60,080)</u> | <u>-</u> | <u>(181,682)</u> |
| Net Cash Used in Capital and Related Financing Activities | (1,231,730) | (187,691) | (714,622) | (47,520) | (2,181,563) |
| Cash Flows from Investing Activities | | | | | |
| Interest income | <u>728</u> | <u>-</u> | <u>341</u> | <u>-</u> | <u>1,069</u> |
| Net Cash Provided by Investing Activities | <u>728</u> | <u>-</u> | <u>341</u> | <u>-</u> | <u>1,069</u> |
| Net Decrease in Cash and Cash Equivalents | (480,044) | (80,488) | (802,913) | (21,700) | (1,385,145) |
| Cash and Cash Equivalents (Deficit) - Beginning of Year | <u>2,199,681</u> | <u>489,888</u> | <u>1,170,283</u> | <u>(25,114)</u> | <u>3,834,738</u> |
| Cash and Cash Equivalents (Deficit) - End of Year | <u>\$ 1,719,637</u> | <u>\$ 409,400</u> | <u>\$ 367,370</u> | <u>\$ (46,814)</u> | <u>\$ 2,449,593</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | | | | | |
| Operating income (loss) | \$ 268,392 | \$ 82,420 | \$ 162,391 | \$ (348,895) | \$ 164,308 |
| <i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</i> | | | | | |
| Depreciation expense | 515,369 | 77,483 | 419,757 | 296,071 | 1,308,680 |
| (Increase) decrease in accounts receivable | 121,272 | 10,178 | 284,117 | 174,824 | 590,391 |
| (Increase) decrease in due from other government | - | - | (54,432) | - | (54,432) |
| (Increase) decrease in inventories | - | - | - | 15,193 | 15,193 |
| (Increase) decrease in deferred outflows - VRS | (5,533) | (2,320) | (7,950) | (947) | (16,750) |
| Increase (decrease) in accounts payable and accrued liabilities | (70,665) | (9,754) | 398,438 | (190,155) | 127,864 |
| Increase (decrease) in net pension liability | 53,408 | 22,391 | 76,738 | 9,136 | 161,673 |
| Increase (decrease) in deferred inflows - VRS | (59,289) | (24,857) | (85,188) | (10,142) | (179,476) |
| Increase (decrease) in OPEB liability | 5,184 | 3,260 | 7,128 | 648 | 16,220 |
| Increase (decrease) in customer deposits | <u>-</u> | <u>-</u> | <u>116,008</u> | <u>-</u> | <u>116,008</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ 828,138</u> | <u>\$ 158,801</u> | <u>\$ 1,317,007</u> | <u>\$ (54,267)</u> | <u>\$ 2,249,679</u> |

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

City of Franklin, Virginia

Statement of Fiduciary Net Position

Agency Funds

Year Ended June 30, 2016

| | <u>All Agency Funds</u> |
|--|-----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 102,825 |
| Accounts receivable | <u>5,000</u> |
| Total Assets | <u>\$ 107,825</u> |
| Liabilities | |
| Accounts payable and accrued liabilities | \$ 4,236 |
| Amounts held for others | <u>103,589</u> |
| Total Liabilities | <u>\$ 107,825</u> |

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

City of Franklin, Virginia

Notes to the Financial Statements

Year Ended June 30, 2016

1 Summary of Significant Accounting Policies

Narrative Profile

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

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

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

A. Government-wide and Fund Financial Statements

Management's Discussion and Analysis

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

Government-wide Financial Statements

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

Statement of Net Position

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

Statement of Activities

The 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).

Budgetary Comparison Schedules

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

The City's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations. Annual operating budgets are adopted by ordinance for the General Fund, Debt Service Fund, Water and 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.

B. Other Related Organizations

Included in the City's Financial Report – None

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

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

The City applies all GASB pronouncements.

Government-Wide and Fund Accounting Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Governmental Funds**

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

- **General Fund**

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

- **Special Revenue Funds**

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

- *Virginia Public Assistance Fund* – accounts for revenues and expenditures related to services provided by the Department of Social Services. Most revenues are derived from the Commonwealth of Virginia and the federal government. This fund is considered a major fund.
- *Comprehensive Services Act Fund* – accounts for revenues and expenditures related to the Comprehensive Services Act for At-risk Youth and Families. Revenues are derived from categorical aid received from the Commonwealth of Virginia.
- *Regional Fire Training Grounds Fund* – accounts for revenues and expenditures related to maintenance of the Regional Fire Training Grounds. Most revenues are derived from rental income for use by other localities.
- *Foundation Grants Fund* – accounts for revenues and expenditures related to local grants. Revenues are derived from local grants.
- *Community Development Block Grant Fund* – accounts for all entitlement funds received under Title I of the Housing and Community Development Act of 1974, commonly known as the Community Development Block Grant Program.
- *Community Development Downtown Grant Fund* – accounts for revenues and expenditures related to development and rehabilitation of the downtown area. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.
- *Madison Street Project Fund* – accounts for revenues and expenses related to the Madison Street Community Improvement Project Fund.
- *Western Tidewater Home Consortium Fund* – accounts for revenues and expenditures related to a joint venture with the City of Suffolk and Isle of Wight County to provide affordable housing.
- *Neighborhood Stabilization Program Fund* – accounts for a federal grant and the related expenditures. The grant is to be used for community development.
- *Cobbtown Grant Fund* – accounts for revenues and expenditures related to development and rehabilitation of the Cobbtown area of the City. Revenues are derived from categorical aid received from the Commonwealth of Virginia and the federal government.
- *Police Federal Forfeiture Fund* – accounts for revenues and expenditures related to police forfeitures. Revenues are derived from entitlement funds received from the federal government.
- *Police State Forfeiture Fund* – accounts for revenues and expenditures related to police forfeitures. Revenues are derived from entitlement funds received from the Commonwealth of Virginia.

- *Police Evidence Holding Fund* – accounts for revenues and expenditures related to police evidence that is held for the courts.
- *Camp Homestead Fund* – accounts for revenues and expenditures related to the maintenance and upkeep of the Camp family home on Homestead Lane.
- *Economic Development Fund* – accounts for revenues and expenditures related to economic development efforts of the City including rental of the building in Pretlow Industrial Park and operation of the incubator building.
- *Willie Camp Younts Fund* – accounts for revenues and expenditures related to the maintenance of the Willie Camp Younts cemetery.
- *Southview Cemetery Trust Fund* – accounts for revenues and expenditures of the Southview Cemetery.
- *Cemetery Perpetual Care Trust Fund* – accounts for revenues and expenditures of the Cemetery.
- *Charles Smith Cemetery Trust Fund* – accounts for revenues and expenditures of the Charles Smith Cemetery.

- **Debt Service Fund**

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

- **Capital Projects Fund**

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

- **Proprietary Fund**

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

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

- *Enterprise Funds*

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

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

- **Fiduciary Funds**

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

- **Trust and Agency Funds**

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

- **Agency Funds**

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

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

- **Discretely Presented Component Units**

- *City of Franklin Public Schools*

The City of Franklin Public Schools (School Board) is responsible for elementary and secondary education within the City. The Schools are fiscally dependent upon the City because the City Council approves the annual budget of the Schools, levies the necessary taxes to finance the Schools’ operations, and approves the borrowing of money. The School Board is reported in a separate column to emphasize that it is legally separate from the City. During the current year, the City contributed \$5,482,038 to the School Board from the General Fund, exclusive of debt service.

- *School Operating Fund* – accounts for revenues and expenditures relating to the operation of the City of Franklin Public Schools. Revenues are derived from the General Fund and from state and federal funds.
- *Cafeteria Fund* – accounts for revenues and expenditures relating to the operation of school cafeterias. Revenues are derived from state and federal funds.
- *School Textbook Fund* – accounts for revenues and expenditures relating to the purchase of school textbooks. Revenues are derived from state and federal funds.

- *Industrial Development Authority*

The Industrial Development Authority of the City of Franklin (IDA) was established under the Industrial Development and Revenue Bond Act – *Code of Virginia*. A separate board appointed by the City Council governs the IDA. The IDA is authorized to acquire, own, lease, and dispose of properties and to conduct related activities to promote industry and develop trade by inducing manufacturing, industrial, governmental, and commercial enterprises to locate or to remain in the City. In prior years, the City made significant capital contributions toward properties the IDA developed and marketed. The City is involved in the day-to-day operations of the IDA, including the determination of its operating budget. Financial statements of the IDA are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The IDA does not issue separate financial statements.

D. Budgets and Budgetary Accounting

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

- At least 60 days prior to June 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.
- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearings must appear in a local newspaper not less than seven days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted before July 1. If City Council does not adopt the proposed budget before July 1, the budget as submitted is automatically adopted.
- Additional appropriations may be made by City Council only if there is an undesignated fund balance or additional funding becomes available.
- The City Manager is authorized to transfer budgeted amounts within departments up to \$10,000. Expenditures over this amount must be approved by City Council. The School Board is authorized to transfer budgeted amounts within the school system's categories.
- Appropriations lapse on June 30 for all City units.
- All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America as applicable to governmental entities.

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

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

E. Allowance for Uncollectible Amounts

The City calculates its allowance for uncollectible property taxes, refuse collection, and utility service charges using historical collection data. At June 30, 2016, the allowance attributed to the General Fund amounted to \$356,857 and Enterprise Fund in the amount of \$824,302.

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>Asset Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Buildings | 40 years |
| Improvements other than buildings | 20-50 years |
| Machinery and equipment | 3-50 years |
| Infrastructure | 10-30 years |

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

I. Compensated Absences

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

J. Pensions

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

K. Unearned Revenue

Unearned 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 unearned 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 unearned revenue.

L. 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.

M. 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.

N. 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.

O. Credit Risk

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 15.14% and 11.35% 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.

P. Net Position

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

Q. Fund Equity

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

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

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

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes). The City's Fund Balance Policy adopted by the Governing Body delegates the authority to assign fund balances for specific purposes to the City Manager.

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

R. Property Taxes

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

S. Adoption of New GASB Pronouncements

During the fiscal year ended June 30, 2016, the City adopted the following GASB statements:

- Statement No. 72, "Fair Value Measurement and Application"
- Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"
- Statement No. 77, "Tax Abatement Disclosures"

The adoption of these statements had no effect on the current financial statements.

2 **Deposits and Investments**

Deposits

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

Investments

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

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

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

Credit Risk of Debt Securities

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

Interest Rate Risk

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

3 Interfund Receivables, Payables, and Transfers

Interfund balances at June 30, 2016 were as follows:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|---|---------------------------------|------------------------------|
| Governmental Funds | | |
| General | \$ 969,874 | \$ - |
| Proprietary Funds | | |
| Airport | <u>-</u> | <u>969,874</u> |
| Total | <u>\$ 969,874</u> | <u>\$ 969,874</u> |
| Governmental Activities - Primary Government | | |
| General fund | \$ - | \$ 494,643 |
| Component Unit | | |
| School Board | | |
| School operating fund | <u>494,643</u> | <u>-</u> |
| Total | <u>\$ 494,643</u> | <u>\$ 494,643</u> |

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

Interfund transfers for the year ended June 30, 2016 were as follows:

| | Transfers <u>In</u> | Transfers <u>Out</u> |
|--|--------------------------------|---------------------------------|
| City of Franklin, Virginia | | |
| General Fund (for operations or construction costs) | | |
| Transfers between General Fund and Electric Fund | \$ 1,416,157 | \$ 10,518 |
| Transfers between General Fund and Solid Waste Fund | 56,223 | 4,625 |
| Transfers between General Fund and Water and Sewer Fund | 85,474 | 8,294 |
| Transfers between General Fund and Airport Fund | 570 | 80,657 |
| From General Fund to Comprehensive Services Fund | - | 96,154 |
| From General Fund to Virginia Public Assistance | - | 414,213 |
| From General Fund to Economic Development Fund | - | 187,373 |
| From General Fund to Debt Service Fund | - | 965,840 |
| Comprehensive Services Act Fund | | |
| From General Fund to Comprehensive Services Fund | 96,154 | - |
| Virginia Public Assistance | | |
| From General Fund to Virginia Public Assistance | 414,213 | - |
| Economic Development Fund | | |
| From General Fund to Economic Development Fund | 187,373 | - |
| Debt Service Fund | | |
| From General Fund to Debt Service Fund | <u>965,840</u> | <u>-</u> |
| Subtotal - Governmental Funds | 3,222,004 | 1,767,674 |
| Proprietary Funds | | |
| Transfers between General Fund and Electric Fund | 10,518 | 1,416,157 |
| Transfers between General Fund and Solid Waste Fund | 4,625 | 56,223 |
| Transfers between General Fund and Water and Sewer Fund | 8,294 | 85,474 |
| Transfers between General Fund and Airport Fund | <u>80,657</u> | <u>570</u> |
| Subtotal - Proprietary Funds | <u>104,094</u> | <u>1,558,424</u> |
| | <u>\$ 3,326,098</u> | <u>\$ 3,326,098</u> |

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

4 Transfer to Component Units/Transfer from Primary Government

Details of the primary government due to component units as of June 30, 2016 are as follows:

| | Transfers <u>In</u> | Transfers <u>Out</u> |
|--|--------------------------------|---------------------------------|
| City of Franklin, Virginia to Component Units | | |
| Primary Government - City of Franklin, Virginia | | |
| To Component Unit - School Board | \$ - | \$ 5,482,038 |
| Component Unit - School Board | | |
| From Primary Government - City of Franklin, Virginia | <u>5,482,038</u> | <u>-</u> |
| | <u>\$ 5,482,038</u> | <u>\$ 5,482,038</u> |

5 Receivables

Receivables in the fund statements at June 30, 2016 are as follows:

Primary Government

| | <u>General</u> | <u>Virginia Public Assistance</u> | <u>Nonmajor Governmental Funds</u> | <u>Business- type Activities</u> | <u>Total</u> |
|---|-------------------|---|--|--|---------------------|
| Revenues | | | | | |
| Property taxes | \$ 639,360 | \$ - | \$ - | \$ - | \$ 639,360 |
| Accounts receivable | <u>658,260</u> | <u>14,053</u> | <u>94,242</u> | <u>2,601,063</u> | <u>3,367,618</u> |
| Total Receivables | 1,297,620 | 14,053 | 94,242 | 2,601,063 | 4,006,978 |
| Less: Allowance for Uncollectible Accounts | | | | | |
| Property taxes | 105,664 | - | - | - | 105,664 |
| Utility and other service charges | <u>251,193</u> | <u>-</u> | <u>-</u> | <u>824,302</u> | <u>1,075,495</u> |
| Total Receivables | 356,857 | - | - | 824,302 | 1,181,159 |
| Receivables, Net | | | | | |
| Property taxes | 533,696 | - | - | - | 533,696 |
| Accounts receivable | <u>407,067</u> | <u>-</u> | <u>94,242</u> | <u>1,776,761</u> | <u>2,278,070</u> |
| Receivables, Net | <u>\$ 940,763</u> | <u>\$ 14,053</u> | <u>\$ 94,242</u> | <u>\$ 1,776,761</u> | <u>\$ 2,825,819</u> |

The remainder of this page is left blank intentionally.

6 Due from Other Governments

Due from other governments consists of the following at June 30, 2016:

Primary Government

| | <u>General</u> | <u>Virginia Public Assistance</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> | <u>Component Unit - School Board</u> |
|-------------------------------------|-------------------|---|--|-------------------|--|
| Commonwealth of Virginia | | | | | |
| State and local sales taxes | \$ 300,404 | \$ - | \$ - | \$ 300,404 | \$ 252,399 |
| Communications tax | 87,797 | - | - | 87,797 | - |
| Auto rental tax | 2,925 | - | - | 2,925 | - |
| Compensation Board | 13,180 | - | - | 13,180 | - |
| Recordation tax | 3,227 | - | - | 3,227 | - |
| Comprehensive services | - | - | 19,570 | 19,570 | - |
| Fire programs | 27,200 | - | - | 27,200 | - |
| 911 funds | 8,614 | - | - | 8,614 | - |
| Other state funds | - | - | - | - | 75,135 |
| Public assistance | - | 35,128 | - | 35,128 | - |
| | <u>443,347</u> | <u>35,128</u> | <u>19,570</u> | <u>498,045</u> | <u>327,534</u> |
| Federal Government | | | | | |
| Title VIB Flow-Through | - | - | - | - | 53,043 |
| Title VI Rural and Low Income | - | - | - | - | 7,909 |
| Title I | - | - | - | - | 256,959 |
| School food program | - | - | - | - | 51,589 |
| CTE federal payments - Carl Perkins | - | - | - | - | 39,112 |
| Public assistance | - | 76,515 | - | 76,515 | - |
| Other reimbursements | - | - | - | - | 12,951 |
| | <u>-</u> | <u>76,515</u> | <u>-</u> | <u>76,515</u> | <u>421,563</u> |
| | <u>\$ 443,347</u> | <u>\$ 111,643</u> | <u>\$ 19,570</u> | <u>\$ 574,560</u> | <u>\$ 749,097</u> |

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7 Capital Assets

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

Governmental Activities

| | Balance July 1, 2015 | Increases | Decreases | Balance June 30, 2016 |
|--|----------------------------|------------|------------|-----------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 5,159,209 | \$ - | \$ 50,000 | \$ 5,109,209 |
| Total Capital Assets Not Being Depreciated | 5,159,209 | - | 50,000 | 5,109,209 |
| Capital Assets Being Depreciated | | | | |
| Buildings | 18,462,577 | - | 101,790 | 18,360,787 |
| Improvements other than buildings | 3,258,408 | 20,927 | - | 3,279,335 |
| Machinery, equipment, other | 9,152,753 | 994,121 | 18,995 | 10,127,879 |
| School joint tenancy assets | 4,888,086 | - | - | 4,888,086 |
| Infrastructure | 16,334,721 | 1,308,149 | - | 17,642,870 |
| Total Capital Assets Being Depreciated | 52,096,545 | 2,323,197 | 120,785 | 54,298,957 |
| Less: Accumulated depreciation | | | | |
| Buildings | 6,102,421 | 480,677 | 45,155 | 6,537,943 |
| Improvements other than buildings | 2,120,906 | 139,658 | - | 2,260,564 |
| Machinery, equipment, other | 7,041,558 | 467,555 | 18,995 | 7,490,118 |
| School joint tenancy assets | 2,761,458 | 97,762 | - | 2,859,220 |
| Infrastructure | 13,022,805 | 495,001 | - | 13,517,806 |
| Total Accumulated Depreciation | 31,049,148 | 1,680,653 | 64,150 | 32,665,651 |
| Subtotal Capital Assets, Net | 21,047,397 | 642,544 | 56,635 | 21,633,306 |
| Total Capital Assets, Governmental Activities, Net | \$ 26,206,606 | \$ 642,544 | \$ 106,635 | \$ 26,742,515 |

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, 2016 is that school financed assets in the amount of \$2,028,866 net are reported in the Primary Government for financial reporting purposes.

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

| | |
|-------------------------------------|---------------------|
| General Governmental Administration | \$ 414,550 |
| Public Safety | 425,998 |
| Public Works | 539,133 |
| Health and Welfare | 47,174 |
| Community Development | 2,867 |
| Parks, Recreation, and Cultural | 153,170 |
| Education | <u>97,761</u> |
| Total | <u>\$ 1,680,653</u> |

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

Business-Type Activities

| | <u>Balance July 1, 2015</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2016</u> |
|---------------------------------------|-------------------------------------|-------------------|------------------|--------------------------------------|
| Water and Sewer Fund | | | | |
| Other Capital Assets | | | | |
| Infrastructure | \$ 15,831,035 | \$ 481,859 | \$ - | \$ 16,312,894 |
| Machinery and equipment | <u>1,596,636</u> | <u>384,263</u> | <u>-</u> | <u>1,980,899</u> |
| Total Other Capital Assets | 17,427,671 | 866,122 | - | 18,293,793 |
| Less: Accumulated depreciation | | | | |
| Infrastructure | 13,323,067 | 402,236 | - | 13,725,303 |
| Machinery and equipment | <u>994,311</u> | <u>113,133</u> | <u>-</u> | <u>1,107,444</u> |
| Total Accumulated Depreciation | <u>14,317,378</u> | <u>515,369</u> | <u>-</u> | <u>14,832,747</u> |
| Subtotal Capital Assets, Net | <u>3,110,293</u> | <u>350,753</u> | <u>-</u> | <u>3,461,046</u> |
| Total Water and Sewer Fund | <u>\$ 3,110,293</u> | <u>\$ 350,753</u> | <u>\$ -</u> | <u>\$ 3,461,046</u> |
| Solid Waste Fund | | | | |
| Other Capital Assets | | | | |
| Infrastructure | \$ 223,500 | \$ - | \$ - | \$ 223,500 |
| Machinery and equipment | <u>1,237,530</u> | <u>161,011</u> | <u>101,210</u> | <u>1,297,331</u> |
| Total Other Capital Assets | 1,461,030 | 161,011 | 101,210 | 1,520,831 |
| Less: Accumulated depreciation | | | | |
| Infrastructure | 197,357 | 13,880 | - | 211,237 |
| Machinery and equipment | <u>900,831</u> | <u>63,603</u> | <u>101,210</u> | <u>863,224</u> |
| Total Accumulated Depreciation | <u>1,098,188</u> | <u>77,483</u> | <u>101,210</u> | <u>1,074,461</u> |
| Subtotal Capital Assets, Net | <u>362,842</u> | <u>83,528</u> | <u>-</u> | <u>446,370</u> |
| Total Solid Waste Fund | <u>\$ 362,842</u> | <u>\$ 83,528</u> | <u>\$ -</u> | <u>\$ 446,370</u> |

| | Balance July 1, 2015 | Increases | Decreases | Balance June 30, 2016 |
|---|----------------------------|------------|------------|-----------------------------|
| Electric Fund | | | | |
| Other Capital Assets | | | | |
| Infrastructure | \$ 13,114,287 | \$ 137,811 | \$ - | \$ 13,252,098 |
| Buildings and improvements | 34,966 | - | - | 34,966 |
| Machinery and equipment | 2,242,302 | 308,946 | - | 2,551,248 |
| Total Other Capital Assets | 15,391,555 | 446,757 | - | 15,838,312 |
| Less: Accumulated depreciation | | | | |
| Infrastructure | 9,683,016 | 327,846 | - | 10,010,862 |
| Buildings and improvements | 34,966 | - | - | 34,966 |
| Machinery and equipment | 1,854,821 | 91,911 | - | 1,946,732 |
| Total Accumulated Depreciation | 11,572,803 | 419,757 | - | 11,992,560 |
| Subtotal Capital Assets, Net | 3,818,752 | 27,000 | - | 3,845,752 |
| Total Electric Fund | \$ 3,818,752 | \$ 27,000 | \$ - | \$ 3,845,752 |
| Airport Fund | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 179,258 | \$ - | \$ - | \$ 179,258 |
| Construction in progress | 700,468 | - | 700,468 | - |
| Total Capital Assets Not Being Depreciated | 879,726 | - | 700,468 | 179,258 |
| Other Capital Assets | | | | |
| Infrastructure | 5,689,950 | 892,431 | - | 6,582,381 |
| Buildings and improvements | 1,414,452 | - | - | 1,414,452 |
| Machinery and equipment | 353,995 | - | - | 353,995 |
| Total Other Capital Assets | 7,458,397 | 892,431 | - | 8,350,828 |
| Less: Accumulated depreciation | | | | |
| Infrastructure | 2,982,882 | 247,613 | - | 3,230,495 |
| Buildings and improvements | 1,194,361 | 39,895 | - | 1,234,256 |
| Machinery and equipment | 316,890 | 8,563 | - | 325,453 |
| Total Accumulated Depreciation | 4,494,133 | 296,071 | - | 4,790,204 |
| Subtotal Capital Assets, Net | 2,964,264 | 596,360 | - | 3,560,624 |
| Total Airport Fund | \$ 3,843,990 | \$ 596,360 | \$ 700,468 | \$ 3,739,882 |

| | <u>Balance July 1, 2015</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2016</u> |
|---|-------------------------------------|---------------------|-------------------|--------------------------------------|
| Total Business-Type Activities | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 179,258 | \$ - | \$ - | \$ 179,258 |
| Construction in progress | <u>700,468</u> | <u>-</u> | <u>700,468</u> | <u>-</u> |
| Total Capital Assets Not Being Depreciated | 879,726 | - | 700,468 | 179,258 |
| Other Capital Assets | | | | |
| Infrastructure | 34,858,772 | 1,512,101 | - | 36,370,873 |
| Buildings and improvements | 1,449,418 | - | - | 1,449,418 |
| Machinery and equipment | <u>5,430,463</u> | <u>854,220</u> | <u>101,210</u> | <u>6,183,473</u> |
| Total Other Capital Assets | 41,738,653 | 2,366,321 | 101,210 | 44,003,764 |
| Less: Accumulated depreciation | <u>31,482,502</u> | <u>1,308,680</u> | <u>101,210</u> | <u>32,689,972</u> |
| Total Capital Assets, Net | <u>10,256,151</u> | <u>1,057,641</u> | <u>-</u> | <u>11,313,792</u> |
| Business-Type Activities | <u>\$ 11,135,877</u> | <u>\$ 1,057,641</u> | <u>\$ 700,468</u> | <u>\$ 11,493,050</u> |

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

Component Unit - School Board

| | <u>Balance July 1, 2015</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2016</u> |
|---------------------------------------|-------------------------------------|-------------------|------------------|--------------------------------------|
| Other Capital Assets | | | | |
| Land improvement | \$ 151,010 | \$ - | \$ - | \$ 151,010 |
| Buildings | 13,444,543 | - | - | 13,444,543 |
| Infrastructure | 4,530,593 | 443,779 | - | 4,974,372 |
| School joint tenancy assets | (4,888,086) | - | - | (4,888,086) |
| Machinery and equipment | <u>3,611,369</u> | <u>305,249</u> | <u>-</u> | <u>3,916,618</u> |
| Total Other Capital Assets | 16,849,429 | 749,028 | - | 17,598,457 |
| Less: Accumulated depreciation | | | | |
| Land improvement | 100,415 | 4,370 | - | 104,785 |
| Buildings | 6,597,722 | 233,217 | - | 6,830,939 |
| Infrastructure | 689,522 | 84,294 | - | 773,816 |
| School joint tenancy assets | (2,761,458) | (97,762) | - | (2,859,220) |
| Machinery and equipment | <u>3,125,500</u> | <u>146,798</u> | <u>-</u> | <u>3,272,298</u> |
| Total Accumulated Depreciation | <u>7,751,701</u> | <u>370,917</u> | <u>-</u> | <u>8,122,618</u> |
| Other Capital Assets, Net | <u>9,097,728</u> | <u>378,111</u> | <u>-</u> | <u>9,475,839</u> |
| Total Capital Assets, Net | <u>\$ 9,097,728</u> | <u>\$ 378,111</u> | <u>\$ -</u> | <u>\$ 9,475,839</u> |

8 Long-Term Obligations

The following is a summary of the changes in long-term obligations of the primary government and its Component Unit – School Board, respectively, for the year ended June 30, 2016:

| | <u>Balance July 1, 2015</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2016</u> | <u>Due Within One Year</u> |
|---|---------------------------------|---------------------|---------------------|----------------------------------|--------------------------------|
| Primary Government | | | | | |
| Governmental Activities | | | | | |
| General obligations bonds | \$ 15,888,999 | \$ 6,117,000 | \$ 6,132,380 | \$ 15,873,619 | \$ 547,673 |
| Capital lease obligations | 136,059 | 461,417 | 112,928 | 484,548 | 113,701 |
| Premium on bond issuance | 508,570 | - | 27,202 | 481,368 | 27,202 |
| Landfill post-closure/corrective action | 888,806 | - | 123,498 | 765,308 | - |
| Compensated absences | 785,212 | - | 9,683 | 775,529 | - |
| Other postemployment benefits | 670,350 | 48,000 | - | 718,350 | - |
| Total Governmental Activities | 18,877,996 | 6,626,417 | 6,405,691 | 19,098,722 | 688,576 |
| Business-Type Activities | | | | | |
| Bonds payable | 4,651,400 | 248,000 | 719,400 | 4,180,000 | 494,000 |
| Capital lease obligations | 128,761 | - | 41,564 | 87,197 | 21,017 |
| Premium on bond issuance | 35,644 | - | 3,960 | 31,684 | 3,960 |
| Total Bonds and Loan | 4,815,805 | 248,000 | 764,924 | 4,298,881 | 518,977 |
| Compensated absences | 112,198 | - | 15,630 | 96,568 | - |
| Other postemployment benefits | 223,450 | 16,000 | - | 239,450 | - |
| Total Business-Type Activities | 5,151,453 | 264,000 | 780,554 | 4,634,899 | 518,977 |
| Total Primary Government | <u>\$ 24,029,449</u> | <u>\$ 6,890,417</u> | <u>\$ 7,186,245</u> | <u>\$ 23,733,621</u> | <u>\$ 1,207,553</u> |
| Component Unit - School Board | | | | | |
| Compensated absences | \$ 171,104 | \$ 70,411 | \$ - | \$ 241,515 | \$ - |
| Other postemployment benefits | 206,200 | 29,400 | - | 235,600 | - |
| Total School Board | <u>\$ 377,304</u> | <u>\$ 99,811</u> | <u>\$ -</u> | <u>\$ 477,115</u> | <u>\$ -</u> |

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

General obligation debt of the governmental activities at June 30, 2016 is comprised of the following:

| <u>Description</u> | <u>Issue Date</u> | <u>Final Maturity</u> | <u>Interest Rate</u> | <u>Authorized and Issued</u> | <u>Outstanding June 30, 2016</u> |
|--|-------------------|-----------------------|----------------------|------------------------------|----------------------------------|
| Primary Government | | | | | |
| Governmental Obligations | | | | | |
| <i>General Obligation Bonds</i> | | | | | |
| Public Improvement and Refunding Series 2010 | 04/27/10 | 01/15/26 | 2.00-4.50 | \$ 5,235,000 | \$ 785,000 |
| Tax-Exempt GO Bond Refunding Series 2015A | 10/09/15 | 10/09/30 | 2.60 | 2,568,000 | 2,568,000 |
| Tax-Exempt GO Bond Refunding Series 2015B | 10/09/15 | 10/09/31 | 3.90 | 3,549,000 | 3,549,000 |
| Public Improvement Series 1999A | 05/28/99 | 07/15/19 | 3.97 | 2,041,330 | 389,190 |
| Public Improvement Series 2008 | 02/15/08 | 01/15/18 | 3.56 | 400,000 | 92,000 |
| 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 | - |
| 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 | - |
| General Obligation Refunding Bond, Series 2013 | 04/04/13 | 10/01/38 | 3.65 | 2,075,000 | 1,925,000 |
| General Obligation School Bonds, Series 2013A | 04/12/13 | 07/15/33 | 3.05-5.05 | 1,695,000 | 1,585,000 |
| Virginia General Obligation Qualified Zone Academy Bond, Series 2014 | 12/30/14 | 12/01/24 | 0.0 | 1,816,000 | 1,766,000 |
| Total General Obligation Bonds | | | | | 15,873,619 |
| <i>Capital Lease Obligations</i> | | | | | |
| Fire truck | 06/13/11 | 08/20/20 | 3.74 | 217,020 | 115,415 |
| Telephone system | 07/01/15 | 07/01/20 | 0.0 | 461,417 | 369,133 |
| Total Capital Lease Obligations | | | | | 484,548 |
| Premium on bond issuance | | | | | 481,368 |
| Landfill post-closure/corrective action | | | | | 765,308 |
| Compensated absences | | | | | 775,529 |
| Other postemployment benefits | | | | | 718,350 |
| Total General Long-Term Obligations | | | | | 19,098,722 |

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

| <u>Description</u> | <u>Issue Date</u> | <u>Final Maturity</u> | <u>Interest Rate</u> | <u>Authorized and Issued</u> | <u>Outstanding June 30, 2016</u> |
|---|-------------------|-----------------------|----------------------|------------------------------|----------------------------------|
| Proprietary Funds | | | | | |
| <i>Water and Sewer Fund</i> | | | | | |
| General Obligation Bonds - Public Improvement and Refunding Series 2010 | 04/27/10 | 01/15/26 | 2.00-4.50 | 3,435,000 | 605,000 |
| Taxable General Obligation Refunding Bond, Series 2012A | 12/20/12 | 01/15/24 | 3.05 | 1,387,000 | 1,311,000 |
| Tax Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B | 12/20/12 | 01/15/23 | 3.05 | 907,000 | 585,000 |
| Premium on bond issuance | | | | | 20,938 |
| Compensated absences | | | | | 27,237 |
| Other postemployment benefits | | | | | 76,624 |
| Total Water and Sewer Fund | | | | | 2,625,799 |
| <i>Electric Fund</i> | | | | | |
| General Obligation Bonds - Public Improvement and Refunding Series 2010 | 04/27/10 | 01/15/26 | 2.00-4.50 | 3,435,000 | 820,000 |
| Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B | 12/20/12 | 01/15/23 | 3.05 | 844,000 | 611,000 |
| Premium on bond issuance | | | | | 10,746 |
| Capital lease obligation (Bucket Truck) | 10/22/12 | 10/22/19 | 2.00 | 147,297 | 87,197 |
| Compensated absences | | | | | 39,446 |
| Other postemployment benefits | | | | | 105,358 |
| Total Electric Fund | | | | | 1,673,747 |
| <i>Airport Fund</i> | | | | | |
| Compensated absences | | | | | 8,224 |
| Other postemployment benefits | | | | | 9,578 |
| Total Airport Fund | | | | | 17,802 |
| <i>Solid Waste Funds</i> | | | | | |
| G.O. Bond Refinancing Series 2015A | 10/09/15 | 10/9/2032 | 2.60 | 248,000 | 248,000 |
| and Refunding Bond, Series 2012B | 12/20/12 | 06/30/28 | 3.05 | 241,400 | - |
| Capital lease obligation (Garbage Truck) | 06/20/11 | 06/20/16 | 3.22 | 101,955 | - |
| Compensated absences | | | | | 21,661 |
| Other postemployment benefits | | | | | 47,890 |
| Total Solid Waste Funds | | | | | 317,551 |
| Total Proprietary Funds | | | | | 4,634,899 |
| Total Primary Government | | | | | \$ 23,733,621 |

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

| Fiscal Year Ending June 30, | General Obligation Bonds | | Capital Leases | | Totals | |
|-----------------------------------|--------------------------|---------------------|------------------|------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 547,673 | \$ 410,286 | \$113,701 | \$ 4,322 | \$ 661,374 | \$ 414,608 |
| 2018 | 567,270 | 390,623 | 114,503 | 3,520 | 681,773 | 394,143 |
| 2019 | 1,535,092 | 372,585 | 115,335 | 2,688 | 1,650,427 | 375,273 |
| 2020 | 652,155 | 355,203 | 116,198 | 1,825 | 768,353 | 357,028 |
| 2021 | 2,804,429 | 339,366 | 24,811 | 929 | 2,829,240 | 340,295 |
| 2022-2026 | 4,014,600 | 1,401,087 | - | - | 4,014,600 | 1,401,087 |
| 2027-2031 | 3,951,800 | 747,086 | - | - | 3,951,800 | 747,086 |
| 2032-2036 | 1,425,600 | 174,961 | - | - | 1,425,600 | 174,961 |
| 2037-2041 | 375,000 | 25,966 | - | - | 375,000 | 25,966 |
| | <u>\$ 15,873,619</u> | <u>\$ 4,217,163</u> | <u>\$484,548</u> | <u>\$ 13,284</u> | <u>\$ 16,358,167</u> | <u>\$ 4,230,447</u> |

Long-Term Liabilities – Business-Type Activities

Long-term obligations of the business-type activities at June 30, 2016 are comprised of the following:

| Fiscal Year Ending June 30, | Water and Sewer Fund | | General Obligation Bonds Electric Fund | | Solid Waste Fund | | Total | | Capital Leases Electric Fund | |
|-----------------------------------|----------------------|-------------------|---|-------------------|-------------------|------------------|---------------------|-------------------|---------------------------------|-----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 287,000 | \$ 80,048 | \$ 207,000 | \$ 45,100 | \$ - | \$ 6,448 | \$ 494,000 | \$ 131,596 | \$ 21,017 | \$ 2,128 |
| 2018 | 294,000 | 72,235 | 214,000 | 39,554 | - | 6,448 | 508,000 | 118,237 | 21,530 | 1,615 |
| 2019 | 302,000 | 64,053 | 220,000 | 33,652 | - | 6,448 | 522,000 | 104,153 | 22,055 | 1,089 |
| 2020 | 311,000 | 55,086 | 222,000 | 27,234 | - | 6,448 | 533,000 | 88,768 | 22,595 | 551 |
| 2021 | 321,000 | 44,869 | 234,000 | 19,254 | - | 6,448 | 555,000 | 70,571 | - | - |
| 2022-2026 | 986,000 | 67,163 | 334,000 | 12,817 | 40,400 | 30,596 | 1,360,400 | 110,576 | - | - |
| 2027-2031 | - | - | - | - | 71,200 | 25,434 | 71,200 | 25,434 | - | - |
| 2032-2036 | - | - | - | - | 136,400 | 3,546 | 136,400 | 3,546 | - | - |
| | <u>\$ 2,501,000</u> | <u>\$ 383,454</u> | <u>\$ 1,431,000</u> | <u>\$ 177,611</u> | <u>\$ 248,000</u> | <u>\$ 91,816</u> | <u>\$ 4,180,000</u> | <u>\$ 652,881</u> | <u>\$ 87,197</u> | <u>\$ 5,383</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, 2016, the City's Legal Debt Margin is as follows:

| | |
|--|-----------------------|
| Total Assessed Value of Taxed Assessed Value | |
| Assessed value of real estate | <u>\$ 550,548,631</u> |
| Debt Limit - 10% of Total Assessed Value | \$ 55,054,863 |
| Amount of Debt Applicable to Debt Limit | |
| General Obligation Debt | |
| Primary Government | \$ 15,873,619 |
| Business-Type | <u>4,180,000</u> |
| Total General Obligation Debt | <u>20,053,619</u> |
| Legal Debt Margin | <u>\$ 35,001,244</u> |

Note: The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2016.

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

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

Debt Issuance

Reason for Debt Issuance

Business-Type Activities

Water and Sewer Fund

General Obligation Bonds - Public Improvement and Refunding Series 2010

Water/Sewer Line Extensions, Hunterdale Pump Station

Taxable General Obligation Refunding Bond, Series 2012A

Refinancing of existing indebtedness; Capital Projects, including water main improvement

Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B

Refinancing of existing indebtedness; Capital Projects, including water main improvement

Electric Fund

General obligation bonds - Public Improvement and Refunding Series 2010

Generation and Distribution Facilities Improvements

Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B

Refinancing of existing indebtedness; Capital Projects, including refurbishment of building to house City's electric department

Tax-Exempt GO Bond Refunding Series 2015B

Refunding of existing indebtedness; equipment and other capital improvements

Solid Waste Fund

Tax-Exempt General Obligation Public Improvement and Refunding Bond, Series 2012B

Garbage Truck

9 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the government-wide Statement of Net Position as of June 30, 2016 is determined as follows:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Component Unit School Board</u> |
|---|--------------------------------|---------------------------------|------------------------------------|
| Net Investment in Capital Assets | | | |
| Cost of Capital Assets | \$ 57,084,969 | \$ 44,183,022 | \$ 17,598,457 |
| Less: Accumulated depreciation | <u>(32,665,651)</u> | <u>(32,689,972)</u> | <u>(8,122,618)</u> |
| Book value | 24,419,318 | 11,493,050 | 9,475,839 |
| Less: Capital related debt | (16,025,058) | (4,267,197) | - |
| Less: Bond premiums | <u>(508,570)</u> | <u>(31,684)</u> | <u>-</u> |
| Net Investment in Capital Assets | <u>\$ 7,885,690</u> | <u>\$ 7,194,169</u> | <u>\$ 9,475,839</u> |

10 Compensated Absences

City employees earn annual leave at the rate of 17 to 29 days per year depending on length of service. A maximum of 34 to 58 days of annual leave, depending on length of service, may be carried over to succeeding years and may be paid if not used prior to termination. The governmental and business-type activities have outstanding accrued vacation totaling \$775,529 and \$96,568, respectively, as of June 30, 2016. 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, 2016, accumulated unpaid vacation and sick leave amounted to \$241,515.

11 Appropriation to School from Governmental Funds

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

| | <u>School Board</u> |
|--|---------------------|
| Appropriation from City General Fund | \$ 5,482,038 |
| Outlays paid by Capital Projects Fund | <u>1,081,393</u> |
| Total from Governmental Funds | 6,563,431 |
| Adjustment for expenses paid by City not capitalized | <u>(332,365)</u> |
| Appropriation to School Fund by Government-Wide Statements | <u>\$ 6,231,066</u> |

12 Deferred Inflows of Resources

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

Governmental Funds

General Fund

| | |
|---|-------------------|
| Delinquent taxes not collected within 60 days | <u>\$ 436,837</u> |
|---|-------------------|

| | |
|---|-------------------|
| Total Deferred Inflows of Resources - Governmental Funds | <u>\$ 436,837</u> |
|---|-------------------|

13 Pension Plan

Plan Description

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

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

The remainder of this page is left blank intentionally.

RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Eligible Members

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election

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

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

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

Political Subdivision Employees Only:

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

PLAN 2

About Plan 2

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

Political Subdivision Employees Only:

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

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window.
(See "Eligible Members")

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

- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members

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

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

***Non-Eligible Members**

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

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

Political Subdivision Employees Only:

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

PLAN 1

Retirement Contributions

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but 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.

Creditable Service

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

Vesting

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

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

PLAN 2

Retirement Contributions

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.

Creditable Service

Same as Plan 1.

Vesting

Same as Plan 1.

HYBRID RETIREMENT PLAN

Retirement Contributions

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

Creditable Service

Defined Benefit Component:

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

Defined Contributions Component:

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

Vesting

Defined Benefit Component:

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

Defined Contributions Component:

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

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

PLAN 1

Calculating the Benefit

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

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

Average Final Compensation

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

Service Retirement Multiplier

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

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

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

PLAN 2

Calculating the Benefit

See definition under Plan 1.

Average Final Compensation

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

Service Retirement Multiplier

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

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.

HYBRID RETIREMENT PLAN

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

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

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

Calculating the Benefit

Defined Benefit Component:

See definition under Plan 1.

Defined Contribution Component:

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

Average Final Compensation

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

Service Retirement Multiplier

Defined Benefit Component:

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

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

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1
Normal Retirement Age

Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

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

Eligibility:

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

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

PLAN 2
Normal Retirement Age

Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Cost-of-Living Adjustment (COLA) in Retirement

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

Eligibility:

Same as Plan 1

**HYBRID
RETIREMENT PLAN**
Normal Retirement Age

Defined Benefit Component:

Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

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

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Political subdivisions hazardous duty employees:
Not applicable

Defined Contribution Component:

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:

Same as Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

Exceptions to COLA Effective Dates:

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

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

Disability Coverage

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

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

School division: N/A

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. 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.

PLAN 2

Exceptions to COLA Effective Dates:

Same as Plan 1

Disability Coverage

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

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

School division: N/A

Purchase of Prior Service

Same as Plan 1

HYBRID RETIREMENT PLAN

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

Disability Coverage

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

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

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component:

Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Primary Government - City</u> | <u>School Board - General Employees</u> |
|--|--|---|
| | <u>Number</u> | <u>Number</u> |
| Inactive members or their beneficiaries currently receiving benefits | 103 | 13 |
| Inactive members: | | |
| Vested inactive members | 30 | 1 |
| Non-vested inactive members | 46 | 5 |
| Inactive members active elsewhere in VRS | <u>60</u> | <u>7</u> |
| Total inactive members | 136 | 13 |
| Active members | <u>185</u> | <u>17</u> |
| Total covered employees | <u>424</u> | <u>43</u> |

Contributions

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

If the employer used the certified rate: The City's political subdivision contractually required contribution rate for the year ended June 30, 2016 was 11.98% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The school board – general employees' contribution rate was 10.81%.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision for the City employees were \$815,838 and \$814,427 for the years ended June 30, 2016 and June 30, 2015, respectively.

For the school board – general employees, employer contributions were \$44,719 and \$41,697 for the years ended June 30, 2016 and June 30, 2015, respectively.

Each school divisions - teachers contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 18.20%; however, it was reduced to 17.64% as a result of the transfer. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contribution to the pension plan from the school division - teachers were \$1,068,615 and \$1,081,012 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The political subdivisions net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions – General Employees and School Division - Teachers

The total pension liability for General Employees in the Political Subdivision's Retirement Plan and VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

Political Subdivisions

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

School Divisions

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females were set back 5 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 3 years.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement.

The actuarial assumptions used in the June 30 2014 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 – LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Long-Term Expected Rate of Return

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

| <u>Asset Class (Strategy)</u> | <u>Target Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return</u> |
|-------------------------------|-------------------------------------|---|---|
| U. S. Equity | 19.50% | 6.46% | 1.26% |
| Developed Non U. S. Equity | 16.50% | 6.28% | 1.04% |
| Emerging Market Equity | 6.00% | 10.00% | 0.60% |
| Fixed Income | 15.00% | 0.09% | 0.01% |
| Emerging Debt | 3.00% | 3.51% | 0.11% |
| Rate Sensitive Credit | 4.50% | 3.51% | 0.16% |
| Non Rate Sensitive Credit | 4.50% | 5.00% | 0.23% |
| Convertibles | 3.00% | 4.81% | 0.14% |
| Public Real Estate | 2.25% | 6.12% | 0.14% |
| Private Real Estate | 12.75% | 7.10% | 0.91% |
| Private Equity | 12.00% | 10.41% | 1.25% |
| Cash | <u>1.00%</u> | -1.50% | <u>-0.02%</u> |
| Total | <u>100.00%</u> | | 5.83% |
| | Inflation | | <u>2.50%</u> |
| | *Expected arithmetic nominal return | | <u>8.33%</u> |

*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan and school division for the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers and school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

Primary Government - City

| | Total Pension Liability (a) | <u>Increase (Decrease)</u> Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|--|--|---|--|
| Balances at June 30, 2014 | \$ 34,164,016 | \$ 29,612,516 | \$ 4,551,500 |
| Changes for the Year | | | |
| Service cost | 970,766 | - | 970,766 |
| Interest | 2,330,900 | - | 2,330,900 |
| Differences between expected and actual experience | 129,805 | - | 129,805 |
| Contributions - employer | - | 814,427 | (814,427) |
| Contributions - employee | - | 372,766 | (372,766) |
| Net investment income | - | 1,343,739 | (1,343,739) |
| Benefit payments, including refunds of employee contributions | (1,730,880) | (1,730,880) | - |
| Administrative expenses | - | (18,654) | 18,654 |
| Other changes | - | (286) | 286 |
| Net Changes | 1,700,591 | 781,112 | 919,479 |
| Balances at June 30, 2015 | <u>\$ 35,864,607</u> | <u>\$ 30,393,628</u> | <u>\$ 5,470,979</u> |

**Component Unit School Board -
General Employees**

| | Total Pension Liability (a) | <u>Increase (Decrease)</u> Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|--|--|---|--|
| Balances at June 30, 2014 | \$ 1,744,879 | \$ 1,673,021 | \$ 71,858 |
| Changes for the Year | | | |
| Service cost | 48,778 | - | 48,778 |
| Interest | 118,981 | - | 118,981 |
| Differences between expected and actual experience | (29,062) | - | (29,062) |
| Contributions - employer | - | 41,701 | (41,701) |
| Contributions - employee | - | 18,929 | (18,929) |
| Net investment income | - | 75,954 | (75,954) |
| Benefit payments, including refunds of employee contributions | (90,309) | (90,309) | - |
| Administrative expenses | - | (1,055) | 1,055 |
| Other changes | - | (15) | 15 |
| Net Changes | 48,388 | 45,205 | 3,183 |
| Balances at June 30, 2015 | <u>\$ 1,793,267</u> | <u>\$ 1,718,226</u> | <u>\$ 75,041</u> |

Component Unit School Board - Teacher Pool

| | <u>Increase (Decrease)</u> Net Pension Liability (a) - (b) |
|---|---|
| Balance at June 30, 2014 | \$ 13,067,000 |
| Changes for the Year | |
| Contributions - employer for 2015 | (1,089,233) |
| Employer pension expense for 2015 | 858,000 |
| Revenue allocation for 2015 | (195,000) |
| Other adjustments | (104,767) |
| Change in deferred inflows of resources | <u>181,000</u> |
| Net Changes | <u>(350,000)</u> |
| Balance at June 30, 2015 | <u>\$ 12,717,000</u> |

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

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

| | <u>1.00% Decrease (6.00%)</u> | <u>Current Discount Rate (7.00%)</u> | <u>1.00% Increase (8.00%)</u> |
|--|--|---|--|
| Primary Government - City | | | |
| Political subdivision's | | | |
| Net Pension Liability | <u>\$ 9,893,698</u> | <u>\$ 5,470,979</u> | <u>\$ 1,772,220</u> |
| Component Unit School Board - | | | |
| General Employees | | | |
| | <u>\$ 284,291</u> | <u>\$ 75,041</u> | <u>\$ (101,685)</u> |
| School Division's Proportionate | | | |
| Share of the VRS Teacher | | | |
| Employee Retirement Plan | | | |
| Net Pension Liability | <u>\$ 18,610,000</u> | <u>\$ 12,717,000</u> | <u>\$ 7,866,000</u> |

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

For the year ended June 30, 2016, the City's political subdivision recognized pension expense of \$619,326.

For the year ended June 30, 2016, the school board - general employees recognized pension expense of \$6,812.

At June 30, 2016, the school division - teachers reported a liability of \$12,717,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was .10104% as compared to .10813% at June 30, 2014.

For the year ended June 30, 2016, the school division recognized pension expense of \$858,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the political subdivision and school division - teachers reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Primary Government - City | | |
| Differences between expected and actual experience | \$ 93,848 | \$ - |
| Change in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 791,974 |
| Employer contributions subsequent to the measurement date | <u>815,838</u> | <u>-</u> |
| Total | <u>\$ 909,686</u> | <u>\$ 791,974</u> |

Component Unit School Board - General Employees

| | | |
|--|------------------|------------------|
| Differences between expected and actual experience | \$ - | \$ 19,747 |
| Change in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 45,195 |
| Employer contributions subsequent to the measurement date | <u>44,719</u> | <u>-</u> |
| Total | <u>\$ 44,719</u> | <u>\$ 64,942</u> |

Component Unit School Board - Teachers

| | | |
|---|---------------------|---------------------|
| Differences between expected and actual experience | \$ 383,000 | \$ 175,000 |
| Change in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 779,000 |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | - | 804,000 |
| Employer contributions subsequent to the measurement date | <u>1,068,615</u> | <u>-</u> |
| Total | <u>\$ 1,451,615</u> | <u>\$ 1,758,000</u> |

\$909,686 for the City, \$44,719 for School Board General Employees and \$1,451,615 for the Teacher VRS Pool reported as deferred outflows of resources related to pensions resulting from the political subdivision and school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

**Year Ended
June 30,**

**Primary Government -
City**

| | |
|------------|--------------|
| 2017 | \$ (275,330) |
| 2018 | (275,330) |
| 2019 | (289,355) |
| 2020 | 141,889 |
| 2021 | - |
| Thereafter | - |

**Component Unit School
Board - General Employees**

| | |
|------------|-------------|
| 2017 | \$ (27,053) |
| 2018 | (27,053) |
| 2019 | (18,853) |
| 2020 | 8,017 |
| 2021 | - |
| Thereafter | - |

**Component Unit School
Board - Teachers**

| | |
|------|--------------|
| 2017 | \$ (418,000) |
| 2018 | (418,000) |
| 2019 | (418,000) |
| 2020 | (18,000) |
| 2021 | (103,000) |

Pension Plan Fiduciary Net Position

Detailed information about the Virginia Retirement System's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

14 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.

15 **Contingent Liabilities**

Federal programs in which the City participates were audited in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to these requirements, certain programs were tested for compliance with applicable grant requirements. The Federal government may subject grant programs to additional compliance tests that may result in disallowed expenditures. In the opinion of management, future disallowances of current program expenditures, if any, would be immaterial.

General obligation bonds of \$4,180,000 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.

16 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*

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 \$297,300 for fiscal year 2016. The City has paid an estimated \$233,300 towards this obligation during the fiscal year. The City is required to contribute the annual required contribution of the employer (ARC) an amount actuarially determined in accordance within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost

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

| | |
|--|-------------------|
| Annual required contribution | \$ 299,100 |
| Interest on net OPEB obligation | 31,300 |
| Adjustment to annual required contribution | <u>(33,100)</u> |
| Annual OPEB cost (expense) | 297,300 |
| Estimated contributions made | <u>(233,300)</u> |
| | |
| Increase in Net OPEB Obligation | 64,000 |
| | |
| Net OPEB Obligation - Beginning of Year | <u>893,800</u> |
| | |
| Net OPEB Obligation - End of Year | <u>\$ 957,800</u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2016, 2015, and 2014 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, 2014 | \$ 310,000 | 66.2% | \$ 806,700 |
| June 30, 2015 | 288,800 | 69.8% | 893,800 |
| June 30, 2016 | 297,300 | 78.4% | 957,800 |

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2016 (based on the valuation dated July 1, 2015), is as follows:

| | |
|---|--------------|
| Actuarial accrued liability (AAL) | \$ 3,369,100 |
| Actuarial value of plan assets | \$ - |
| Unfunded actuarial accrued liability (UAAL) | \$ 3,369,100 |
| Funded ratio (actuarial value of plan assets / AAL) | 0% |
| Covered payroll (active plan members) | \$ 7,452,700 |
| UAAL as a percentage of covered payroll | 45.21% |

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.

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 30 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

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 \$77,400 for fiscal year 2016. The School Board has paid an estimated \$48,000 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.

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 | \$ 75,500 |
| Interest on net OPEB obligation | 9,400 |
| Adjustment to annual required contribution | <u>(7,500)</u> |
| Annual OPEB cost (expense) | 77,400 |
| Estimated contributions made | <u>(48,000)</u> |
| | |
| Increase in net OPEB obligation | 29,400 |
| | |
| Net OPEB Obligation - Beginning of Year | <u>206,200</u> |
| | |
| Net OPEB Obligation - End of Year | <u>\$ 235,600</u> |

Annual 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 years 2016, 2015, and 2014 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, 2014 | \$ 68,900 | 72.6% | \$ 164,200 |
| June 30, 2015 | 71,200 | 70.2% | 206,200 |
| June 30, 2016 | 75,300 | 63.7% | 235,600 |

D. Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2016 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) | 0.00% |
| 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.

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 30 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.

Health Insurance Credit Program

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.

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 2016 was .21% 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 2016 and 2015, the School Board's contribution of \$817 and \$1,051, respectively, 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 2016 and 2015 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, 2015 | \$ 1,051 | 100% | \$ - |
| June 30, 2016 | 817 | 100% | - |

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, the most recent actuarial valuation date, is as follows:

| | |
|---|-----------|
| Actuarial accrued liability (AAL) | \$ 33,697 |
| Actuarial value of plan assets | 32,297 |
| Unfunded actuarial accrued liability (UAAL) | 1,400 |
| Funded ratio (actuarial value of plan assets / AAL) | 95.85% |
| Covered payroll (active plan members) | 399,514 |
| UAAL as a percentage of covered payroll | 0.35% |

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.

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 19 to 28 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 .21% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2016 and 2015, respectively, were \$817 and \$756.

17 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 post-closure 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 post-closure care of approximately \$765,308 was based on the expected costs of all equipment, facilities, and services required to monitor and maintain the landfill's post-closure care. However, the actual cost of post-closure care is higher due to inflation, changes in technology, and changes in applicable laws and regulations. The total reported as landfill post-closure care/corrective action cost liability in the amount of \$765,308 represents \$765,308 of post-closure care liability and \$-0- of corrective action monitoring costs. The post-closure care costs and corrective action activities ended in June 2015.

The City has demonstrated financial assurance requirements for post-closure 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.

18 Surety Bonds

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

Division of Risk Management Surety Commonwealth Funds

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

19 Annexations

Southampton County

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

The City adopted a Revenue-Sharing Agreement with the County in January 1997. County residents approved this agreement in November 1997. The agreement was reviewed and recommended for Court approval by the Commission on Local Government of the Commonwealth of Virginia in January 1999. The Revenue Sharing Agreement covers approximately 17.1 square miles in Southampton County immediately contiguous to the City of Franklin. The agreement provides that the County will pay to the City on October 15 of each year, 30% of local tax revenue collected through June 30 of that year by industries and commercial establishments located within this area that are served by City water and sewer treatment. The City is required to provide potable water for non-residential use to industrial and commercial businesses in the designated area and receive wastewater from such businesses. The agreement is to remain in effect in perpetuity as adopted, subject to amendment by agreement of the parties, except if the City, or a City water and/or sewer authority decides to discontinue operation of both its water and sewer treatment systems, the agreement may be voided upon two years' notice to the County. The designated area, which includes all portions of the County immediately contiguous to the City, is immune from annexation as long as the agreement remains in force and the City exists as a political subdivision in the nature of a city. For the year ending June 30, 2016, the City received \$6,348 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, 2016, the City received \$709,171 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2015.

20 **Unearned Revenue**

Unearned 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. Unearned revenue totaling \$436,837 is comprised of the following:

Deferred Property Tax Revenue: Unearned revenue representing uncollected tax billings not available for funding of current expenditures totaled \$436,837.

21 Fund Balances

Portions of the General Fund balance are assigned as follows:

- Fund balance in the amount of \$969,874 is nonspendable due to Airport Fund.
- Fund balance in the amount of \$98,743 is restricted for capital projects.
- Fund balance in the amount of \$203,799 is assigned for capital projects.
- Fund balance in the amount of \$5,490,089 is unassigned and available for subsequent expenditures.

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

- Fund balance in the amount of \$182,859 is assigned for expenditures for school-related capital outlays.

22 Expenditures in Excess of Appropriations

Expenditures in excess of appropriations at June 30, 2016 were as follows:

| | |
|--------------------|-------------|
| Debt Service Fund | \$5,416,443 |
| (Due to refunding) | |

23 Risk Management

The City and School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Also, see Note 18 for Surety Bond information.

24 Litigation

At June 30, 2016, there were no matters of litigation involving the City which would materially affect the City's financial position should any court decisions or pending matters not be favorable to such entities.

25 Legal Compliance

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

26 Prior Period Adjustment

The City's Airport Fund had a prior period adjustment of \$144,443, as an adjustment to prior year fixed assets that needed capitalizing.

27 Evaluation of Subsequent Events

The City has evaluated subsequent events through January 27, 2017, 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

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

Year Ended June 30, 2016

General Fund

| | <u>Budgeted Amounts</u> | | | <u>Variance With Final Budget Positive (Negative)</u> |
|---|-------------------------|--------------|---------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| General property taxes | \$ 7,397,314 | \$ 7,432,144 | \$ 7,343,086 | \$ (89,058) |
| Other local taxes | 5,373,000 | 5,373,000 | 5,566,974 | 193,974 |
| Permits, privilege fees, and regulatory licenses | 162,900 | 162,900 | 173,306 | 10,406 |
| Fines and forfeitures | 40,200 | 40,200 | 31,899 | (8,301) |
| Revenue from the use of money and property | 270,848 | 301,968 | 298,432 | (3,536) |
| Charges for services | 1,401,742 | 1,401,742 | 1,375,315 | (26,427) |
| Miscellaneous | 1,124,742 | 1,143,912 | 1,244,273 | 100,361 |
| Recovered costs | 281,000 | 281,000 | 296,988 | 15,988 |
| Intergovernmental | | | | |
| Commonwealth | 3,887,575 | 4,530,099 | 4,542,899 | 12,800 |
| Federal | 66,595 | 110,825 | 82,604 | (28,221) |
| Total Revenues | 20,005,916 | 20,777,790 | 20,955,776 | 177,986 |
| Expenditures | | | | |
| Current | | | | |
| General government administration | 2,405,296 | 2,594,233 | 2,854,178 | (259,945) |
| Judicial administration | 360,525 | 309,525 | 295,583 | 13,942 |
| Public safety | 7,330,255 | 7,465,288 | 7,189,416 | 275,872 |
| Public works | 3,106,261 | 4,019,682 | 3,610,007 | 409,675 |
| Health and welfare | 196,665 | 196,665 | 185,242 | 11,423 |
| Education | 5,330,940 | 5,482,038 | 5,482,038 | - |
| Parks, recreation, and cultural | 706,135 | 706,135 | 684,390 | 21,745 |
| Community development | 1,003,059 | 1,081,879 | 1,046,577 | 35,302 |
| Nondepartmental | - | 49,000 | 49,188 | (188) |
| Debt service | - | 25,740 | 118,023 | (92,283) |
| Total Expenditures | 20,439,136 | 21,930,185 | 21,514,642 | 415,543 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (433,220) | (1,152,395) | (558,866) | 593,529 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from capital lease | - | - | 461,416 | 461,416 |
| Transfers to debt service | (1,113,542) | (1,113,542) | (965,840) | 147,702 |
| Transfers in | 1,547,601 | 1,547,601 | 1,558,424 | 10,823 |
| Transfers (out) | (819,462) | (840,582) | (801,834) | 38,748 |
| Total Other Financing Sources (Uses) | (385,403) | (406,523) | 252,166 | 658,689 |
| Net Change in Fund Balances before transfer from surplus | (818,623) | (1,558,918) | (306,700) | \$ 1,252,218 |
| From Surplus | 818,623 | 1,558,918 | - | (1,558,918) |
| Net Change in Fund Balances | \$ - | \$ - | (306,700) | \$ (306,700) |
| Fund Balance - Beginning of Year | | | 7,069,205 | |
| Fund Balance - End of Year | | | \$ 6,762,505 | |

Virginia Public Assistance Fund

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|---|-------------------------|------------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u> |
| Revenues | | | | |
| Miscellaneous | \$ 25,902 | \$ 25,902 | \$ 62,244 | \$ 36,342 |
| Intergovernmental | | | | |
| Commonwealth | 458,106 | 458,106 | 322,919 | (135,187) |
| Federal | <u>731,643</u> | <u>731,643</u> | <u>836,773</u> | <u>105,130</u> |
| Total Revenues | 1,215,651 | 1,215,651 | 1,221,936 | 6,285 |
| Expenditures | | | | |
| Current | | | | |
| Health and welfare | <u>1,686,944</u> | <u>1,686,944</u> | <u>1,636,149</u> | <u>50,795</u> |
| Total Expenditures | <u>1,686,944</u> | <u>1,686,944</u> | <u>1,636,149</u> | <u>50,795</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (471,293) | (471,293) | (414,213) | 57,080 |
| Other Financing Sources (Uses) | | | | |
| Transfers in (out) | <u>471,293</u> | <u>471,293</u> | <u>414,213</u> | <u>(57,080)</u> |
| Total Other Financing Sources (Uses) | <u>471,293</u> | <u>471,293</u> | <u>414,213</u> | <u>(57,080)</u> |
| Net Change in Fund Balance | <u>\$ -</u> | <u>\$ -</u> | - | <u>\$ -</u> |
| Fund Balance - Beginning of Year | | | - | |
| Fund Balance - End of Year | | | <u>\$ -</u> | |

Capital Projects Fund

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|---|-------------------------|--------------|----------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u> |
| Revenues | | | | |
| Revenue from use of money - interest income | \$ - | \$ - | \$ 1,991 | \$ 1,991 |
| Total Revenues | - | - | 1,991 | 1,991 |
| Expenditures | | | | |
| Current | | | | |
| Education | - | - | 1,081,393 | (1,081,393) |
| Total Expenditures | - | - | 1,081,393 | (1,081,393) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | (1,079,402) | (1,079,402) |
| Other Financing Sources (Uses) | | | | |
| Transfers in (out) | - | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - | - |
| Net Change in Fund Balance | \$ - | \$ - | (1,079,402) | \$ (1,079,402) |
| Fund Balance - Beginning of Year | | | 1,262,261 | |
| Fund Balance - End of Year | | | \$ 182,859 | |

Note: Included this schedule since Capital Projects is a major fund, but the City does not adopt a budget for this fund.

Debt Service Fund

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|---|-------------------------|--------------|----------------|---------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>With</u> |
| | | | | <u>Final Budget</u> |
| | | | | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| Revenues | | | | |
| Revenue from use of money - interest income | \$ 25,000 | \$ 25,000 | \$ 63,484 | \$ 38,484 |
| Total Revenues | 25,000 | 25,000 | 63,484 | 38,484 |
| Expenditures | | | | |
| Current - Debt Service | | | | |
| Debt service - principal payments | 1,262,785 | 1,262,785 | 6,132,380 | (4,869,595) |
| Debt service - interest payments and other fees | 233,607 | 233,607 | 780,455 | (546,848) |
| Total Expenditures | 1,496,392 | 1,496,392 | 6,912,835 | (5,416,443) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,471,392) | (1,471,392) | (6,849,351) | (5,377,959) |
| Other Financing Sources (Uses) | | | | |
| Proceeds from debt | 837,000 | 837,000 | 6,117,000 | 5,280,000 |
| Transfers in | 634,392 | 634,392 | 965,840 | 331,448 |
| Total Other Financing Sources (Uses) | 1,471,392 | 1,471,392 | 7,082,840 | 5,611,448 |
| Net Change in Fund Balance | \$ - | \$ - | 233,489 | \$ 233,489 |
| Fund Balance - Beginning of Year | | | 1,864,141 | |
| Fund Balance - End of Year | | | \$ 2,097,630 | |

City of Franklin, Virginia

Schedule of Funding Progress for Other Post-Employment Benefits

Last Three Fiscal Years

City

| <u>Valuation Date</u> | <u>Actuarial Value of Assets (AVA) (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)</u> <u>(b) - (a)</u> | <u>Funded Ratio (d)</u> <u>(a) / (b)</u> | <u>Annual Covered Payroll (e)</u> | <u>UAAL as % of Payroll (f)</u> <u>(c) / (e)</u> |
|-----------------------------|--|--|--|---|-----------------------------------|---|
| 7/1/2010 | \$ - | \$ 3,538,000 | \$ 3,538,000 | 0.00% | \$ 5,473,000 | 64.64% |
| 7/1/2012 | - | 3,437,000 | 3,437,000 | 0.00% | 7,026,600 | 48.91% |
| 7/1/2014 | - | 3,369,100 | 3,369,100 | 0.00% | 7,452,700 | 45.21% |
| 7/1/2016^R | - | 3,369,100 | 3,369,100 | 0.00% | 7,452,700 | 45.21% |

School Board

| <u>Valuation Date</u> | <u>Actuarial Value of Assets (AVA) (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)</u> <u>(b) - (a)</u> | <u>Funded Ratio (d)</u> <u>(a) / (b)</u> | <u>Annual Covered Payroll (e)</u> | <u>UAAL as % of Payroll (f)</u> <u>(c) / (e)</u> |
|-----------------------------|--|--|--|---|-----------------------------------|---|
| 7/1/2010 | \$ - | \$ 710,600 | \$ 710,600 | 0.00% | \$ 5,870,000 | 12.11% |
| 7/1/2012 | - | 607,800 | 607,800 | 0.00% | 5,543,600 | 10.96% |
| 7/1/2014 | - | 607,800 | 607,800 | 0.00% | 5,543,600 | 10.96% |
| 7/1/2016^R | - | 607,800 | 607,800 | 0.00% | 5,543,600 | 10.96% |

School Board - VRS Health Insurance Credit

| <u>Valuation Date</u> | <u>Actuarial Value of Assets (AVA) (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c)</u> <u>(b) - (a)</u> | <u>Funded Ratio (d)</u> <u>(a) / (b)</u> | <u>Annual Covered Payroll (e)</u> | <u>UAAL as % of Payroll (f)</u> <u>(c) / (e)</u> |
|-----------------------|--|--|--|---|-----------------------------------|---|
| 6/30/2015 | \$ 32,297 | \$ 33,697 | \$ 1,400 | 95.85% | \$ 399,514 | 0.35% |
| 6/30/2014 | 32,086 | 33,133 | 1,047 | 96.84% | 385,649 | 0.27% |
| 6/30/2013 | 28,793 | 32,422 | 3,629 | 88.81% | 374,568 | 0.97% |

^RRollforward calculations

City of Franklin, Virginia

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

Year Ended June 30, 2016

| | <u>Primary Government</u> | |
|---|----------------------------------|-----------------------------|
| | <u>2015</u> | <u>2014</u> |
| Total pension liability | | |
| Service cost | \$ 970,766 | \$ 960,215 |
| Interest | 2,330,900 | 2,227,952 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | 129,805 | - |
| Changes in assumptions | - | - |
| Benefit Payments, including refunds of employee contributions | <u>(1,730,880)</u> | <u>(1,704,071)</u> |
| Net change in total pension liability | 1,700,591 | 1,484,096 |
| Total pension liability - beginning | <u>34,164,016</u> | <u>32,679,920</u> |
| Total pension liability - ending (a) | <u>\$ 35,864,607</u> | <u>\$ 34,164,016</u> |
| Plan fiduciary net position | | |
| Contributions - employer | \$ 814,427 | \$ 813,748 |
| Contributions - employee | 372,766 | 374,515 |
| Net investment income | 1,343,739 | 4,072,505 |
| Benefit Payments, including refunds of employee contributions | <u>(1,730,880)</u> | <u>(1,704,071)</u> |
| Administrative expense | (18,654) | (22,183) |
| Other | <u>(286)</u> | <u>214</u> |
| Net change in plan fiduciary net position | 781,112 | 3,534,728 |
| Plan fiduciary net position - beginning | <u>29,612,516</u> | <u>26,077,788</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 30,393,628</u> | <u>\$ 29,612,516</u> |
| Political subdivision's net pension liability - ending (a) - (b) | <u>\$ 5,470,979</u> | <u>\$ 4,551,500</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 84.75% | 86.68% |
| Covered payroll | \$ 7,586,380 | \$ 7,514,862 |
| Political subdivision's net pension liability as a percentage of covered payroll | 72.12% | 60.57% |

City of Franklin, Virginia

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

Year Ended June 30, 2016

| | <u>School Board</u> <u>General Employees</u> | |
|---|---|----------------------------|
| | <u>2015</u> | <u>2014</u> |
| Total pension liability | | |
| Service cost | \$ 48,778 | \$ 47,021 |
| Interest | 118,981 | 114,045 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | (29,062) | - |
| Changes in assumptions | - | - |
| Benefit Payments, including refunds of employee contributions | <u>(90,309)</u> | <u>(90,796)</u> |
| Net change in total pension liability | 48,388 | 70,270 |
| Total pension liability - beginning | <u>1,744,879</u> | <u>1,674,609</u> |
| Total pension liability - ending (a) | <u>\$ 1,793,267</u> | <u>\$ 1,744,879</u> |
| Plan fiduciary net position | | |
| Contributions - employer | \$ 41,701 | \$ 46,023 |
| Contributions - employee | 18,929 | 19,200 |
| Net investment income | 75,954 | 230,671 |
| Benefit Payments, including refunds of employee contributions | (90,309) | (90,796) |
| Administrative expense | (1,055) | (1,253) |
| Other | <u>(15)</u> | <u>12</u> |
| Net change in plan fiduciary net position | 45,205 | 203,857 |
| Plan fiduciary net position - beginning | <u>1,673,021</u> | <u>1,469,164</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 1,718,226</u> | <u>\$ 1,673,021</u> |
| Political subdivision's net pension liability - ending (a) - (b) | <u>\$ 75,041</u> | <u>\$ 71,858</u> |
| Plan fiduciary net position as a percentage of the total Pension liability | 95.82% | 95.88% |
| Covered payroll | \$ 391,523 | \$385,649 |
| Political subdivision's net pension liability as a percentage of covered payroll | 19.17% | 18.63% |

City of Franklin, Virginia

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

Years Ended June 30, 2016 and 2015^{*}

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|---------------|
| Employer's Proportion of the Net Pension Liability (Asset) | 0.10104% | 0.10813% |
| Employer's Proportionate Share of the Net Pension Liability (Asset) | \$ 12,717,000 | \$ 13,067,000 |
| Employer's Covered Payroll | \$ 7,645,748 | \$6,781,114 |
| Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its covered payroll | 166.328% | 192.697% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 70.68% | 70.88% |

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

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

City of Franklin, Virginia

Schedule of Employer Contributions

For the Years Ended June 30, 2007 through 2016

| Year Ending June 30th, | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|--|--|---|---|---|---|
| Primary Government | | | | | |
| 2016 | \$ 815,838 | \$ 815,838 | \$ - | \$ 7,368,240 | 11.07% |
| 2015 | 814,427 | 814,427 | - | 7,586,380 | 10.74% |
| 2014 | N/A | N/A | N/A | N/A | N/A |
| 2013 | N/A | N/A | N/A | N/A | N/A |
| 2012 | N/A | N/A | N/A | N/A | N/A |
| 2011 | N/A | N/A | N/A | N/A | N/A |
| 2010 | N/A | N/A | N/A | N/A | N/A |
| 2009 | N/A | N/A | N/A | N/A | N/A |
| 2008 | N/A | N/A | N/A | N/A | N/A |
| 2007 | N/A | N/A | N/A | N/A | N/A |
| Component Unit School Board - General Employees | | | | | |
| 2016 | \$ 44,719 | \$ 44,719 | \$ - | \$ 419,188 | 10.67% |
| 2015 | 41,697 | 41,697 | - | 391,523 | 10.65% |
| 2014 | N/A | N/A | N/A | N/A | N/A |
| 2013 | N/A | N/A | N/A | N/A | N/A |
| 2012 | N/A | N/A | N/A | N/A | N/A |
| 2011 | N/A | N/A | N/A | N/A | N/A |
| 2010 | N/A | N/A | N/A | N/A | N/A |
| 2009 | N/A | N/A | N/A | N/A | N/A |
| 2008 | N/A | N/A | N/A | N/A | N/A |
| 2007 | N/A | N/A | N/A | N/A | N/A |
| Component Unit School Board - Teachers | | | | | |
| 2016 | \$ 1,068,615 | \$ 1,068,615 | \$ - | \$ 7,645,748 | 13.98% |
| 2015 | 1,081,012 | 1,081,012 | - | 6,781,114 | 15.94% |
| 2014 | N/A | N/A | N/A | N/A | N/A |
| 2013 | N/A | N/A | N/A | N/A | N/A |
| 2012 | N/A | N/A | N/A | N/A | N/A |
| 2011 | N/A | N/A | N/A | N/A | N/A |
| 2010 | N/A | N/A | N/A | N/A | N/A |
| 2009 | N/A | N/A | N/A | N/A | N/A |
| 2008 | N/A | N/A | N/A | N/A | N/A |
| 2007 | N/A | N/A | N/A | N/A | N/A |

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

For Reference Only:

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

Column 2 – Actual employer contribution remitted to VRS

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

City of Franklin, Virginia

Notes to Required Supplementary Information

For the Year Ended June 30, 2016

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

School Division

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

OTHER SUPPLEMENTARY INFORMATION



City of Franklin, Virginia

Combining Balance Sheet

Nonmajor Special Revenue Funds

Year Ended June 30, 2016

| | Community Development | | | | | | | | | | | | | | | | | | |
|---|---------------------------------|-------------------------------------|------------------------|------------------|---------------------|-----------------------------|--|---|---------------------|--------------------------------|------------------------------|------------------------------|---------------------|---------------------------|-------------------------|-------------------------------|------------------------------------|-----------------------------------|------------|
| | Comprehensive Services Act Fund | Regional Fire Training Grounds Fund | Foundation Grants Fund | Block Grant Fund | Downtown Grant Fund | Madison Street Project Fund | Western Tidewater Home Consortium Fund | Neighborhood Stabilization Program Fund | Cobbtown Grant Fund | Police Federal Forfeiture Fund | Police State Forfeiture Fund | Police Evidence Holding Fund | Camp Homestead Fund | Economic Development Fund | Willie Camp Younts Fund | Southview Cemetery Trust Fund | Cemetery Perpetual Care Trust Fund | Charles Smith Cemetery Trust Fund | Total |
| Assets | | | | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ - | \$ 4,239 | \$ 98,063 | \$ 146,592 | \$ 24,365 | \$ - | \$ - | \$ 20,096 | \$ - | \$ 15,300 | \$ 7,921 | \$ 1,477 | \$ 31,128 | \$ 26,649 | \$ 51,707 | \$ 3,482 | \$ 113,521 | \$ 12,752 | \$ 557,292 |
| Receivables (net of allowance for uncollectibles) | | | | | | | | | | | | | | | | | | | |
| Accounts receivable | 46 | - | - | - | - | 24,944 | 26,852 | - | 42,400 | - | - | - | - | - | - | - | - | - | 94,242 |
| Inventory | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Due from other governmental units | 19,570 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 19,570 |
| Total Assets | \$ 19,616 | \$ 4,239 | \$ 98,063 | \$ 146,592 | \$ 24,365 | \$ 24,944 | \$ 26,852 | \$ 20,096 | \$ 42,400 | \$ 15,300 | \$ 7,921 | \$ 1,477 | \$ 31,128 | \$ 26,649 | \$ 51,707 | \$ 3,482 | \$ 113,521 | \$ 12,752 | \$ 671,104 |
| Liabilities and Fund Balances | | | | | | | | | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | | | | | | | | | |
| Reconciled overdraft | \$ 8,195 | | \$ - | \$ - | \$ - | \$ 30,543 | \$ 8,692 | \$ - | \$ 8,703 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 56,133 |
| Accounts payable and accrued expenses | 11,421 | 46 | 17,608 | - | - | 775 | 186 | - | - | - | - | - | 1,773 | 10,341 | - | - | - | - | - |
| Deposits held in escrow | - | - | - | - | 20,240 | - | - | - | - | - | - | - | - | 16,308 | - | - | - | - | 36,548 |
| Total Liabilities | 19,616 | 46 | 17,608 | - | 20,240 | 31,318 | 8,878 | - | 8,703 | - | - | - | 1,773 | 26,649 | - | - | - | - | 134,831 |
| Fund Balances | | | | | | | | | | | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Restricted | | | | | | | | | | | | | | | | | | | |
| Public safety | - | 4,193 | - | - | - | - | - | - | - | 15,300 | 7,921 | 1,477 | - | - | - | - | - | - | 28,891 |
| Parks, recreation, and cultural | - | - | - | - | - | - | - | - | - | - | - | - | 29,355 | - | 51,707 | 3,482 | 113,521 | 12,752 | 210,817 |
| Community development | - | - | 80,455 | 146,592 | 4,125 | (6,374) | 17,974 | 20,096 | 33,697 | - | - | - | - | - | - | - | - | - | 296,565 |
| Assigned | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Fund Balances | - | 4,193 | 80,455 | 146,592 | 4,125 | (6,374) | 17,974 | 20,096 | 33,697 | 15,300 | 7,921 | 1,477 | 29,355 | - | 51,707 | 3,482 | 113,521 | 12,752 | 536,273 |
| Total Liabilities and Fund Balances | \$ 19,616 | \$ 4,239 | \$ 98,063 | \$ 146,592 | \$ 24,365 | \$ 24,944 | \$ 26,852 | \$ 20,096 | \$ 42,400 | \$ 15,300 | \$ 7,921 | \$ 1,477 | \$ 31,128 | \$ 26,649 | \$ 51,707 | \$ 3,482 | \$ 113,521 | \$ 12,752 | \$ 671,104 |

City of Franklin, Virginia

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

Nonmajor Special Revenue Funds

Year Ended June 30, 2016

| | Comprehensive Services Act Fund | Regional Fire Training Grounds Fund | Foundation Grants Fund | Block Grant Fund | Community Development Downtown Grant Fund | Madison Street Project Fund | Western Tidewater Home Consortium Fund | Neighborhood Stabilization Program Fund | Cobbtown Grant Fund | Police Federal Forfeiture Fund | Police State Forfeiture Fund | Police Evidence Holding Fund | Camp Homestead Fund | Economic Development Fund | Willie Camp Younts Fund | Southview Cemetery Trust Fund | Cemetery Perpetual Care Trust Fund | Charles Smith Cemetery Trust Fund | Total |
|--|--|---|------------------------------|------------------------|---|--------------------------------------|--|--|---------------------------|---|---------------------------------------|---------------------------------------|---------------------------|---------------------------------|----------------------------------|--|--|---|------------|
| Revenues | | | | | | | | | | | | | | | | | | | |
| Revenue from use of money and property | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,625 | \$ 158,833 | \$ 5 | \$ - | \$ 45 | \$ 18 | \$ 160,526 |
| Miscellaneous | 273 | 4,850 | 152,690 | - | - | 381 | 96,229 | - | - | 601 | 1,189 | - | - | 14,701 | - | - | 3,900 | - | 274,814 |
| Intergovernmental | | | | | | | | | | | | | | | | | | | |
| Commonwealth of Virginia | 93,733 | - | - | - | - | 168,597 | - | - | - | - | - | - | - | - | - | - | - | - | 262,330 |
| Federal | 8,540 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 8,540 |
| Total Revenues | 102,546 | 4,850 | 152,690 | - | - | 168,978 | 96,229 | - | - | 601 | 1,189 | - | 1,625 | 173,534 | 5 | - | 3,945 | 18 | 706,210 |
| Expenditures | | | | | | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | | | | | | |
| Public safety | - | 948 | - | - | - | - | - | - | - | 7,107 | 119 | - | - | - | - | - | - | - | 8,174 |
| Health and welfare | 198,700 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 198,700 |
| Parks, recreation, and cultural | - | - | - | - | - | - | - | - | - | - | - | - | 9,405 | - | 1,087 | - | 12 | - | 10,504 |
| Community development | - | - | 161,810 | 402 | - | 175,352 | 96,165 | - | - | - | - | - | - | 530,792 | - | - | - | - | 964,521 |
| Total Expenditures | 198,700 | 948 | 161,810 | 402 | - | 175,352 | 96,165 | - | - | 7,107 | 119 | - | 9,405 | 530,792 | 1,087 | - | 12 | - | 1,181,899 |
| Excess (Deficiency) of Expenditures Over (Under) Revenues | (96,154) | 3,902 | (9,120) | (402) | - | (6,374) | 64 | - | - | (6,506) | 1,070 | - | (7,780) | (357,258) | (1,082) | - | 3,933 | 18 | (475,689) |
| Other Financing Sources (Uses) | | | | | | | | | | | | | | | | | | | |
| Transfers in (out) | 96,154 | - | - | - | - | - | - | - | - | - | - | - | - | 187,373 | - | - | - | - | 283,527 |
| Total Other Financing Sources (Uses) | 96,154 | - | - | - | - | - | - | - | - | - | - | - | - | 187,373 | - | - | - | - | 283,527 |
| Net Change in Fund Balances | - | 3,902 | (9,120) | (402) | - | (6,374) | 64 | - | - | (6,506) | 1,070 | - | (7,780) | (169,885) | (1,082) | - | 3,933 | 18 | (192,162) |
| Fund Balances - Beginning of Year | - | 291 | 89,575 | 146,994 | 4,125 | - | 17,910 | 20,096 | 33,697 | 21,806 | 6,851 | 1,477 | 37,135 | 169,885 | 52,789 | 3,482 | 109,588 | 12,734 | 728,435 |
| Fund Balances - End of Year | \$ - | \$ 4,193 | \$ 80,455 | \$ 146,592 | \$ 4,125 | \$ (6,374) | \$ 17,974 | \$ 20,096 | \$ 33,697 | \$ 15,300 | \$ 7,921 | \$ 1,477 | \$ 29,355 | \$ - | \$ 51,707 | \$ 3,482 | \$ 113,521 | \$ 12,752 | \$ 536,273 |

City of Franklin, Virginia

Combining Statement of Fiduciary Net Position

Agency Funds

June 30, 2016

| | <u>Special Welfare - SSI Fund</u> | <u>Special Welfare Fund</u> | <u>Flexible Spending Fund</u> | <u>Employee Emergency Trust Fund</u> | <u>Smart Beginnings Fund</u> | <u>Fire and Rescue Volunteers Fund</u> | <u>Children's Center Fund</u> | <u>Total</u> |
|--|---|-------------------------------------|---------------------------------------|--|--------------------------------------|--|---------------------------------------|-------------------|
| Assets | | | | | | | | |
| Cash and cash equivalents | \$ 10,931 | \$ 7,356 | \$ 8,169 | \$ 9,311 | \$ 33,325 | \$ 33,703 | \$ 30 | \$ 102,825 |
| Accounts receivable | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,000</u> | <u>-</u> | <u>-</u> | <u>5,000</u> |
| Total Assets | <u>\$ 10,931</u> | <u>\$ 7,356</u> | <u>\$ 8,169</u> | <u>\$ 9,311</u> | <u>\$ 38,325</u> | <u>\$ 33,703</u> | <u>\$ 30</u> | <u>\$ 107,825</u> |
| Liabilities | | | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ - | \$ 4,236 | \$ - | \$ - | \$ 4,236 |
| Amounts held for others | <u>10,931</u> | <u>7,356</u> | <u>8,169</u> | <u>9,311</u> | <u>34,089</u> | <u>33,703</u> | <u>30</u> | <u>103,589</u> |
| Total Liabilities | <u>\$ 10,931</u> | <u>\$ 7,356</u> | <u>\$ 8,169</u> | <u>\$ 9,311</u> | <u>\$ 38,325</u> | <u>\$ 33,703</u> | <u>\$ 30</u> | <u>\$ 107,825</u> |

City of Franklin, Virginia

Combining Statements of Changes in Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2016

| | <u>Balance Beginning of Year</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance End of Year</u> |
|--------------------------------------|--|------------------|-------------------|------------------------------------|
| Special Welfare - SSI Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 10,931 | \$ - | \$ - | <u>\$ 10,931</u> |
| Total Assets | <u>\$ 10,931</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 10,931</u> |
| Liabilities | | | | |
| Amounts held for others | \$ 10,931 | \$ - | \$ - | <u>\$ 10,931</u> |
| Total Liabilities | <u>\$ 10,931</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 10,931</u> |
| Special Welfare Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 3,731 | \$ 16,991 | \$ 13,366 | <u>\$ 7,356</u> |
| Total Assets | <u>\$ 3,731</u> | <u>\$ 16,991</u> | <u>\$ 13,366</u> | <u>\$ 7,356</u> |
| Liabilities | | | | |
| Amounts held for others | \$ 3,731 | \$ 16,991 | \$ 13,366 | <u>\$ 7,356</u> |
| Total Liabilities | <u>\$ 3,731</u> | <u>\$ 16,991</u> | <u>\$ 13,366</u> | <u>\$ 7,356</u> |
| Flexible Spending Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 7,343 | \$ 35,401 | \$ 34,575 | <u>\$ 8,169</u> |
| Total Assets | <u>\$ 7,343</u> | <u>\$ 35,401</u> | <u>\$ 34,575</u> | <u>\$ 8,169</u> |
| Liabilities | | | | |
| Amounts held for others | \$ 7,343 | \$ 35,401 | \$ 34,575 | <u>\$ 8,169</u> |
| Total Liabilities | <u>\$ 7,343</u> | <u>\$ 35,401</u> | <u>\$ 34,575</u> | <u>\$ 8,169</u> |
| Employee Emergency Trust Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 11,690 | \$ 3,336 | \$ 5,715 | <u>\$ 9,311</u> |
| Total Assets | <u>\$ 11,690</u> | <u>\$ 3,336</u> | <u>\$ 5,715</u> | <u>\$ 9,311</u> |
| Liabilities | | | | |
| Amounts held for others | \$ 11,690 | \$ 3,336 | \$ 5,715 | <u>\$ 9,311</u> |
| Total Liabilities | <u>\$ 11,690</u> | <u>\$ 3,336</u> | <u>\$ 5,715</u> | <u>\$ 9,311</u> |

| | <u>Balance Beginning of Year</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance End of Year</u> |
|--|--|-------------------|-------------------|------------------------------------|
| Smart Beginnings Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 66,051 | \$ 110,378 | \$ 143,104 | \$ 33,325 |
| Accounts receivable | 1,591 | 3,409 | - | 5,000 |
| Total Assets | <u>\$ 67,642</u> | <u>\$ 113,787</u> | <u>\$ 143,104</u> | <u>\$ 38,325</u> |
| Liabilities | | | | |
| Accounts payable | \$ 5,328 | \$ - | \$ 1,092 | \$ 4,236 |
| Amounts held for others | 62,314 | 113,787 | 142,012 | 34,089 |
| Total Liabilities | <u>\$ 67,642</u> | <u>\$ 113,787</u> | <u>\$ 143,104</u> | <u>\$ 38,325</u> |
| Fire and Rescue Volunteers Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 18,548 | \$ 25,478 | \$ 10,323 | \$ 33,703 |
| Total Assets | <u>\$ 18,548</u> | <u>\$ 25,478</u> | <u>\$ 10,323</u> | <u>\$ 33,703</u> |
| Liabilities | | | | |
| Amounts held for others | 18,548 | 25,478 | 10,323 | 33,703 |
| Total Liabilities | <u>\$ 18,548</u> | <u>\$ 25,478</u> | <u>\$ 10,323</u> | <u>\$ 33,703</u> |
| Children's Center Fund | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 34 | \$ 45,868 | \$ 45,872 | \$ 30 |
| Total Assets | <u>\$ 34</u> | <u>\$ 45,868</u> | <u>\$ 45,872</u> | <u>\$ 30</u> |
| Liabilities | | | | |
| Amounts held for others | \$ 34 | \$ 45,868 | \$ 45,872 | \$ 30 |
| Total Liabilities | <u>\$ 34</u> | <u>\$ 45,868</u> | <u>\$ 45,872</u> | <u>\$ 30</u> |
| Totals - All Agency Funds | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 118,328 | \$ 237,452 | \$ 252,955 | \$ 102,825 |
| Accounts receivable | 1,591 | 3,409 | - | 5,000 |
| Total Assets | <u>\$ 119,919</u> | <u>\$ 240,861</u> | <u>\$ 252,955</u> | <u>\$ 107,825</u> |
| Liabilities | | | | |
| Accounts payable | \$ 5,328 | \$ - | \$ 1,092 | \$ 4,236 |
| Amounts held for others | 114,591 | 240,861 | 251,863 | 103,589 |
| Total Liabilities | <u>\$ 119,919</u> | <u>\$ 240,861</u> | <u>\$ 252,955</u> | <u>\$ 107,825</u> |

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

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

City of Franklin, Virginia
Combining Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2016

| | School Operating Fund | Cafeteria Fund | Textbook Fund | Total Governmental Funds |
|---|--------------------------------------|---------------------------|--------------------------|---|
| Assets | | | | |
| Cash and cash equivalents | \$ - | \$ 249,778 | \$ 240,240 | \$ 490,018 |
| <i>Receivables (net of allowance for uncollectibles)</i> | | | | - |
| Accounts receivable | 7,031 | 1,649 | 168 | 8,848 |
| Due from other funds | - | 1,725 | - | 1,725 |
| Due from City - primary government | 494,643 | | | 494,643 |
| Due from other governmental units | 697,508 | 51,589 | - | 749,097 |
| Inventories | - | 11,308 | - | 11,308 |
| Total Assets | <u>\$ 1,199,182</u> | <u>\$ 316,049</u> | <u>\$ 240,408</u> | <u>\$ 1,755,639</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Pooled cash deficit | \$ 309,295 | \$ - | \$ - | \$ 309,295 |
| Due to other funds | 1,725 | - | - | 1,725 |
| Accounts payable and accrued liabilities | 1,123,709 | 54,054 | - | 1,177,763 |
| Total Liabilities | 1,434,729 | 54,054 | - | 1,488,783 |
| Fund Balances | | | | |
| <i>Nonspendable</i> | | | | |
| Inventory | - | 11,308 | - | 11,308 |
| <i>Restricted</i> | | | | |
| Special revenue | (235,547) | 250,687 | 240,408 | 255,548 |
| Total Fund Balances | (235,547) | 261,995 | 240,408 | 266,856 |
| Total Liabilities and Fund Balances | <u>\$ 1,199,182</u> | <u>\$ 316,049</u> | <u>\$ 240,408</u> | <u>\$ 1,755,639</u> |
| Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because: | | | | |
| Total fund balances per above | | | | \$ 266,856 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | | | |
| Capital assets | | | \$ 17,598,457 | |
| Less: Accumulated depreciation | | | (8,122,618) | 9,475,839 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. | | | | |
| Deferred outflows related to pensions | | | 1,496,334 | |
| Deferred inflows related to pensions | | | (1,822,942) | (326,608) |
| 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 | | | (235,600) | |
| Net pension liability | | | (12,792,041) | |
| Compensated absences | | | (241,515) | (13,269,156) |
| Net Position of Governmental Activities | | | | <u>\$ (3,853,069)</u> |

City of Franklin, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2016

| | <u>School Operating Fund</u> | <u>Cafeteria Fund</u> | <u>Textbook Fund</u> | <u>Total Governmental Funds</u> |
|---|--------------------------------------|---------------------------|--------------------------|---|
| Revenues | | | | |
| Revenue from the use of money and property | \$ 7,601 | \$ - | \$ 53 | \$ 7,654 |
| Charges for services | 700 | 41,110 | - | 41,810 |
| Miscellaneous | 544,060 | 27,341 | - | 571,401 |
| Recovered costs | - | - | 168 | 168 |
| Intergovernmental Revenues | | | | |
| Local government | 5,482,038 | - | - | 5,482,038 |
| Commonwealth | 8,131,637 | 28,666 | - | 8,160,303 |
| Federal | 1,251,734 | 881,217 | - | 2,132,951 |
| Total Revenues | 15,417,770 | 978,334 | 221 | 16,396,325 |
| Expenditures | | | | |
| Current | | | | |
| <i>Education</i> | | | | |
| Instruction | 11,234,355 | - | 126,197 | 11,360,552 |
| Administration, attendance and health | 1,074,053 | - | - | 1,074,053 |
| Transportation | 555,317 | - | - | 555,317 |
| Operations and maintenance | 1,461,743 | - | - | 1,461,743 |
| Technology | 1,327,849 | - | - | 1,327,849 |
| Food services | - | 885,055 | - | 885,055 |
| Total Expenditures | 15,653,317 | 885,055 | 126,197 | 16,664,569 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (235,547) | 93,279 | (125,976) | (268,244) |
| Other Financing Sources (Uses) | | | | |
| Debt issuance | - | - | - | - |
| Transfers in (out) | - | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - | - |
| Net Change in Fund Balances | (235,547) | 93,279 | (125,976) | (268,244) |
| Fund Balances - Beginning | - | 168,716 | 366,384 | 535,100 |
| Fund Balances - Ending | \$ (235,547) | \$ 261,995 | \$ 240,408 | \$ 266,856 |

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

Net changes in fund balances - total governmental funds -
 per above \$ (268,244)

*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 | \$ 749,027 | |
| Depreciation expense | (370,919) | 378,108 |

*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.*

| | | |
|-------------------------------------|-----------|---------|
| Change in compensated absences | (70,411) | |
| Change in OPEB liability | (29,400) | |
| Change in VRS deferred outflows | (118,375) | |
| Change in VRS deferred inflows | 219,072 | |
| Change in VRS net pension liability | 346,817 | 347,703 |

| | | |
|---|--|------------|
| Change in Net Position of Governmental Activities | | \$ 457,567 |
|---|--|------------|

City of Franklin, Virginia

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

Discretely Presented Component Unit - School Board

For the Year Ended June 30, 2016

| | <u>School Operating Fund</u> | | | Variance with Final Budget Positive (Negative) |
|--|------------------------------|-------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>(Negative)</u> |
| Revenues | | | | |
| Revenue from the use of money and property | \$ 2,500 | \$ 2,500 | \$ 7,601 | \$ 5,101 |
| Charges for services | 6,500 | 6,500 | 700 | (5,800) |
| Miscellaneous | 123,500 | 445,850 | 544,060 | 98,210 |
| Intergovernmental | | | | |
| Local government | 5,330,940 | 5,482,038 | 5,482,038 | - |
| Commonwealth | 8,415,998 | 8,692,780 | 8,131,637 | (561,143) |
| Federal | <u>2,305,368</u> | <u>2,140,756</u> | <u>1,251,734</u> | <u>(889,022)</u> |
| Total Revenues | 16,184,806 | 16,770,424 | 15,417,770 | (1,352,654) |
| Expenditures | | | | |
| Current | | | | |
| <i>Education</i> | | | | |
| Instruction | 12,443,543 | 12,089,054 | 11,234,355 | 854,699 |
| Administration, attendance and health | 1,095,085 | 1,188,312 | 1,074,053 | 114,259 |
| Transportation | 545,396 | 555,317 | 555,317 | - |
| Operations and maintenance | 1,378,888 | 1,609,892 | 1,461,743 | 148,149 |
| Technology | <u>721,894</u> | <u>1,327,849</u> | <u>1,327,849</u> | <u>-</u> |
| Total Expenditures | <u>16,184,806</u> | <u>16,770,424</u> | <u>15,653,317</u> | <u>1,117,107</u> |
| Net Change in Fund Balances | <u>\$ -</u> | <u>\$ -</u> | (235,547) | <u>\$ (235,547)</u> |
| Fund Balances - Beginning | | | - | |
| Fund Balances - Ending | | | <u>\$ (235,547)</u> | |

DISCRETELY PRESENTED COMPONENT UNIT – INDUSTRIAL DEVELOPMENT AUTHORITY

City of Franklin, Virginia

Statement of Net Position

Discretely Presented Component Unit - Industrial Development Authority

June 30, 2016

Industrial
Development
Authority**Assets****Current Assets**

Cash and cash equivalents

\$ 14,314

Total Assets

\$ 14,314

Net Position

Unrestricted - community development

\$ 14,314

Total Net Position

\$ 14,314

City of Franklin, Virginia

Statement of Revenues, Expenses, and Changes in Net Position

Discretely Presented Component Unit - Industrial Development Authority

For the Year Ended June 30, 2016

| | Industrial Development Authority |
|--------------------------------|---|
| Nonoperating Revenues | |
| Interest income | \$ 1 |
| Total Nonoperating Revenues | <u>1</u> |
| Change in Net Position | 1 |
| Total Net Position - Beginning | <u>14,313</u> |
| Total Net Position - Ending | <u><u>\$ 14,314</u></u> |

City of Franklin, Virginia

Statement of Cash Flows

Discretely Presented Component Unit - Industrial Development Authority

For the Year Ended June 30, 2016

| | Industrial Development Authority |
|--|---|
| Cash Flows from Capital and Related Financing Activities | \$ - |
| Net Cash Provided by Capital and Related Financing Activities | - |
| Cash Flows from Investing Activities | |
| Interest and dividends received | <u>1</u> |
| Net Cash Provided by Investing Activities | <u>1</u> |
| Net Increase in Cash and Cash Equivalents | 1 |
| Cash and Cash Equivalents - Beginning | <u>14,313</u> |
| Cash and Cash Equivalents - Ending | <u>\$ 14,314</u> |

City of Franklin, Virginia

Schedule of Revenues - Budget and Actual

For the Year Ended June 30, 2016

General Fund

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------|---|
| General Fund | | | | |
| Revenue from Local Sources | | | | |
| <i>General Property Taxes</i> | | | | |
| Real property taxes | \$ 5,646,874 | \$ 5,646,874 | \$ 5,512,695 | \$ (134,179) |
| Real and personal public service corporation taxes | 66,863 | 66,863 | 67,088 | 225 |
| Personal property taxes | 1,515,000 | 1,515,000 | 1,562,470 | 47,470 |
| Machinery and tools taxes | 23,577 | 23,577 | 19,402 | (4,175) |
| Penalties | 85,000 | 119,830 | 119,167 | (663) |
| Interest | 60,000 | 60,000 | 62,264 | 2,264 |
| Total General Property Taxes | 7,397,314 | 7,432,144 | 7,343,086 | (89,058) |
| <i>Other Local Taxes</i> | | | | |
| Local sales and use taxes | 1,800,000 | 1,800,000 | 1,767,781 | (32,219) |
| Consumers' utility taxes | 475,000 | 475,000 | 544,143 | 69,143 |
| Probate taxes | 2,500 | 2,500 | 2,729 | 229 |
| Electric consumption taxes | 30,000 | 30,000 | 30,816 | 816 |
| Business license taxes | 950,500 | 950,500 | 969,181 | 18,681 |
| Motor vehicle license taxes | 180,000 | 180,000 | 188,080 | 8,080 |
| Bank stock taxes | 65,000 | 65,000 | 56,200 | (8,800) |
| Taxes on recordation and wills | 45,000 | 45,000 | 38,082 | (6,918) |
| Cigarette taxes | 325,000 | 325,000 | 352,199 | 27,199 |
| Lodging taxes | 150,000 | 150,000 | 123,626 | (26,374) |
| Restaurant food taxes | 1,350,000 | 1,350,000 | 1,494,137 | 144,137 |
| Total Other Local Taxes | 5,373,000 | 5,373,000 | 5,566,974 | 193,974 |
| <i>Permits, Privilege Fees, and Regulatory Licenses</i> | | | | |
| Animal licenses | 3,500 | 3,500 | 3,686 | 186 |
| Building and related permits | 149,400 | 149,400 | 143,154 | (6,246) |
| Permits and other licenses | 10,000 | 10,000 | 26,466 | 16,466 |
| Total Permits, Privilege Fees, and Regulatory Licenses | 162,900 | 162,900 | 173,306 | 10,406 |
| <i>Fines and Forfeitures</i> | | | | |
| Court fines and forfeitures | 40,200 | 40,200 | 31,899 | (8,301) |
| Total Fines and Forfeitures | 40,200 | 40,200 | 31,899 | (8,301) |

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------|---|
| <i>Revenues from Use of Money and Property</i> | | | | |
| Revenue from use of money | 1,900 | 1,900 | 2,687 | 787 |
| Revenue from use of property | 268,948 | 300,068 | 295,745 | (4,323) |
| Total Revenue from Use of Money and Property | 270,848 | 301,968 | 298,432 | (3,536) |
| <i>Charges for Services</i> | | | | |
| Law library and court fees | 5,200 | 5,200 | 7,775 | 2,575 |
| J & D Services - Southampton County | 4,100 | 4,100 | 4,100 | - |
| Fire and emergency services | 110,000 | 110,000 | 116,720 | 6,720 |
| Ambulance services | 315,000 | 315,000 | 267,815 | (47,185) |
| Janitorial services | 17,000 | 17,000 | 17,934 | 934 |
| Social services - telephone system | - | - | 5,524 | 5,524 |
| Waste collection and disposal | 215,814 | 215,814 | 215,815 | 1 |
| Administration - water and sewer | 263,042 | 263,042 | 263,042 | - |
| Administration - airport | 20,749 | 20,749 | 20,749 | - |
| Administration - electric | 432,587 | 432,587 | 440,218 | 7,631 |
| Recreation fees and admissions | 12,500 | 12,500 | 7,566 | (4,934) |
| Other charges for services | 5,750 | 5,750 | 8,057 | 2,307 |
| Total Charges for Services | 1,401,742 | 1,401,742 | 1,375,315 | (26,427) |
| <i>Miscellaneous Revenue</i> | | | | |
| Miscellaneous | 29,500 | 19,500 | 74,718 | 55,218 |
| Cemetery revenues | 27,000 | 27,000 | 46,060 | 19,060 |
| Late penalties and fees for utilities | 274,000 | 274,000 | 317,337 | 43,337 |
| 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 | 4,897 | (2,103) |
| Isle of Wight - revenue sharing | 680,000 | 709,170 | 709,171 | 1 |
| Southampton County - revenue sharing | 21,500 | 21,500 | 6,348 | (15,152) |
| Total Miscellaneous Revenue | 1,124,742 | 1,143,912 | 1,244,273 | 100,361 |
| <i>Recovered Costs</i> | | | | |
| Southampton County inspections | 268,000 | 268,000 | 252,620 | (15,380) |
| Other recovered costs | 13,000 | 13,000 | 44,368 | 31,368 |
| Total Recovered Costs | 281,000 | 281,000 | 296,988 | 15,988 |
| Total Revenue from Local Sources | 16,051,746 | 16,136,866 | 16,330,273 | 193,407 |

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|----------------------|---|
| Revenue from the Commonwealth | | | | |
| <i>Noncategorical Aid</i> | | | | |
| Railroad rolling stock tax | 6,700 | 6,700 | 6,937 | 237 |
| Motor vehicle rental tax | 31,000 | 31,000 | 32,999 | 1,999 |
| Communication taxes | 565,000 | 565,000 | 537,500 | (27,500) |
| State recordation tax | 15,000 | 15,000 | 12,756 | (2,244) |
| Personal property tax relief funds | 1,048,897 | 1,048,897 | 1,048,897 | - |
| Total Noncategorical Aid | 1,666,597 | 1,666,597 | 1,639,089 | (27,508) |
| <i>Categorical Aid</i> | | | | |
| Shared Expenses | | | | |
| Commissioner of revenue | 77,650 | 77,650 | 78,709 | 1,059 |
| Treasurer | 71,404 | 71,404 | 71,831 | 427 |
| Registrar/electoral board | 34,042 | 34,042 | 34,911 | 869 |
| Total Shared Expenses | 183,096 | 183,096 | 185,451 | 2,355 |
| Other Categorical Aid | | | | |
| HB 599 Law enforcement grant | 404,250 | 404,250 | 404,520 | 270 |
| Fire and rescue grant | - | 20,889 | 48,089 | 27,200 |
| Street and highway maintenance funds | 1,571,132 | 1,634,552 | 1,634,551 | (1) |
| Litter control grants | - | 6,427 | 6,427 | - |
| Wireless 911 grant | 49,500 | 49,500 | 51,907 | 2,407 |
| Hazard Mitigation Grant | - | - | 15,116 | 15,116 |
| PSAP grant police | - | 55,254 | 55,254 | - |
| VDOT Paving Award | - | 485,370 | 483,870 | (1,500) |
| Other categorical aid | 13,000 | 24,164 | 18,625 | (5,539) |
| Total Other Categorical Aid | 2,037,882 | 2,680,406 | 2,718,359 | 37,953 |
| Total Categorical Aid | 2,220,978 | 2,863,502 | 2,903,810 | 40,308 |
| Total Revenue from the Commonwealth | 3,887,575 | 4,530,099 | 4,542,899 | 12,800 |
| Revenue from the Federal Government | | | | |
| <i>Categorical Aid</i> | | | | |
| Hazard Mitigation Grant | - | - | 38,373 | 38,373 |
| Emergency services grant | 16,595 | 16,595 | - | (16,595) |
| Police grants | 50,000 | 51,288 | 1,289 | (49,999) |
| Fire department - safer grant | - | 42,942 | 42,942 | - |
| Total Categorical Aid | 66,595 | 110,825 | 82,604 | (28,221) |
| Total Revenue from the Federal Government | 66,595 | 110,825 | 82,604 | (28,221) |
| Total Intergovernmental Revenue | 3,954,170 | 4,640,924 | 4,625,503 | (15,421) |
| Total General Fund | <u>\$ 20,005,916</u> | <u>\$ 20,777,790</u> | <u>\$ 20,955,776</u> | <u>\$ 177,986</u> |

City of Franklin, Virginia

Statement of Expenditures - Budget and Actual

For the Year Ended June 30, 2016

General Fund

| <u>Fund, Function, Activity, and Elements</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------|---|
| General Fund | | | | |
| General Government Administration | | | | |
| <i>Legislative</i> | | | | |
| City council | \$ 197,942 | \$ 162,942 | \$ 158,844 | \$ 4,098 |
| <i>General and Financial Administration</i> | | | | |
| City manager | 224,970 | 196,470 | 183,377 | 13,093 |
| City attorney | 139,541 | 193,541 | 191,961 | 1,580 |
| Management services and human resources | 161,067 | 151,067 | 142,099 | 8,968 |
| Commissioner of revenue | 250,480 | 257,580 | 253,857 | 3,723 |
| Real estate assessor | 105,055 | 105,055 | 102,554 | 2,501 |
| Treasurer | 276,712 | 276,712 | 264,456 | 12,256 |
| Accounting | 305,755 | 291,155 | 252,301 | 38,854 |
| Purchasing | 84,513 | 86,113 | 85,679 | 434 |
| Utility billings and collections | 231,312 | 244,312 | 237,677 | 6,635 |
| Insurance | 136,200 | 161,200 | 158,175 | 3,025 |
| Information Technology | 171,824 | 341,997 | 700,122 | (358,125) |
| Total General and Financial Administration | 2,087,429 | 2,305,202 | 2,572,258 | (267,056) |
| <i>Board of Elections</i> | | | | |
| Electoral board and officials | 119,925 | 126,089 | 123,076 | 3,013 |
| Total Board of Elections | 119,925 | 126,089 | 123,076 | 3,013 |
| Total General Government Administration | 2,405,296 | 2,594,233 | 2,854,178 | (259,945) |
| Judicial Administration | | | | |
| <i>Courts</i> | | | | |
| Circuit court - joint operations | 9,530 | 9,530 | 9,529 | 1 |
| General district court | 15,075 | 18,075 | 11,135 | 6,940 |
| Sheriff's office | 140,370 | 140,370 | 140,369 | 1 |
| Clerk of the circuit court | 54,862 | 54,862 | 54,862 | - |
| Juvenile and domestic relations court | 85,503 | 31,503 | 24,503 | 7,000 |
| Total Courts | 305,340 | 254,340 | 240,398 | 13,942 |

| <u>Fund, Function, Activity, and Elements</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------|---|
| <i>Commonwealth's Attorney</i> | 55,185 | 55,185 | 55,185 | - |
| Total Commonwealth's Attorney | 55,185 | 55,185 | 55,185 | - |
| Total Judicial Administration | 360,525 | 309,525 | 295,583 | 13,942 |
| Public Safety | | | | |
| <i>Law Enforcement and Traffic Control</i> | | | | |
| Police department | 2,831,935 | 2,838,423 | 2,856,295 | (17,872) |
| Total Law Enforcement and Traffic Control | 2,831,935 | 2,838,423 | 2,856,295 | (17,872) |
| <i>Emergency Services</i> | | | | |
| E-911 operations | 630,506 | 699,560 | 664,569 | 34,991 |
| Emergency management services | 2,263,303 | 2,284,294 | 2,104,955 | 179,339 |
| Total Emergency Services | 2,893,809 | 2,983,854 | 2,769,524 | 214,330 |
| <i>Correction and Detention</i> | | | | |
| Detention - Western Tidewater Regional Jail | 922,091 | 922,091 | 922,091 | - |
| Total Correction and Detention | 922,091 | 922,091 | 922,091 | - |
| <i>Inspections</i> | | | | |
| Building | 510,281 | 548,781 | 479,326 | 69,455 |
| Total Inspections | 510,281 | 548,781 | 479,326 | 69,455 |
| <i>Other Protection</i> | | | | |
| Animal control | 101,223 | 101,223 | 93,051 | 8,172 |
| Civil defense | 70,916 | 70,916 | 69,129 | 1,787 |
| Total Other Protection | 172,139 | 172,139 | 162,180 | 9,959 |
| Total Public Safety | 7,330,255 | 7,465,288 | 7,189,416 | 275,872 |
| Public Works | | | | |
| <i>Maintenance of highways, streets, bridges, and sidewalks</i> | | | | |
| Streets and highways | 1,838,591 | 2,746,862 | 2,384,596 | 362,266 |
| Snow removal | 26,500 | 26,500 | 10,914 | 15,586 |
| Garage | 230,282 | 230,282 | 223,719 | 6,563 |
| Total Maintenance of Highways, Streets, Bridges, and Sidewalks | 2,095,373 | 3,003,644 | 2,619,229 | 384,415 |

Variance
with Final
Budget -
Positive
(Negative)

| <u>Fund, Function, Activity, and Elements</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | |
|---|----------------------------|-------------------------|---------------|---------|
| <i>Maintenance of General Buildings and Grounds</i> | | | | |
| Maintenance of general buildings and grounds | 641,327 | 647,327 | 645,816 | 1,511 |
| Maintenance of armory | 47,118 | 52,268 | 46,781 | 5,487 |
| Maintenance of city hall | 207,809 | 207,809 | 208,698 | (889) |
| Maintenance of social services | 80,827 | 80,827 | 68,098 | 12,729 |
| Maintenance of health department | 33,807 | 27,807 | 21,385 | 6,422 |
| | | | | |
| Total Maintenance of General Buildings and Grounds | 1,010,888 | 1,016,038 | 990,778 | 25,260 |
| | | | | |
| Total Public Works | 3,106,261 | 4,019,682 | 3,610,007 | 409,675 |
| | | | | |
| Health and Welfare | | | | |
| <i>Health</i> | | | | |
| Local health department | 110,000 | 110,000 | 110,000 | - |
| Mosquito control | 11,000 | 11,000 | - | 11,000 |
| Mental health | 35,198 | 35,198 | 35,198 | - |
| Senior Citizens Title III | 7,450 | 7,450 | 6,350 | 1,100 |
| Senior Citizens Nutrition | 33,017 | 33,017 | 33,694 | (677) |
| | | | | |
| Total Health | 196,665 | 196,665 | 185,242 | 11,423 |
| | | | | |
| Total Health and Welfare | 196,665 | 196,665 | 185,242 | 11,423 |
| | | | | |
| Education | | | | |
| Contribution to local school board | 5,330,940 | 5,482,038 | 5,482,038 | - |
| | | | | |
| Total Education | 5,330,940 | 5,482,038 | 5,482,038 | - |
| | | | | |
| Parks, Recreation, and Cultural | | | | |
| <i>Parks and Recreation</i> | | | | |
| Programs and operations | 359,223 | 362,223 | 361,788 | 435 |
| Cemeteries | 50,500 | 50,500 | 37,400 | 13,100 |
| | | | | |
| Total Parks and Recreation | 409,723 | 412,723 | 399,188 | 13,535 |
| | | | | |
| <i>Library</i> | | | | |
| Library administration | 296,412 | 293,412 | 285,202 | 8,210 |
| | | | | |
| Total Library | 296,412 | 293,412 | 285,202 | 8,210 |
| | | | | |
| Total Parks, Recreation, and Cultural | 706,135 | 706,135 | 684,390 | 21,745 |

| <u>Fund, Function, Activity, and Elements</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|----------------------|---|
| Community Development | | | | |
| <i>Planning and Community Development</i> | | | | |
| Planning and zoning | 169,966 | 186,023 | 160,230 | 25,793 |
| Beautification commission | 5,000 | 18,763 | 10,454 | 8,309 |
| Downtown development | 107,093 | 113,093 | 112,661 | 432 |
| Payments to Southampton County | <u>721,000</u> | <u>764,000</u> | <u>763,232</u> | <u>768</u> |
| Total Planning and Community Development | <u>1,003,059</u> | <u>1,081,879</u> | <u>1,046,577</u> | <u>35,302</u> |
| Total Community Development | 1,003,059 | 1,081,879 | 1,046,577 | 35,302 |
| Nondepartmental | | | | |
| Other nondepartmental | <u>-</u> | <u>49,000</u> | <u>49,188</u> | <u>(188)</u> |
| Total Nondepartmental | - | 49,000 | 49,188 | (188) |
| Debt Service | | | | |
| Capital lease payments | <u>-</u> | <u>25,740</u> | <u>118,023</u> | <u>(92,283)</u> |
| Total Debt Service | <u>-</u> | <u>25,740</u> | <u>118,023</u> | <u>(92,283)</u> |
| Total General Fund | <u>\$ 20,439,136</u> | <u>\$ 21,930,185</u> | <u>\$ 21,514,642</u> | <u>\$ 415,543</u> |

STATISTICAL TABLES

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

STATISTICAL SECTION

CONTENTS

TABLES

Financial Trends

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

1-8

Revenue Capacity

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

9-14

Debt Capacity

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

15-18

Demographic and Economic Information

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

19-20

Operating Information

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

21-23

Sources

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

Table 1

City of Franklin, Virginia

Government-Wide Revenues

Year Ended June 30,

| Fiscal Year | Program Revenues | | | General Revenues | | | | | |
|-------------|----------------------|-----------------------------------|----------------------------------|--|-------------------------------|--|--|---------------|---------------|
| | Charges for Services | Operating Grants and Contribution | Capital Grants and Contributions | General Property Taxes and Other Local Taxes | Revenue Sharing from Counties | Grants and Contributions Not Restricted to Specific Programs | Unrestricted Investment Earnings and Use of Property | Miscellaneous | Total |
| 2016 | \$ 19,565,443 | \$ 4,473,028 | \$ - | \$ 12,871,881 | \$ 709,171 | \$ 1,639,089 | \$ 427,293 | \$ 879,193 | \$ 40,565,098 |
| 2015 | 21,723,121 | 4,188,762 | 1,113,036 | 12,623,788 | 704,969 | 1,662,463 | 676,115 | 692,495 | 43,384,749 |
| 2014 | 21,275,915 | 4,036,731 | 93,223 | 12,008,907 | 556,765 | 1,663,516 | 706,839 | 438,559 | 40,780,455 |
| 2013 | 20,063,868 | 3,935,552 | 178,275 | 12,028,857 | 243,503 | 1,668,047 | 430,218 | 346,392 | 38,894,712 |
| 2012 | 19,021,975 | 3,790,723 | 22,006 | 11,752,727 | 1,212,182 | 1,666,230 | 367,899 | 359,583 | 38,193,325 |
| 2011 | 19,898,355 | 4,638,338 | 109,004 | 11,431,190 | 438,746 | 1,663,699 | 341,820 | 249,154 | 38,770,306 |
| 2010 | 18,285,763 | 4,077,928 | 2,072,735 | 11,579,344 | 1,316,661 | 1,673,064 | 354,881 | 305,705 | 39,666,081 |
| 2009 | 19,491,230 | 4,056,878 | 758,780 | 12,482,692 | 1,310,461 | 1,108,120 | 362,362 | 533,867 | 40,104,390 |
| 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 |

Table 2

| City of Franklin, Virginia | | | | | | | | | | | | | | | |
|--------------------------------------|-----------------------|------------|------------------|-----------------|--------------------------|--------------|--|-------------------------------|---------------------------|----------------------------------|-----------------------|----------------|---------------|------------|---------------|
| Government-Wide Expenses by Function | | | | | | | | | | | | | | | |
| Year Ended June 30, | | | | | | | | | | | | | | | |
| Fiscal Year | General Government | Judicial | Public Safety | Public Works | Health and Welfare | Education | Parks, Recreation, and Cultural | Community Develop- ment | Non- Depart- mental | Interest on Long-Term Debt | Water and Sewer | Solid Waste | Electric | Airport | Total |
| 2016 | \$ 2,607,038 | \$ 307,583 | \$ 7,037,551 | \$ 2,988,081 | \$ 2,026,852 | \$ 6,231,066 | \$ 848,064 | \$ 2,013,965 | \$ 49,188 | \$ 758,348 | \$ 2,742,836 | \$ 1,235,963 | \$ 13,566,039 | \$ 515,723 | \$ 42,928,297 |
| 2015 | 2,408,961 | 320,562 | 7,924,624 | 3,628,604 | 2,035,529 | 6,998,339 | 904,944 | 1,431,913 | 46,326 | 402,324 | 4,624,837 | - | 14,466,480 | 1,365,962 | 46,559,405 |
| 2014 | 1,581,531 | 312,767 | 6,806,355 | 3,457,133 | 1,890,689 | 5,753,084 | 778,365 | 1,714,373 | 63,905 | 458,420 | 2,927,576 | - | 13,464,599 | 631,437 | 39,840,234 |
| 2013 | 2,464,954 | 390,639 | 6,477,498 | 4,042,630 | 2,029,046 | 4,757,834 | 987,498 | 1,238,138 | 88,315 | 862,901 | 2,784,937 | - | 12,742,843 | 599,945 | 39,467,178 |
| 2012 | 2,797,507 | 408,025 | 6,331,863 | 4,702,151 | 1,883,150 | 4,373,992 | 1,026,675 | 1,457,880 | 41,283 | 434,988 | 2,972,701 | - | 13,153,530 | 351,863 | 39,935,608 |
| 2011 | 2,451,215 | 417,073 | 6,638,673 | 4,123,252 | 2,092,175 | 4,762,168 | 1,045,170 | 2,134,311 | - | 240,711 | 3,025,608 | - | 12,315,508 | 571,057 | 39,816,921 |
| 2010 | 2,301,552 | 227,580 | 5,786,765 | 4,497,628 | 2,406,592 | 4,633,929 | 1,049,424 | 1,370,039 | - | 549,261 | 3,069,237 | - | 10,319,351 | 572,686 | 36,784,044 |
| 2009 | 2,570,721 | 238,213 | 6,175,136 | 4,328,943 | 2,607,817 | 4,866,262 | 1,156,868 | 1,249,752 | - | 554,434 | 2,994,753 | - | 12,844,876 | 584,294 | 40,172,069 |
| 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 |

Note: Beginning is 2016, Solid Waste expenses will be broken out separately. Previously, these numbers are included with Water and Sewer.

City of Franklin, Virginia

General Governmental Revenues by Source

Year Ended June 30,

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| General property taxes | \$ 7,343,086 | \$ 7,037,730 | \$ 6,810,144 | \$ 6,761,228 | \$ 6,531,186 | \$ 6,564,430 | \$ 6,530,638 | \$ 6,738,891 | \$ 6,583,034 | \$ 5,996,085 |
| Other local taxes | 5,566,974 | 5,586,058 | 5,198,763 | 5,267,629 | 5,221,541 | 4,931,497 | 5,496,343 | 5,508,466 | 5,612,005 | 5,598,044 |
| Permits, fees, and licenses | 173,306 | 239,299 | 168,629 | 54,736 | 65,986 | 43,827 | 42,070 | 50,721 | 85,785 | 84,958 |
| Fines and forfeitures | 31,899 | 32,553 | 37,418 | 63,941 | 60,735 | 67,659 | 62,877 | 59,119 | 51,650 | 67,106 |
| Use of money and property | 532,087 | 545,633 | 423,159 | 390,886 | 368,747 | 344,072 | 355,363 | 363,039 | 380,946 | 463,110 |
| Charges for services | 1,417,125 | 1,484,170 | 1,380,953 | 2,740,501 | 2,673,776 | 2,813,659 | 2,716,955 | 2,395,449 | 2,205,796 | 2,109,470 |
| Miscellaneous and donations | 2,152,732 | 1,607,125 | 1,290,444 | 755,490 | 1,783,730 | 925,311 | 1,965,875 | 2,212,987 | 2,561,414 | 2,375,228 |
| Recovered costs | 297,156 | 248,457 | 284,056 | 51,320 | 132,719 | 69,151 | 140,199 | 109,572 | 208,839 | 832,764 |
| Intergovernmental | <u>16,349,319</u> | <u>17,445,443</u> | <u>16,823,269</u> | <u>16,412,826</u> | <u>16,262,051</u> | <u>16,919,937</u> | <u>16,640,925</u> | <u>17,063,702</u> | <u>17,187,544</u> | <u>17,823,513</u> |
| Total | <u>\$ 33,863,684</u> | <u>\$ 34,226,468</u> | <u>\$ 32,416,835</u> | <u>\$ 32,498,557</u> | <u>\$ 33,100,471</u> | <u>\$ 32,679,543</u> | <u>\$ 33,951,245</u> | <u>\$ 34,501,946</u> | <u>\$ 34,877,013</u> | <u>\$ 35,350,278</u> |

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

City of Franklin, Virginia

General Governmental Expenditures by Function

Last Ten Fiscal Years Ended June 30,

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| General government administration | \$ 2,854,178 | \$ 2,211,912 | \$ 2,173,109 | \$ 2,017,868 | \$ 2,064,443 | \$ 2,060,446 | \$ 2,083,550 | \$ 2,231,540 | \$ 2,342,771 | \$ 2,170,465 |
| Judicial administration | 295,583 | 320,562 | 312,767 | 390,639 | 408,025 | 417,073 | 226,508 | 236,455 | 260,681 | 277,318 |
| Public safety | 7,197,590 | 7,537,609 | 7,051,828 | 6,082,876 | 5,916,167 | 6,039,390 | 5,379,484 | 5,871,389 | 5,132,088 | 5,179,909 |
| Public works | 3,610,007 | 2,970,313 | 3,874,669 | 3,591,932 | 4,277,392 | 4,644,403 | 4,253,984 | 4,155,038 | 4,279,138 | 4,729,833 |
| Health and welfare | 2,020,091 | 1,990,435 | 1,919,290 | 1,990,673 | 1,856,751 | 2,047,487 | 2,314,766 | 2,531,118 | 2,418,143 | 2,395,651 |
| Education | 17,745,962 | 18,687,553 | 17,167,862 | 16,064,811 | 15,680,694 | 15,627,197 | 16,189,511 | 16,245,264 | 16,260,078 | 15,648,683 |
| Parks, recreation, and cultural | 694,894 | 728,009 | 890,590 | 845,750 | 852,091 | 867,991 | 877,561 | 1,098,785 | 1,142,871 | 978,109 |
| Community development | 2,011,098 | 1,431,913 | 1,714,373 | 1,238,138 | 1,457,880 | 2,162,246 | 1,486,489 | 1,306,902 | 1,553,177 | 1,668,299 |
| Nondepartmental | 49,188 | 46,326 | 39,835 | 64,245 | 41,283 | 104,155 | 61,375 | 50,554 | 782,653 | 20,869 |
| Capital projects | - | - | - | - | - | - | 46,127 | 152,417 | 1,231,340 | 2,413,468 |
| Debt service | | | | | | | | | | |
| Principal retirement | 6,245,308 | 480,082 | 355,041 | 4,193,126 | 480,037 | 674,229 | 1,173,938 | 1,157,421 | 1,041,923 | 2,557,013 |
| Interest and fiscal charges | 785,550 | 402,324 | 417,441 | 2,074,953 | 434,988 | 318,941 | 1,066,708 | 577,131 | 589,825 | 679,916 |
| Totals | <u>\$ 43,509,449</u> | <u>\$ 36,807,038</u> | <u>\$ 35,916,805</u> | <u>\$ 38,555,011</u> | <u>\$ 33,469,751</u> | <u>\$ 34,963,558</u> | <u>\$ 35,160,001</u> | <u>\$ 35,614,014</u> | <u>\$ 37,034,688</u> | <u>\$ 38,719,533</u> |

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

Table 5

City of Franklin, Virginia

Fund Balances - Governmental Funds

Last Ten Fiscal Years Ended June 30,

| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | | |
|-------------------------------------|---------------------|----------------------|----------------------|----------------------|---------------------|---------------------|
| Pre-GASB 54 Implementation | | | | | | |
| General Fund | | | | | | |
| Unreserved | \$ 5,211,536 | \$ 4,671,350 | \$ 3,998,815 | \$ 3,094,618 | | |
| Total General Fund | <u>\$ 5,211,536</u> | <u>\$ 4,671,350</u> | <u>\$ 3,998,815</u> | <u>\$ 3,094,618</u> | | |
| All Other Governmental Funds | | | | | | |
| Reserved | \$ 834,736 | \$ 644,623 | \$ 460,698 | \$ 279,236 | | |
| <i>Unreserved, reported in</i> | | | | | | |
| 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 | | |
| 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> | | |
| Post-GASB 54 Implementation | | | | | | |
| General Fund | | | | | | |
| Nonspendable | \$ 969,874 | \$ 969,874 | \$ 969,874 | \$ 969,874 | \$ 969,874 | \$ 978,500 |
| Restricted | 98,743 | 493,480 | 240,686 | 1,070,252 | 80,000 | 146,044 |
| Committed | - | 7,336 | 496,110 | 643,174 | 230,972 | 343,194 |
| Assigned | 203,799 | 475,028 | 1,113,614 | 2,366,148 | 2,588,020 | 1,212,612 |
| Unassigned | 5,490,089 | 5,123,487 | 4,071,412 | 3,648,940 | 3,084,828 | 2,381,262 |
| Total General Fund | <u>\$ 6,762,505</u> | <u>\$ 7,069,205</u> | <u>\$ 6,891,696</u> | <u>\$ 8,698,388</u> | <u>\$ 6,953,694</u> | <u>\$ 5,061,612</u> |
| All Other Governmental Funds | | | | | | |
| Nonspendable | \$ - | \$ - | \$ - | \$ 219,584 | \$ 226,048 | \$ 226,048 |
| Restricted | 2,816,762 | 744,137 | 2,354,530 | 1,780,661 | 1,478,166 | 1,728,261 |
| Committed | - | - | - | 7,575 | - | - |
| Assigned | - | 3,126,402 | 1,185,642 | 1,976,098 | 98,268 | 180,277 |
| <i>Unassigned, reported in</i> | | | | | | |
| Special revenue funds | - | 2,845 | 2,845 | (10,606) | (20,380) | (49,310) |
| Total All Other Governmental Funds | <u>\$ 2,816,762</u> | <u>\$ 3,873,384</u> | <u>\$ 3,543,017</u> | <u>\$ 3,973,312</u> | <u>\$ 1,782,102</u> | <u>\$ 2,085,276</u> |
| Total All Governmental Funds | <u>\$ 9,579,267</u> | <u>\$ 10,942,589</u> | <u>\$ 10,434,713</u> | <u>\$ 12,671,700</u> | <u>\$ 8,735,796</u> | <u>\$ 7,146,888</u> |

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

Table 6

| City of Franklin, Virginia | | | | | | | | | | |
|---|----------------|--------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Changes in Fund Balance - Governmental Funds | | | | | | | | | | |
| Last Ten Fiscal Years Ended June 30, | | | | | | | | | | |
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Revenues | | | | | | | | | | |
| General property taxes | \$ 7,343,086 | \$ 7,037,730 | \$ 6,810,144 | \$ 6,761,228 | \$ 6,531,186 | \$ 6,564,430 | \$ 6,530,638 | \$ 6,738,891 | \$ 6,583,034 | \$ 5,996,085 |
| Other local taxes | 5,566,974 | 5,586,058 | 5,198,763 | 5,267,629 | 5,221,541 | 4,931,497 | 5,496,343 | 5,508,466 | 5,612,005 | 5,598,044 |
| Permits, privilege fees, and regulatory licenses | 173,306 | 239,299 | 168,629 | 54,736 | 65,986 | 43,827 | 42,070 | 50,721 | 85,785 | 84,958 |
| Fines and forfeitures | 31,899 | 32,553 | 37,418 | 63,941 | 60,735 | 67,659 | 62,877 | 59,119 | 51,650 | 67,106 |
| Revenue from use of money and property | 524,433 | 433,216 | 423,111 | 386,324 | 367,899 | 341,820 | 354,881 | 362,362 | 380,114 | 460,631 |
| Charges for services | 1,375,315 | 1,433,589 | 1,380,953 | 2,615,929 | 2,557,279 | 2,700,399 | 2,573,185 | 2,235,778 | 2,053,757 | 1,945,295 |
| Miscellaneous | 1,581,331 | 1,397,464 | 995,324 | 589,895 | 1,500,459 | 687,900 | 1,622,366 | 1,844,328 | 2,294,775 | 2,250,451 |
| Recovered costs | 296,988 | 242,899 | 283,729 | 43,894 | 71,306 | 27,261 | 100,749 | 61,314 | 82,857 | 773,902 |
| Intergovernmental | 6,056,065 | 6,069,592 | 5,787,624 | 5,603,598 | 5,456,953 | 6,302,037 | 5,214,853 | 5,821,774 | 6,376,876 | 6,436,014 |
| Total Revenues | 22,949,397 | 22,472,400 | 21,085,695 | 21,387,174 | 21,833,344 | 21,666,830 | 21,997,962 | 22,682,753 | 23,520,853 | 23,612,486 |
| Expenditures | | | | | | | | | | |
| Current | | | | | | | | | | |
| General government administration | 2,854,178 | 2,211,912 | 2,173,109 | 2,017,868 | 2,064,443 | 2,060,446 | 2,083,550 | 2,231,540 | 2,342,771 | 2,170,465 |
| Judicial administration | 295,583 | 320,562 | 312,767 | 390,639 | 408,025 | 417,073 | 226,508 | 236,455 | 260,681 | 277,318 |
| Public safety | 7,197,590 | 7,537,609 | 7,051,828 | 6,082,876 | 5,916,167 | 6,039,390 | 5,379,484 | 5,871,389 | 5,132,088 | 5,179,909 |
| Public works | 3,610,007 | 2,970,313 | 3,874,669 | 3,591,932 | 4,277,392 | 4,644,403 | 4,253,984 | 4,155,038 | 4,279,138 | 4,729,833 |
| Health and welfare | 2,020,091 | 1,990,435 | 1,919,290 | 1,990,673 | 1,856,751 | 2,047,487 | 2,314,766 | 2,531,118 | 2,418,143 | 2,395,651 |
| Education | 6,563,431 | 6,892,767 | 5,820,046 | 4,677,791 | 4,276,230 | 4,664,406 | 4,490,040 | 4,620,576 | 4,651,368 | 4,472,469 |
| Parks, recreation, and cultural | 694,894 | 728,009 | 890,590 | 845,750 | 852,091 | 867,991 | 877,561 | 1,098,785 | 1,142,871 | 978,109 |
| Community development | 2,011,098 | 1,431,913 | 1,714,373 | 1,238,138 | 1,457,880 | 2,162,246 | 1,486,489 | 1,306,902 | 1,553,177 | 1,668,299 |
| Nondepartmental | 49,188 | 46,326 | 39,835 | 64,245 | 41,283 | 104,155 | 61,375 | 50,554 | 782,653 | 20,869 |
| Capital projects | - | - | - | - | - | - | 46,127 | 152,417 | 1,231,340 | 2,413,468 |
| Debt service | | | | | | | | | | |
| Principal retirement | 6,245,308 | 480,082 | 355,041 | 4,193,126 | 480,037 | 674,229 | 1,173,938 | 1,157,421 | 1,041,923 | 2,557,013 |
| Interest and other fiscal charges | 785,550 | 402,324 | 417,441 | 2,074,593 | 434,988 | 318,941 | 1,066,708 | 577,131 | 589,825 | 679,916 |
| Total Expenditures | 32,326,918 | 25,012,252 | 24,568,989 | 27,167,631 | 22,065,287 | 24,000,767 | 23,460,530 | 23,989,326 | 25,425,978 | 27,543,319 |
| Excess (Deficiency) of Revenues over Expenditures | (9,377,521) | (2,539,852) | (3,483,294) | (5,780,457) | (231,943) | (2,333,937) | (1,462,568) | (1,306,573) | (1,905,125) | (3,930,833) |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Proceeds from long-term debt | 6,117,000 | 1,816,000 | - | 8,137,578 | - | - | 5,235,000 | - | 400,000 | - |
| Payment to refunding bond escrow agent | - | - | - | - | - | - | (4,828,997) | - | - | - |
| Premium on issuance of bonds | - | - | - | - | - | - | 84,500 | - | - | - |
| Discount on sale of bonds | - | - | - | - | - | - | - | - | - | - |
| Transfers in | 3,222,004 | 3,207,161 | 3,185,390 | 3,581,305 | 3,428,856 | 4,634,273 | 4,139,028 | 3,878,065 | 4,271,190 | 6,082,270 |
| Transfers out | (1,767,674) | (1,897,291) | (1,872,093) | (2,020,222) | (1,599,773) | (2,625,576) | (2,648,863) | (2,258,174) | (2,504,983) | (4,155,363) |
| Issuance of capital leases | 461,416 | - | - | - | - | 318,975 | - | - | 745,578 | 1,577,117 |
| Total Other Financing Sources (Uses) | 8,032,746 | 3,125,870 | 1,313,297 | 9,698,661 | 1,829,083 | 2,327,672 | 1,980,668 | 1,619,891 | 2,911,785 | 3,504,024 |
| Net Change in Fund Balances | \$ (1,344,775) | \$ 586,018 | \$ (2,169,997) | \$ 3,918,204 | \$ 1,597,140 | \$ (6,265) | \$ 518,100 | \$ 313,318 | \$ 1,006,660 | \$ (426,809) |
| Debt Service as a Percentage of Noncapital Expenditures | 22% | 4% | 3% | 23% | 4% | 4% | 10% | 8% | 7% | 13% |

Table 7

| City of Franklin, Virginia | | | | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Net Position by Component | | | | | | | | | | |
| June 30, | | | | | | | | | | |
| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Governmental Activities | | | | | | | | | | |
| Invested in capital assets - net of related debt | \$ 7,885,690 | \$ 7,820,476 | \$ 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 | 3,119,104 | 1,237,617 | 2,595,216 | 2,850,913 | 1,062,775 | 1,032,007 | - | - | - | - |
| Unrestricted | <u>2,268,401</u> | <u>9,783,115</u> | <u>5,556,004</u> | <u>9,820,786</u> | <u>5,786,923</u> | <u>4,558,481</u> | <u>4,919,147</u> | <u>4,374,403</u> | <u>4,188,340</u> | <u>3,188,314</u> |
| Total Governmental Activities | 13,273,195 | 18,841,208 | 21,061,821 | 21,972,505 | 22,363,698 | 22,158,782 | 22,396,707 | 21,694,400 | 20,965,881 | 19,137,454 |
| Business-Type Activities | | | | | | | | | | |
| Invested in capital assets - net of related debt | 7,194,170 | 5,967,851 | 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>(426,206)</u> | <u>1,904,949</u> | <u>2,798,246</u> | <u>1,702,628</u> | <u>438,188</u> | <u>2,080,645</u> | <u>2,748,995</u> | <u>1,786,860</u> | <u>2,191,355</u> | <u>2,511,591</u> |
| Total Business-Type Activities | 6,767,964 | 7,872,800 | 9,475,800 | 8,352,708 | 8,533,981 | 10,481,179 | 11,977,344 | 9,791,169 | 10,579,607 | 10,874,751 |
| Primary Government | | | | | | | | | | |
| Invested in capital assets - net of related debt | 15,079,860 | 13,788,327 | 19,588,155 | 15,250,553 | 23,609,793 | 24,968,828 | 26,705,909 | 25,324,306 | 25,165,793 | 24,312,300 |
| Restricted | 3,119,104 | 1,237,617 | 2,595,216 | 3,551,246 | 1,062,775 | 1,032,007 | - | - | - | - |
| Unrestricted | <u>1,842,195</u> | <u>11,688,064</u> | <u>8,354,250</u> | <u>11,523,414</u> | <u>6,225,111</u> | <u>6,639,126</u> | <u>7,668,142</u> | <u>6,161,263</u> | <u>6,379,695</u> | <u>5,699,905</u> |
| Total Primary Government | <u>\$ 20,041,159</u> | <u>\$ 26,714,008</u> | <u>\$ 30,537,621</u> | <u>\$ 30,325,213</u> | <u>\$ 30,897,679</u> | <u>\$ 32,639,961</u> | <u>\$ 34,374,051</u> | <u>\$ 31,485,569</u> | <u>\$ 31,545,488</u> | <u>\$ 30,012,205</u> |

City of Franklin, Virginia

Change in Net Position

Ended June 30,

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Expenses | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| General government | \$ 2,607,038 | \$ 2,408,961 | \$ 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 | 307,583 | 320,562 | 312,767 | 390,639 | 408,025 | 417,073 | 227,580 | 238,213 | 254,382 | 276,708 |
| Public safety | 7,037,551 | 7,924,624 | 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 | 2,988,081 | 3,628,604 | 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 | 2,026,852 | 2,035,529 | 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 | 6,231,066 | 6,998,339 | 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 | 848,064 | 904,944 | 778,365 | 987,498 | 1,026,675 | 1,045,170 | 1,049,424 | 1,156,868 | 1,030,677 | 1,035,540 |
| Community development | 2,013,965 | 1,431,913 | 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 | 758,348 | 402,324 | 458,420 | 862,901 | 434,988 | 240,711 | 549,261 | 554,434 | 594,528 | 879,419 |
| Nondepartmental | 49,188 | 46,326 | 63,905 | 88,315 | 41,283 | - | - | - | - | - |
| Total Governmental Activities | 24,867,736 | 26,102,126 | 22,816,622 | 23,339,453 | 23,457,514 | 23,904,748 | 22,739,476 | 23,748,146 | 23,169,161 | 23,725,362 |
| Business-Type Activities | | | | | | | | | | |
| Water and sewer | 2,742,836 | 3,275,718 | 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 | 1,235,963 | 1,349,119 | 1,319,111 | - | - | - | - | - | - | - |
| Electric | 13,566,039 | 14,466,480 | 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 | 515,723 | 1,365,962 | 631,437 | 599,945 | 351,863 | 571,057 | 572,686 | 584,294 | 637,885 | 628,378 |
| Total Business-Type Activities | 18,060,561 | 20,457,279 | 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 | 42,928,297 | 46,559,405 | 41,159,345 | 39,467,178 | 39,935,608 | 39,816,921 | 37,488,672 | 40,172,069 | 37,920,177 | 38,118,570 |
| Program Revenues | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| <i>Charges for Services</i> | | | | | | | | | | |
| General government | 732,066 | 242,355 | 384,455 | 148,629 | 630,502 | 613,208 | 662,101 | 615,929 | 607,034 | 613,334 |
| Judicial | 11,875 | 37,251 | 41,794 | 69,127 | 68,562 | 88,075 | 14,432 | 17,509 | 9,601 | 8,831 |
| Public safety | 416,434 | 457,629 | 422,447 | 381,946 | 441,386 | 529,385 | 510,261 | 464,978 | 384,793 | 493,587 |
| Public works | 407,055 | 960,179 | 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 | 5,524 | (1,594) | 17,141 | - | - | 16,112 | - | 9,503 | 34,060 | - |
| Parks, recreation, and cultural | 7,566 | 9,621 | 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 | 4,416,976 | 4,188,762 | 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 | 5,997,496 | 5,894,203 | 5,623,731 | 6,670,160 | 6,474,724 | 7,450,223 | 6,805,257 | 7,059,272 | 7,244,100 | 7,315,918 |
| Business-Type Activities | | | | | | | | | | |
| <i>Charges for Services</i> | | | | | | | | | | |
| Water and sewer | 2,904,767 | 3,045,691 | 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 | 1,305,582 | 1,365,620 | 1,343,522 | - | - | - | - | - | - | - |
| Electric | 13,664,164 | 15,474,300 | 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 | 110,410 | 132,069 | 178,450 | 178,334 | 200,768 | 178,994 | 188,257 | 174,456 | 231,698 | 251,026 |
| <i>Operating Grants and Contributions</i> | | | | | | | | | | |
| Airport | 56,052 | 1,113,036 | 93,223 | 178,275 | 22,006 | 109,004 | 2,040,691 | 102,004 | 5,453 | 400,143 |
| Total Business-Type Activities | 18,040,975 | 21,130,716 | 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 Revenues | 24,038,471 | 27,024,919 | 25,405,868 | 24,177,696 | 22,834,704 | 24,645,697 | 24,453,579 | 24,306,888 | 23,371,901 | 23,305,388 |

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-----------------------|---------------------|---------------------|-----------------------|-----------------------|---------------------|--------------------|---------------------|-------------------|
| Governmental Activities Net Expense | (18,870,240) | (20,207,923) | (17,192,891) | (16,669,293) | (16,982,790) | (16,454,525) | (15,934,219) | (16,688,874) | (15,925,061) | (16,409,444) |
| Business-Type Activities Net Expense | (19,586) | 673,437 | 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 | (18,889,826) | (19,534,486) | (15,753,477) | (15,289,482) | (17,100,904) | (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 | 7,304,907 | 7,037,730 | 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 | 5,566,974 | 5,586,058 | 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 | 709,171 | 704,969 | 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 | 417,798 | 676,115 | 706,839 | 430,218 | 367,899 | 341,820 | 354,881 | 362,362 | 380,114 | 460,631 |
| Noncategorical aid from state | 1,639,089 | 1,662,463 | 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 | 872,161 | 692,495 | 438,559 | 346,392 | 359,583 | 249,154 | 305,705 | 533,867 | 1,015,319 | 1,154,938 |
| Transfers | 1,454,330 | 1,309,870 | 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 | 17,964,430 | 17,669,700 | 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 | 9,495 | - | - | - | - | - | 6,445 | 7,760 | 94,278 | 73,346 |
| Miscellaneous | 7,032 | - | - | - | - | - | - | - | - | - |
| Transfers | (1,454,330) | (1,309,870) | (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 | (1,437,803) | (1,309,870) | (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 | 16,526,627 | 16,359,830 | 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 | (905,810) | (2,538,223) | (503,645) | (391,192) | 204,915 | (321,219) | 785,601 | 728,519 | 1,828,427 | 1,177,180 |
| Business-type activities | (1,457,389) | (636,433) | 124,754 | (181,273) | (1,947,198) | (725,396) | 1,415,406 | (788,438) | (295,144) | (257,299) |
| Total Primary Government | \$ (2,363,199) | \$ (3,174,656) | \$ (378,891) | \$ (572,465) | \$ (1,742,283) | \$ (1,046,615) | \$ 2,201,007 | \$ (59,919) | \$ 1,533,283 | \$ 919,881 |

Table 9

City of Franklin, Virginia

Property Tax Levies and Collections

Last Ten Fiscal Years Ended June 30,

| <u>Year</u> | <u>Total Tax Levy⁽¹⁾</u> | <u>Current Tax Collections⁽¹⁾</u> | <u>Percent of Levy Collected</u> | <u>Delinquent Tax Collections⁽¹⁾⁽²⁾</u> | <u>Total Tax Collections</u> | <u>Percent of Total Tax Collections to Tax Levy</u> | <u>Outstanding Delinquent Taxes</u> | <u>Percent of Delinquent Taxes to Tax Levy</u> |
|-------------|---|--|--|--|--------------------------------------|---|---|--|
| 2016 | \$ 8,124,907 | \$ 7,990,238 | 98.34% | \$ 220,314 | \$ 8,210,552 | 101.05% | \$ 632,793 | 7.79% |
| 2015 | 7,856,015 | 7,537,704 | 95.95% | 330,551 | 7,918,255 | 100.79% | 700,940 | 8.92% |
| 2014 | 7,764,626 | 7,384,115 | 95.10% | 321,534 | 7,705,649 | 99.24% | 612,060 | 7.88% |
| 2013 | 7,277,357 | 7,197,984 | 98.91% | 183,306 | 7,381,290 | 101.43% | 671,990 | 9.23% |
| 2012 | 7,333,436 | 7,135,568 | 97.30% | 304,318 | 7,439,886 | 101.45% | 756,365 | 10.31% |
| 2011 | 7,355,039 | 7,326,977 | 99.62% | 125,647 | 7,452,624 | 101.33% | 863,109 | 11.73% |
| 2010 | 7,774,091 | 7,482,861 | 96.25% | 182,767 | 7,665,628 | 98.60% | 758,751 | 9.76% |
| 2009 | 7,510,356 | 7,240,857 | 96.41% | 232,401 | 7,473,258 | 99.51% | 756,356 | 10.07% |
| 2008 | 7,023,237 | 6,827,150 | 97.21% | 179,681 | 7,006,831 | 99.77% | 649,891 | 9.25% |
| 2007 | 6,229,526 | 5,913,050 | 94.92% | 279,881 | 6,192,931 | 99.41% | 619,208 | 9.94% |

Source: City of Franklin Commissioner of Revenue⁽¹⁾Exclusive of penalties and interest.⁽²⁾Does not include land redemptions.**Note:** Includes Real Estate, Personal Property, Mobile Homes, Machinery and Tools, and Public Service Corporation property.

Table 10

City of Franklin, Virginia

Assessed Value of Taxable Property

Last Ten Fiscal Years Ended June 30,

| <u>Year</u> | <u>Real Estate</u> | <u>Personal Property</u> | <u>Mobile Home</u> | <u>Machinery and Tools</u> | <u>Public Service Corporations</u> | | <u>Total</u> | <u>Total Direct Tax Rate</u> |
|-------------|-----------------------|--------------------------|--------------------|----------------------------|------------------------------------|--------------------------|-----------------------|------------------------------|
| | | | | | <u>Real Estate</u> | <u>Personal Property</u> | | |
| 2016 | \$ 550,548,631 | \$ 61,007,684 | \$ - | \$ 970,081 | \$ 6,771,272 | \$ 14,362 | \$ 619,312,030 | 1.31 |
| 2015 | 546,840,453 | 60,195,857 | - | 928,666 ⁽¹⁾ | 6,551,183 | 43,818 | 614,559,977 | 1.36 |
| 2014 | 571,544,231 | 59,269,598 | - | 3,136,696 | 6,588,695 | 77,003 | 640,616,223 | 1.34 |
| 2013 | 550,495,439 | 55,575,941 | - | 2,993,303 | 6,927,392 | 13,914 | 616,005,989 | 1.22 |
| 2012 | 606,470,410 | 55,398,273 | - | 3,032,569 | 7,371,365 | 16,575 | 672,289,192 | 1.19 |
| 2011 | 629,410,310 | 57,061,332 | - | 3,018,957 | 7,761,879 | 42,224 | 697,294,702 | 1.19 |
| 2010 | 671,857,100 | 59,307,993 | 900 | 2,909,231 | 7,646,642 | 27,151 | 741,749,017 | 1.18 |
| 2009 | 561,634,400 | 57,716,863 | - | 573,729 | 8,480,797 | 39,340 | 628,445,129 | 1.34 |
| 2008 | 567,081,965 | 62,652,410 | - | 703,167 | 6,596,676 | 21,591 | 637,055,809 | 1.32 |
| 2007 | 418,087,841 | 56,659,923 | - | 738,901 | 8,611,442 | 39,123 | 487,137,230 | 1.49 |

Source: City of Franklin Treasurer

⁽¹⁾Assessed value was reported incorrectly in the 2015 CAFR. The City's loss of a major taxpayer resulted in a significant drop in machinery and tools assessment.

City of Franklin, Virginia

Property Tax Rates

Tax Rates per Hundred Dollars of Assessed Value

Last Ten Fiscal Years Ended June 30,

| <u>Year</u> | <u>Real Estate</u> | | <u>Personal Property</u> | <u>Mobile Home</u> | <u>Machinery and Tools</u> | <u>Public Service Corporation</u> | |
|-------------|--------------------|-----|------------------------------|------------------------|--------------------------------|---------------------------------------|------------------------------|
| | | | | | | <u>Real Estate⁽¹⁾</u> | <u>Personal Property</u> |
| 2016 | 0.99 / 1.23 | (7) | 4.50 | 0.99 | 2.00 | 0.99 | 4.50 |
| 2015 | 0.96 / 1.20 | (6) | 4.50 | 0.96 | 2.00 | 0.96 | 4.50 |
| 2014 | 0.90 / 1.14 | (5) | 4.50 | 0.90 | 2.00 | 0.90 | 4.50 |
| 2013 | 0.90 / 1.14 | (3) | 4.50 | 0.90 | 2.00 | 0.90 | 4.50 |
| 2012 | 0.77 / 1.01 | (4) | 4.50 | 0.77 | 2.00 | 0.77 | 4.50 |
| 2011 | 0.77 / 1.01 | (4) | 4.50 | 0.77 | 2.00 | 0.77 | 4.50 |
| 2010 | 0.77 / 1.01 | (4) | 4.50 | 0.77 | 2.00 | 0.77 | 4.50 |
| 2009 | 0.77 / 1.01 | (4) | 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 |

⁽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 \$1.01 and remaining areas were taxed at \$0.77 for real estate.

⁽⁵⁾Downtown district real estate tax rate was \$1.14 and remaining areas were taxed at \$0.90 for real estate.

⁽⁶⁾Downtown district real estate tax rate was \$1.20 and remaining areas were taxed at \$0.96 for real estate.

⁽⁷⁾Downtown district real estate tax rate was \$1.23 and remaining areas were taxed at \$0.99 for real estate.

Source: City of Franklin Commissioner of Revenue

City of Franklin, Virginia

Principal Taxpayers - Real Estate

Current Year and Nine Years Ago

Fiscal Year 2016

| <u>Taxpayer</u> | <u>Type of Business</u> | <u>2015 Assessed Valuation</u> | <u>Percent of Total Assessed Valuation of Real Estate</u> |
|----------------------------------|-------------------------|--|---|
| Franklin Hospital Corporation | Hospital | \$ 23,841,300 | 4.27% |
| James L. Rifkin Estate | Shopping Center | 11,202,300 | 2.01% |
| The Village at Woods Edge | Retirement Home | 10,579,200 | 1.90% |
| Lowe's Home Centers, Inc. | Retail - Hardware | 8,115,000 | 1.45% |
| Inspire Commercial, LLC | Shopping Center | 6,981,200 | 1.25% |
| Southampton Shopping Center L.P. | Shopping Center | 5,578,900 | 1.00% |
| Meadowridge Associates L.P. | Apartments | 4,775,000 | 0.86% |
| Dorchester Apartments L.P. | Apartments | 4,500,000 | 0.81% |
| Love's Travel Stop | Travel Stop | 4,440,000 | 0.80% |
| Money Mailer | Direct Mail | 4,408,900 | 0.79% |
| | | <u>\$ 84,421,800</u> | <u>15.14%</u> |

Fiscal Year 2007

| <u>Taxpayer</u> | <u>Type of Business</u> | <u>2006 Assessed Valuation</u> | <u>Percent of Total Assessed Valuation of Real Estate</u> |
|-----------------------------------|-------------------------|--|---|
| Franklin Hospital Corporation | Hospital | \$ 26,644,800 | 3.75% |
| James L. Rifkin Estate | Shopping Center | 11,899,100 | 1.96% |
| Southampton Center, Joint Venture | Shopping Center | 8,079,500 | 1.54% |
| The Village at Woods Edge | Retirement Home | 9,806,888 | 1.43% |
| Wood Properties, LLP | Shopping Center | 5,414,000 | 1.21% |
| Meadowridge Association | Apartments | 4,984,000 | 1.02% |
| F.P. Associates | Apartments | 4,226,100 | 0.88% |
| Dorchester Associates | Apartments | 4,068,000 | 0.87% |
| FPA, LLC | Apartments | 3,866,100 | 0.80% |
| Adjacent Properties | Apartments | 3,663,400 | 0.79% |
| | | <u>\$ 82,651,888</u> | <u>14.25%</u> |

Source: City of Franklin Treasurer

City of Franklin, Virginia

Principal Taxpayers - Personal Property

Current Year and Nine Years Ago

| <u>Fiscal Year 2016</u> | | | |
|-------------------------------|------------------------------|--|--|
| <u>Taxpayer</u> | <u>Type of Business</u> | <u>2015 Assessed Valuation</u> | <u>Percent of Total Assessed Personal Property</u> |
| Franklin Hospital Corporation | Hospital | \$ 2,680,141 | 3.95% |
| Charter Communications | Service - Telecommunications | 847,798 | 1.25% |
| Lowes Home Centers #2698 | Retail - Hardware | 790,325 | 1.17% |
| Wal-Mart Stores, Inc. | Retail - Variety | 673,909 | 0.99% |
| Richfood Procurement LLC | Retail - Grocery | 673,696 | 0.99% |
| Love's Travel Stop | Travel Stop | 530,880 | 0.78% |
| Butler Paper Recycling, Inc. | Paper Recycling | 441,934 | 0.65% |
| Food Lion, Inc. | Retail - Grocery | 391,683 | 0.58% |
| The Village at Woods Edge | Retirement Home | 396,337 | 0.58% |
| Birdsong Corporation | Peanut-Wholesale Industry | 281,164 | 0.41% |
| | | <u>\$ 7,707,867</u> | <u>11.35%</u> |

| <u>Fiscal Year 2007</u> | | | |
|-------------------------------|----------------------------|--|--|
| <u>Taxpayer</u> | <u>Type of Business</u> | <u>2006 Assessed Valuation</u> | <u>Percent of Total Assessed Personal Property</u> |
| Franklin Hospital Corporation | Hospital | \$ 1,666,756 | 2.66% |
| Wal-Mart Stores, Inc. | Retail - Variety | 732,692 | 1.17% |
| Charter Communications, Inc. | Cable | 435,630 | 0.70% |
| Albert G. Dail, Inc. | Retail - Hardware | 296,582 | 0.47% |
| General Electric | Lease Furniture & Fixtures | 215,207 | 0.34% |
| Food Lion, Inc. | Retail - Grocery | 206,452 | 0.33% |
| The Village at Woods Edge | Retirement Home | 186,303 | 0.30% |
| S.W. Rawls, Inc. | Retail - Variety | 155,134 | 0.25% |
| Belk Stores of Virginia | Retail - Clothing | 152,373 | 0.24% |
| Eckerd Corporation | Retail - Drug | 140,990 | 0.23% |
| | | <u>\$ 4,188,119</u> | <u>6.69%</u> |

Source: City of Franklin Treasurer

Table 14

| City of Franklin, Virginia | | | | | | | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Taxable Sales by Category | | | | | | | | | | |
| Last Ten Calendar Years Ended June 30, | | | | | | | | | | |
| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Merchant Wholesaler, Durable | | | | | | | | | | |
| Merchant Wholesaler, Durable Goods | \$ 1,806,127 | \$ 1,669,822 | \$ 3,188,873 | \$ 2,201,607 | N/A | \$ 540,973 | \$ 319,700 | \$ 160,501 | \$ 206,624 | \$ 370,011 |
| Merchant Wholesaler, Non-Durable Goods | 2,080,192 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Motor vehicle and parts dealers | 4,889,783 | 4,709,352 | 4,721,876 | 4,692,831 | 3,873,423 | 5,049,510 | 4,177,804 | 3,978,697 | 4,485,996 | 4,740,931 |
| Furniture and home furnishings | - | 1,049,067 | 2,279,473 | 3,157,818 | 3,057,434 | 3,367,524 | 3,415,004 | 3,766,476 | 3,460,241 | 3,768,080 |
| Crop production | - | - | - | - | N/A | 67,636 | N/A | N/A | N/A | N/A |
| Building materials, farm and garden supplies | - | - | 15,626,661 | 20,589,426 | - | - | - | - | - | 3,683,597 |
| Food and beverage stores | 9,947,261 | 15,181,770 | 18,978,071 | 19,052,994 | 18,485,435 | 17,562,519 | 18,543,874 | 20,153,777 | 14,117,933 | 11,325,087 |
| Health and personal care | 1,214,184 | 1,094,381 | 995,056 | N/A | N/A | 1,620,007 | 1,708,589 | 1,181,688 | 914,493 | - |
| Gasoline stations | 6,696,970 | 5,883,759 | 6,912,466 | 6,984,919 | 6,386,331 | 5,728,484 | 5,064,456 | 5,484,253 | 4,347,208 | 2,841,936 |
| Clothing and clothing accessories stores | 1,521,078 | 1,640,436 | 1,800,686 | 1,907,205 | 1,913,678 | 1,918,978 | 1,992,877 | 1,910,099 | 1,954,980 | 2,057,085 |
| Sporting goods, hobby, book and music stores | 1,126,773 | 572,043 | 213,433 | 855,199 | 268,093 | - | 34,340 | - | - | 229,560 |
| General merchandise stores | 61,689,841 | 59,265,803 | 59,383,364 | 66,102,148 | 59,970,095 | 57,836,189 | 60,044,952 | 60,639,197 | 60,217,521 | 53,083,978 |
| Miscellaneous store retailers | 3,247,600 | 2,506,553 | 1,668,453 | 1,457,346 | 1,896,322 | 2,094,847 | 1,745,625 | 1,735,875 | 2,469,992 | 2,912,936 |
| Nonstore retailers | 574,780 | 1,056,137 | 1,050,957 | 1,109,388 | 957,052 | 1,392,909 | 1,169,469 | 1,518,049 | 2,895,028 | 3,550,649 |
| Rental and lease services | 138,706 | - | 43,429 | 95,371 | 538,438 | 676,770 | 929,073 | 796,030 | 1,291,440 | 960,998 |
| Professional, scientific, and technical services | 1,284,188 | 496,354 | N/A | 1,532,544 | 1,621,123 | 1,765,592 | 1,605,670 | 634,005 | 177,766 | - |
| Accommodation | N/A | N/A | N/A | 2,512,857 | N/A | 816,451 | N/A | N/A | N/A | N/A |
| Food services and drinking places | 18,645,187 | 16,428,458 | 15,989,545 | 17,408,704 | 15,530,633 | 16,947,347 | 17,052,909 | 15,814,206 | 13,903,248 | 12,888,112 |
| Repair and maintenance | 3,962,936 | 4,217,944 | 3,594,792 | 2,906,481 | 2,843,412 | 2,906,222 | 2,772,329 | 2,528,870 | 2,650,097 | 2,388,335 |
| Personal and laundry services | 1,080,827 | 1,208,198 | 1,302,214 | 1,300,644 | 1,323,188 | 1,115,148 | 905,405 | 1,309,468 | 1,252,258 | 922,640 |
| Chemical manufacturing | - | - | 200,572 | 686,394 | - | - | - | - | - | - |
| All Other Businesses | 9,680 | 2,384,511 | 2,589,207 | - | 2,530,722 | 1,155,848 | 213,205 | 318,129 | 1,352,993 | 5,437,841 |
| Miscellaneous and Unidentifiable | 42,866,680 | 38,796,791 | 17,006,970 | 7,764,925 | 27,833,602 | 25,414,636 | 27,559,023 | 28,788,615 | 24,690,382 | 22,719,304 |
| Total | <u>\$ 162,782,793</u> | <u>\$ 158,161,379</u> | <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> |

Source - Virginia Department of Taxation

City of Franklin, Virginia

Ratio of Net General Bonded Debt to Assessed Value

Last Ten Fiscal Years Ended June 30,

Bonded Debt Outstanding

| Year | Assessed Value (in Thousands) ⁽³⁾ | <u>Governmental Activities</u> | | | <u>Business-Type Activities</u> | | | <u>Less:</u> | | | Ratio of Net Bonded Debt to Assessed Value | Net Bonded Debt per Capita ⁽⁴⁾ |
|------|--|---------------------------------|----------------------------|--------------------|---------------------------------|------------------------|--|----------------------------|--|------------------------|--|---|
| | | <u>General Obligation Bonds</u> | <u>Literary Fund Loans</u> | <u>Other Notes</u> | <u>General Obligation Bonds</u> | <u>Revolving Loans</u> | <u>Gross Bonded Debt⁽¹⁾</u> | <u>Debt Service Escrow</u> | <u>Debt Payable from Enterprise Revenues⁽²⁾</u> | <u>Net Bonded Debt</u> | | |
| 2016 | \$ 550,549 | \$ 15,873,619 | \$ - | \$ - | \$ 4,180,000 | \$ - | \$ 20,053,619 | \$ 2,097,630 | \$ 4,180,000 | \$ 13,775,989 | 2.50% | \$ 1,605 |
| 2015 | 553,392 | 15,888,999 | - | - | 4,651,400 | - | 20,540,399 | 1,864,141 | 4,651,400 | 14,024,858 | 2.53% | 1,662 |
| 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 |

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⁾See Table 10 for actual assessed values.⁽⁴⁾See Table 19 for population.

Table 16

City of Franklin, Virginia

Legal Debt Margin Information

Last Ten Fiscal Years Ended June 30,

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Debt limit | \$ 56,708 | \$ 57,409 | \$ 67,950 | \$ 67,239 | \$ 60,647 | \$ 55,050 | \$ 57,154 | \$ 54,684 | \$ 54,684 | \$ 55,055 |
| Total net debt applicable to limit | <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> | <u>20,540</u> | <u>20,054</u> |
| Legal Debt Margin | <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> | <u>\$ 34,144</u> | <u>\$ 35,001</u> |
| Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit | 37.98% | 36.50% | 28.46% | 26.96% | 28.21% | 30.42% | 35.72% | 35.86% | 37.56% | 36.43% |

Note: The amounts reported above are presented in thousands.

| | |
|--|-----------------------|
| Assessed value | <u>\$ 550,548,631</u> |
| Total Assessed Value | <u>\$ 550,548,631</u> |
| Debt limit (10% of total assessed value) | \$ 55,054,863 |
| Amount of Debt Applicable to Debt Limit | |
| General Obligation Debt | |
| Primary Government | 15,873,619 |
| Business-Type | <u>4,180,000</u> |
| Net Debt Applicable to Limit | <u>20,053,619</u> |
| Legal Debt Margin | <u>\$ 35,001,244</u> |

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

Table 17

City of Franklin, Virginia

Ratio of Annual Debt Service Expenditures to
Total General Governmental Expenditures

Last Ten Fiscal Years Ended June 30,

| <u>Fiscal Year</u> | <u>Expenditures - All Governmental Fund Types</u> | <u>Total Debt Service⁽¹⁾⁽²⁾</u> | <u>Percentage of Debt Service to Expenditures</u> |
|------------------------|---|--|---|
| 2016 | \$ 32,326,918 | \$ 7,030,858 | 21.75% |
| 2015 | 36,807,039 | 882,406 | 2.40% |
| 2014 | 35,916,805 | 772,482 | 2.15% |
| 2013 | 38,554,650 | 6,267,719 | 16.26% |
| 2012 | 33,469,749 | 915,024 | 2.73% |
| 2011 | 34,963,558 | 993,170 | 2.84% |
| 2010 | 35,160,001 | 2,240,646 | 6.37% |
| 2009 | 35,614,014 | 1,734,552 | 4.87% |
| 2008 | 37,034,688 | 1,631,748 | 4.41% |
| 2007 | 38,719,533 | 3,236,929 | 8.36% |

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

⁽²⁾Includes amounts for refunding of debt.

Table 18

City of Franklin, Virginia

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years Ended June 30,

| Fiscal Year | Governmental Activities | | | | 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 | | |
| 2016 | \$ 15,873,619 | \$ - | \$ - | \$ 484,548 | \$ 4,180,000 | \$ 87,197 | \$ - | \$ 20,625,364 | 2.22% | \$ 2,403 |
| 2015 | 15,888,999 | - | - | 156,388 | 4,651,400 | 107,714 | - | 20,804,501 | 2.46% | 2,424 |
| 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 |

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

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

City of Franklin, Virginia

Demographic Statistics

Last Ten Fiscal Years Ended June 30,

| <u>Fiscal Year</u> | <u>Population</u> ⁽¹⁾ | <u>Total Personal Income</u> ⁽²⁾ | <u>Per Capita Income</u> ⁽³⁾ | <u>School Enrollment</u> ⁽⁴⁾ | <u>Unemployment Rate</u> ⁽⁵⁾ |
|--------------------|----------------------------------|---|---|---|---|
| 2016 | 8,490 | 930,617 | 34,987 | 1,132 | 5.9% |
| 2015 | 8,580 | 930,617 | 34,987 | 1,201 | 7.6% |
| 2014 | 8,582 | 901,543 | 33,778 | 1,265 | 9.2% |
| 2013 | 8,582 | 890,156 | 33,084 | 1,265 | 9.2% |
| 2012 | 8,588 | 906,502 | 33,549 | 1,271 | 10.4% |
| 2011 | 8,582 | 847,243 | 31,241 | 1,187 | 10.3% |
| 2010 | 8,814 | 801,974 | 29,459 | 1,160 | 12.9% |
| 2009 | 8,877 | 830,029 | 30,633 | 1,331 | 11.5% |
| 2008 | 8,906 | 845,070 | 31,019 | 1,319 | 6.4% |
| 2007 | 8,800 | 812,659 | 29,987 | 1,287 | 4.0% |

Source⁽¹⁾United States Census Estimates⁽²⁾US Commerce - Bureau of Economic Analysis (Franklin and Southampton combined) - used 2015 figures as 2016 not available.⁽³⁾US Commerce - Bureau of Economic Analysis (Franklin and Southampton combined) - used 2015 figures as 2016 not available.⁽⁴⁾Virginia Department of Education Fall Membership Data⁽⁵⁾Virginia Employment Commission

City of Franklin, Virginia

Principal Employers

Current Year and Nine Years Ago

Fiscal Year 2016

| <u>Employer</u> | <u>Employees⁽¹⁾</u> | <u>Rank</u> |
|--------------------------------|--------------------------------|-------------|
| Southampton Memorial Hospital | 250-499 | 1 |
| Walmart Supercenter | 250-499 | 2 |
| Franklin City Public Schools | 250-499 | 3 |
| City of Franklin | 100-249 | 4 |
| Paul D. Camp Community College | 100-249 | 5 |
| Farm Fresh Supermarket | 100-249 | 6 |
| Lowe's Home Improvement | 50-99 | 7 |
| The Children's Center | 50-99 | 8 |
| Village at Woods Edge | 50-99 | 9 |
| Bronco Federal Credit Union | <u>50-99</u> | 10 |
| Totals | <u>N/A</u> | |

Fiscal Year 2007

| <u>Employer</u> | <u>Employees⁽¹⁾</u> | <u>Rank</u> |
|--------------------------------|--------------------------------|-------------|
| Southampton Memorial Hospital | 250-499 | 1 |
| Walmart Supercenter | 250-499 | 2 |
| Franklin City Public Schools | 250-499 | 3 |
| City of Franklin | 100-249 | 4 |
| Paul D. Camp Community College | 100-249 | 5 |
| James L. Camp Jr. YMCA | 50-99 | 6 |
| The Children's Center | 50-99 | 7 |
| Bronco Federal Credit Union | 50-99 | 8 |
| Food Lion | 50-99 | 9 |
| Village at Woods Edge | 50-99 | 10 |
| Totals | <u>N/A</u> | |

Source: Franklin Southampton Economic Development, Inc. (2nd Quarter of Each Year)
Virginia Gov. - Labor Market Information

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

Table 21

City of Franklin, Virginia

Full-Time Equivalent City Government Employees by Function/Program

Last Ten Fiscal Years Ended June 30,

| <u>Function/Program</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| General Fund | | | | | | | | | | |
| General government | 23.5 | 22.5 | 25.0 | 26.0 | 26.0 | 23.0 | 24.0 | 24.0 | 26.0 | 26.0 |
| Police and communications | 33.0 | 37.5 | 39.0 | 41.0 | 40.0 | 42.0 | 39.0 | 40.0 | 38.0 | 42.0 |
| Animal control | 1.5 | 1.5 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 1.0 | 1.0 | 1.0 |
| Fire and rescue - EMS | 27.0 | 28.0 | 27.0 | 27.0 | 21.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| Community services | 9.0 | 9.0 | 9.0 | 5.0 | 5.0 | 5.0 | 5.0 | 7.0 | 7.0 | 6.0 |
| Public works - streets | 17.0 | 16.0 | 17.0 | 16.0 | 14.0 | 15.0 | 14.0 | 14.0 | 18.0 | 23.0 |
| Garage | 4.0 | 4.0 | 3.0 | 3.0 | 3.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Refuse collection | 0.0 | 0.0 | 0.0 | 7.0 | 9.0 | 9.0 | 9.0 | 8.0 | 7.0 | 9.0 |
| Public works - buildings and grounds | 10.0 | 10.0 | 8.5 | 9.0 | 15.0 | 10.0 | 10.0 | 10.0 | 12.0 | 9.0 |
| Cemetery and mosquito control | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Park and recreation | 3.5 | 3.5 | 3.5 | 6.0 | 5.0 | 5.0 | 5.0 | 4.0 | 4.0 | 8.0 |
| Senior program | 1.0 | 1.0 | 1.0 | 2.0 | 2.0 | 2.0 | 3.0 | 3.0 | 2.0 | 2.0 |
| Library | 0.5 | 0.5 | 0.5 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Economic development | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Downtown development | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Total General Fund | 131.0 | 134.5 | 136.5 | 146.0 | 144.0 | 134.0 | 132.0 | 132.0 | 136.0 | 147.0 |
| Social services fund | 20.0 | 23.0 | 21.0 | 20.0 | 20.0 | 19.0 | 19.0 | 20.0 | 18.0 | 19.0 |
| Electric | 9.0 | 12.0 | 11.0 | 16.0 | 13.0 | 14.0 | 14.0 | 16.0 | 15.0 | 20.0 |
| Water and sewer | 15.0 | 13.0 | 12.0 | 13.0 | 13.0 | 16.0 | 14.0 | 14.0 | 16.0 | 16.0 |
| Solid waster fund | 8.0 | 8.0 | 7.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Incubator | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 1.0 |
| Airport | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Smart beginnings (Early Childhood) | 1.5 | 1.5 | 3.0 | 4.0 | 4.0 | 2.0 | 2.0 | 2.0 | 1.0 | 0.0 |
| | 55.5 | 59.5 | 56.5 | 55.0 | 52.0 | 53.0 | 51.0 | 54.0 | 53.0 | 58.0 |
| Total | 186.5 | 194.0 | 193.0 | 201.0 | 196.0 | 187.0 | 183.0 | 186.0 | 189.0 | 205.0 |

Source: Individual City departments

Table 22

City of Franklin, Virginia
Operating Indicators by Function/Program
Last Ten Fiscal Years Ended June 30,

| <u>Function/Program</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Police | | | | | | | | | | |
| Physical arrests | 661 | 693 | 724 | 734 | 693 | 671 | 638 | 686 | 721 | 1,223 |
| Parking violations | 23 | 36 | 40 | 79 | 106 | 78 | 39 | 37 | 39 | 45 |
| Traffic violations | 790 | 580 | 987 | 1,751 | 1,943 | 1,845 | 1,792 | 1,406 | 1,172 | 1,370 |
| Fire | | | | | | | | | | |
| Emergency responses | 2,498 | 2,895 | 2,716 | 2,718 | 1,971 | 2,111 | 2,390 | 2,324 | 2,422 | 2,304 |
| Fires extinguished | 69 | 62 | 70 | 78 | 83 | 31 | 68 | 202 | 96 | 98 |
| Inspections | 30 | 24 | 30 | 26 | 22 | 24 | 22 | 17 | 1,726 | 18 |
| Building Inspections^(a) | | | | | | | | | | |
| Inspections performed (Franklin) | 2,004 | 3,167 | 1,451 | 1,484 | 3,495 | 1,647 | N/A | N/A | N/A | N/A |
| Permits issued | 919 | 1,351 | 848 | 406 | 518 | 413 | N/A | N/A | N/A | N/A |
| Refuse Collection | | | | | | | | | | |
| Refuse collected (tons per day) | 10.10 | 9.77 | 9.47 | 9.75 | 15 | 15 | 13 | 14 | 13 | 13 |
| Recyclables collected (tons per day) | 1.19 | 1.26 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Other Public Works | | | | | | | | | | |
| Street resurfacing (tons) | 6,289 | 1,690 | 5,137 | - | 2,315 | 10,542 | 2,728 | 3,576 | 1,503 | 215 |
| Potholes repaired | 159 | 184 | 149 | 163 | 138 | 152 | 178 | 207 | 234 | 250 |
| Park and Recreation | | | | | | | | | | |
| Athletic field permits issued | 275 | 250 | 200 | 240 | 307 | 355 | 285 | 275 | 250 | 56 |
| Community center admissions | 59,501 | 56,364 | 57,025 | 50,885 | 54,825 | 44,486 | 30,214 | 29,634 | 33,026 | 25,956 |
| Library | | | | | | | | | | |
| Volumes in collection | 31,824 | 30,518 | 29,832 | 31,094 | 32,000 | 32,600 | 37,000 | 47,000 | 53,000 | 50,000 |
| Total volumes borrowed | 85,509 | 90,099 | 96,674 | 96,749 | 109,000 | 121,000 | 121,000 | 116,000 | 106,000 | 97,000 |
| Water | | | | | | | | | | |
| New connections | 2 | 3 | 3 | - | 3 | 1 | 5 | 11 | 24 | 25 |
| Water mains breaks | 48 | 45 | 50 | 42 | 51 | 42 | 50 | 54 | 75 | 68 |
| Average daily consumption (thousands of gallons) | 832 | 1,100 | 1.1 | 953 | 943 | 1,067 | 1,082 | 1,037 | 1,100 | 1,072 |
| Peak daily consumption (thousands of gallons) | 906 | 1,300 | 1,300 | 1,300 | 1,300 | 1,700 | 1,700 | 1,453 | 1,800 | 1,610 |
| Wastewater | | | | | | | | | | |
| Average daily sewage treatment | 1,420 | 1,320 | 1,330 | 1,603 | 1,656 | 1,100 | 1,780 | 1,090 | 1,090 | 903 |
| Sewer connections - new | 2 | 3 | 2 | - | 2 | 1 | 5 | 9 | 21 | 25 |
| Transit | | | | | | | | | | |
| Total route miles | None | None | None | None | None | None | None | None | None | None |
| Passengers | None | None | None | None | None | None | None | None | None | None |

Source: Individual City Departments

City of Franklin, Virginia

Capital Asset Statistics by Function/Program

Last Ten Fiscal Years Ended June 30,

| <u>Function/Program</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Police | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol units | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 28 | 27 |
| Fire stations | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Refuse Collection | | | | | | | | | | |
| Collection trucks | 6 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 4 |
| Other Public Works | | | | | | | | | | |
| Street (miles) | 35.50 | 35.50 | 35.50 | 35.50 | 35.50 | 35.50 | 35.50 | 35.50 | 35.50 | 35.50 |
| Highways (miles) | 15.09 | 15.09 | 15.09 | 15.09 | 15.09 | 15.09 | 15.09 | 15.09 | 15.09 | 15.09 |
| Streetlights | 950 | 945 | 945 | 945 | 945 | 945 | 945 | 937 | 945 | 953 |
| Traffic signals | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Park and Recreation | | | | | | | | | | |
| Acreage | 28.61 | 28.61 | 28.61 | 28.61 | 28.61 | 28.61 | 28.61 | 28.61 | 28.61 | 28.61 |
| Playgrounds | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Baseball/softball diamonds | 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 | 67 | 67 |
| Fire hydrants | 336 | 336 | 336 | 336 | 336 | 336 | 336 | 336 | 336 | 333 |
| Storage capacity (thousands of gallons) | 1300 | 1300 | 1300 | 1300 | 1300 | 1300 | 1300 | 1300 | 1300 | 1300 |
| Wastewater | | | | | | | | | | |
| Sanitary sewers (miles) | 43 | 43 | 43 | 43 | 43 | 43 | 43 | 43 | 43 | 43 |
| Storm sewers (miles) | 210 | 210 | 210 | 210 | 210 | 210 | 210 | 210 | 210 | 210 |
| Treatment capacity (thousands of gallons) | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 |

Source: Individual City Departments

COMPLIANCE SECTION





**Creedle
Jones
& Alga**

A Professional Corporation

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of and for the year ended June 30, 2016, 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 January 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Franklin, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Franklin, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Franklin, Virginia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

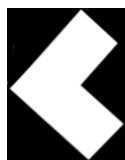
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

South Hill, Virginia
January 27, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Franklin, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Franklin, Virginia's major federal programs for the year ended June 30, 2016. City of Franklin, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Franklin, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, the Uniform Guidance, and specifications require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Franklin, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Franklin, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Franklin, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City of Franklin, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Franklin, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Franklin, Virginia's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
January 27, 2017



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REPORT ON COMPLIANCE WITH COMMONWEALTH OF VIRGINIA'S LAWS, REGULATIONS, CONTRACTS, AND GRANTS

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

We have audited the financial statements of the City of Franklin, Virginia, as of and for the year ended June 30, 2016, and have issued our report thereon dated January 27, 2017.

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

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

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

Code of Virginia

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

State Agency Requirements

- Social Services
- Education
- Comprehensive Services Act Funds
- Economic Development Opportunity Fund

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Franklin, Virginia had not complied, in all material respects, with those provisions.

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

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
January 27, 2017

City of Franklin, Virginia
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

| Federal Grantor/State Pass-Through Grantor/Program or Cluster Title (Pass-Through Grantor's Number) | Federal CFDA Number | State Agency Number | Expenditures |
|--|------------------------------------|------------------------------------|---------------------|
| U. S. Department of Health and Human Services | | | |
| Pass-Through Payments | | | |
| <i>Department of Social Services</i> | | | |
| Promoting safe and stable families | 93.556 | 765 | \$ 11,237 |
| Temporary assistance to needy families (TANF) | 93.558 | 765 | 168,797 |
| Refugee and entrant assistance - state administered programs | 93.566 | 765 | 206 |
| Low income home energy assistance | 93.568 | 765 | 17,568 |
| Child care mandatory and matching funds of the child care and development fund | 93.596 | 765 | 23,809 |
| Stephanie Tubbs Jones child welfare services program | 93.645 | 765 | 1,184 |
| <i>Foster Care Cluster</i> | | | |
| Foster care - Title IV-E | 93.658 | 765 | 69,650 |
| Adoption assistance | 93.659 | 765 | 6,663 |
| Social services block grant | 93.667 | 765 | 106,969 |
| Chafee foster care independence program | 93.674 | 765 | 1,015 |
| Children's Health Insurance Program (CHIP) | 93.767 | 765 | 7,953 |
| Medical assistance program | 93.778 | 765 | 241,338 |
| Subtotal - U. S. Department of Health and Human Services | | | 656,389 |
| U. S. Department of Agriculture | | | |
| Pass-Through Payments | | | |
| <i>Department of Education</i> | | | |
| <i>Child Nutrition Cluster</i> | | | |
| Food distribution - donated commodities | 10.555 | 197 | 47,105 |
| Food distribution - donated commodities | 10.559 | 197 | 2,763 |
| National school lunch program | 10.555 | 197 | 473,431 |
| National school breakfast program | 10.553 | 197 | 325,719 |
| Subtotal - Child Nutrition Cluster | | | 849,018 |
| Fresh Fruit and Vegetables | 10.582 | 197 | 32,199 |
| <i>Department of Social Services</i> | | | |
| <i>SNAP Cluster</i> | | | |
| State administrative grants for the supplemental nutrition assistance program | 10.561 | 197 | 188,924 |
| Subtotal - U. S. Department of Agriculture | | | 1,070,141 |
| U. S. Department of Transportation | | | |
| Direct Payments | | | |
| Airport improvement program | 20.106 | N/A | 49,731 |
| Subtotal - U. S. Department of Transportation | | | 49,731 |
| U. S. Department of Justice | | | |
| Direct Payments | | | |
| Police grant | | | 1,289 |
| Subtotal - U. S. Department of Justice | | | 1,289 |

| <u>Federal Grantor/State Pass-Through Grantor/Program or Cluster Title (Pass-Through Grantor's Number)</u> | <u>Federal CFDA Number</u> | <u>State Agency Number</u> | <u>Expenditures</u> |
|--|------------------------------------|------------------------------------|---------------------|
| U. S. Department of Homeland Security | | | |
| Direct Payments | | | |
| Staffing for adequate fire and emergency response | 97.083 | N/A | 42,942 |
| Pass-Through Payments | | | |
| <i>Department of Emergency Management</i> | | | |
| Emergency management performance grant | 97.042 | N/A | <u>38,373</u> |
| Subtotal - U. S. Department of Homeland Security | | | 81,315 |
| U. S. Department of Education | | | |
| Pass-Through Payments | | | |
| <i>Department of Education</i> | | | |
| <i>Title I, Part A Cluster</i> | | | |
| Title I: Grants to local educational agencies | 84.010 | 197 | 619,797 |
| School improvement grants | 84.377 | 197 | 219,547 |
| <i>Special Education Cluster</i> | | | |
| Special education - grants to states | 84.027 | 197 | 238,646 |
| Special education preschool grants | 84.173 | 197 | 32,762 |
| Career and technical education (CTE Perkins): basic grants to states | 84.048 | 197 | 39,637 |
| Title VI - Rural education - English language acquisition grants | 84.358 | 197 | 16,510 |
| Consortium Incentive Grant | 84.144 | 197 | 1,031 |
| Title II Part A - Improving teacher quality state grants | 84.367 | 197 | <u>83,804</u> |
| Subtotal - U. S. Department of Education | | | <u>1,251,734</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 3,110,599</u> |

See accompanying notes to schedule of expenditures of federal awards.

City of Franklin, Virginia

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of City of Franklin, Virginia under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Franklin, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of City of Franklin, Virginia.

2. Summary of Significant Accounting Policies

- a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b) City of Franklin, Virginia has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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 | \$ 82,604 |
| <i>Special Revenue Funds</i> | |
| Virginia public assistance fund | 836,773 |
| Comprehensive Services Act | 8,540 |
| Downtown grant fund | |
| <i>Enterprise Funds</i> | |
| Airport fund | <u>49,731</u> |
| Total Primary Government | 977,648 |

Component Units - City of Franklin Public Schools

| | |
|-------------------------------------|------------------|
| School operating fund | 1,251,734 |
| School cafeteria fund | <u>881,217</u> |
| Total Component Unit Public Schools | <u>2,132,951</u> |

| | |
|---|---------------------|
| Total Federal Expenditures per Basic Financial Statements | <u>\$ 3,110,599</u> |
|---|---------------------|

| | |
|---|---------------------|
| Total Federal Expenditures per the Schedule of Expenditures of Federal Awards | <u>\$ 3,110,599</u> |
|---|---------------------|

City of Franklin, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Section I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified? None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance 2 CFR section 200.516(a)? No

Major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.555/10.559/10.553
84.010

Child Nutrition Cluster
Title I: Grants to local educational agencies

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Audit

None

Section III – Findings and Questioned Costs – Major Federal Award Programs Audit

There are no federal award findings to report.

City of Franklin, Virginia

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2016

FINANCIAL STATEMENT AUDIT

Finding 2015-1: Segregation of Duties – Material Weakness in Internal Controls

Condition: The School Board does not have the proper segregation of duties related to the approval of expenditures. The Office of the Superintendent approves its own transactions and does not require an additional level of approval for these charges.

Recommendation: We recommend that the School Board revise its policy on internal controls over School Board funds and train all personnel on acceptable practices.

Current Status: It is standard practice that chief administrative officers (i.e., superintendent) do not require second approvals as long as the expenditures are within budget. However, to strengthen controls, the School Board has implemented a policy that the Director of Human Resources or the Coordinator of Finance will provide secondary approval. No similar **findings** were noted in the 2016 audit.

Finding 2015-2: Oversight over Financial Transactions – Material Weakness in Internal Control

Condition: We found one instance certain School Board personnel charged the cost of travel for their family on the School Board's credit card. The personnel then immediately provided a check to the School Board to reimburse these improper travel charges; however, there are no policies or regulations currently in place to prohibit the use of the Purchase card in this manner.

Recommendation: We recommend that the School Board update their policies to include extensive instructions on the acceptable use of the School Board's Purchase Cards.

Current Status: The School Board has implemented a policy that personal expenditures be paid via a personal credit card and then a reimbursement be requested for any business expenses incurred. No similar **findings** were noted in the 2016 audit.

Finding 2015-3: Significant Deficiency in Internal Controls

Condition: We discovered instances in which School Board expenditures were not accompanied by proper supporting documentation.

Recommendation: We recommend that the School Board amend its policies to require all expenditures to require complete supporting documentation prior to authorization.

Current Status: This finding was found to be incorrect as an exit interview was not conducted and the prior auditors did not ask a second time for the supporting documentation which was available. No similar **findings** were noted in the 2016 audit.

Finding 2015-4: Budget Activity – Material Weakness in Internal Controls

Condition: During Fiscal Year 2015, the School Board was forced to request a budget increase, as the pre-approved levels were found insufficient to meet its needs.

Recommendation: We recommend that the School Board and Superintendent's office improve their planning and management techniques used when determining the budget levels prior to the start of each fiscal year in order to ensure a more controlled outcome.

Current Status: The School Board did not exceed its appropriations in fiscal year 2016. However, improved budget reports are being implemented with line by line amounts. No similar **findings** were noted in the 2016 audit.

Finding 2015-5: Procurement of Services – Material Noncompliance

Condition: We found that the School Board selected two consultants without regard for the aforementioned competitive negotiation process.

Recommendation: We recommend that the School Board update its written policies to ensure compliance with the Procurement Act. We also recommend that all individuals with purchasing power be trained on these policies.

Current Status: The procurement process in the School Board policy manual is being amended to include provisions for emergency and sole source procurements as allowed by the Virginia Public Procurement Act (VPPA). One of the consultants above was selected by a VDOE grant which did go through the VDOE procurement process. No similar **findings** were noted in the 2016 audit.