



*Comprehensive Annual
Financial Report*

Fiscal Year Ended June 30, 2010

CITY OF FRANKLIN, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2010

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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CITY OF FRANKLIN, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
JUNE 30, 2010

Mayor

James P. Councill, III

Vice Mayor

Raystine D. Johnson

Council Members

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

Mary E. Hilliard
Gregory McLemore

Constitutional Officers

Dinah M. Babb
Brenda B. Rickman

Treasurer
Commission of Revenue

Franklin City Public Schools

Don Scarboro
Michelle R. Belle
Jane Wood

Chairman of School Board
Superintendent
Director of Finance

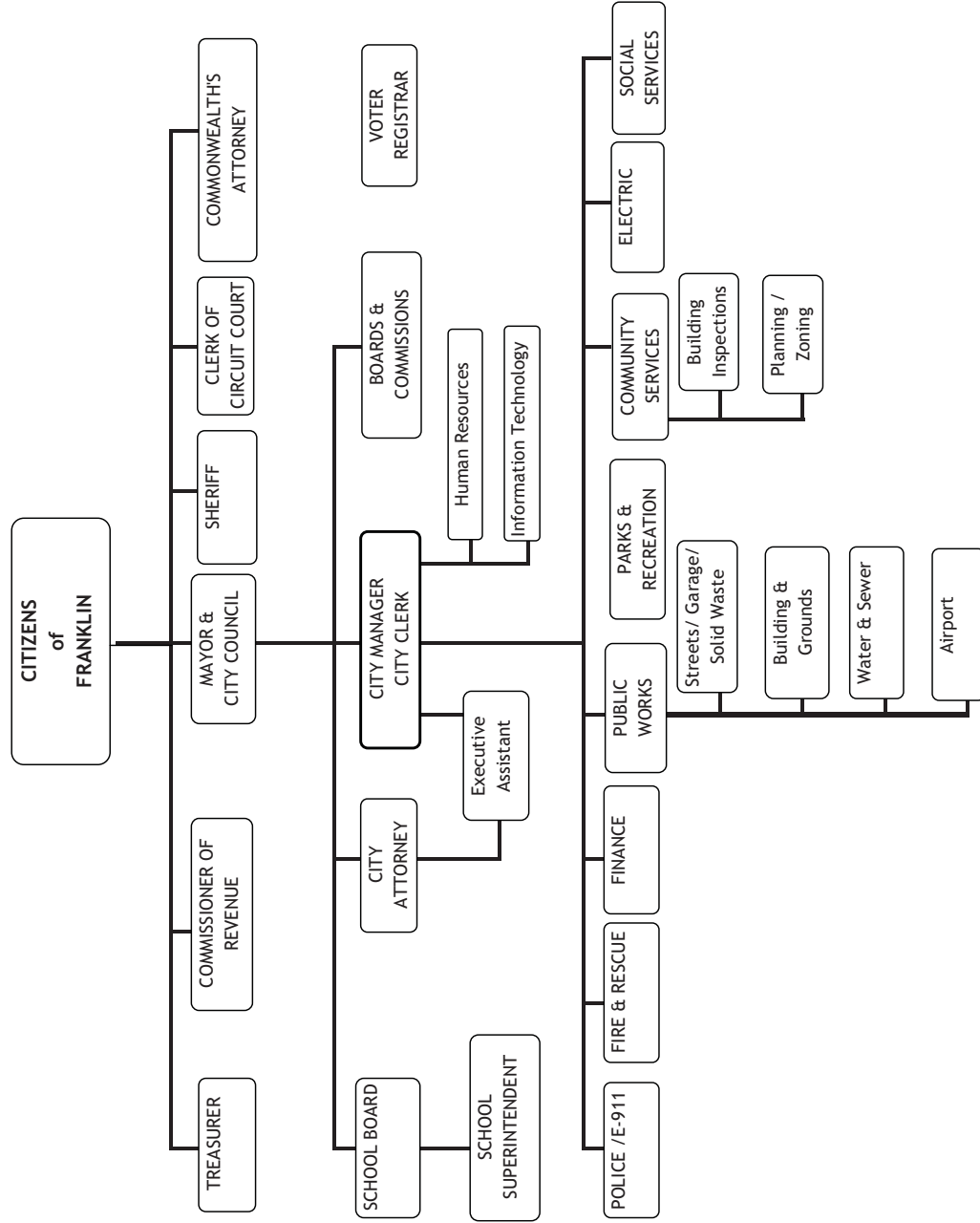
City Administration

June Fleming
H. Taylor Williams, IV
Larry D. Clark
Phillip M. Hardison
Michael A. Stoneham
Frank A. Davis
Sandra B. Holloman
Vincent P. Holt
Russell L. Pace
H. Elizabeth Reavis
Donald E. Goodwin

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

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CITY OF FRANKLIN, VIRGINIA ORGANIZATIONAL CHART



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December 14, 2010

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, 2010. The report is required in accordance with Section 3.08 (c) of the Franklin City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia.

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

The City of Franklin's financial statements have been audited by Robinson, Farmer, Cox Associates PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Franklin for the fiscal year ended June 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Franklin's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented in the financial Section of this report.

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

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

Profile of the City of Franklin

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

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

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

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

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

The City of Franklin provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services,

Profile of the City of Franklin: (Continued)

community development activities, and cultural events. The City owns and operates a municipal electric company which provides electrical services to City and certain geographical locations within surrounding jurisdictions. The City also owns and operates water and sewage facilities; provides curbside trash disposal and recycling services; owns and operates a City pool; and manages various paid recreational activities. Franklin has and maintains a municipal airport located one mile east of Franklin in Isle of Wight County. In addition to general governing activities, the governing body has significant financial influence over the Schools and the Industrial Development Authority (IDA); both of which are reported separately within the City of Franklin's financial statements. Additional information on these two legally separate entities can be found in the Notes to the Financial Statements and in Exhibits 23 through 28.

The annual budget serves as the foundation for the City of Franklin's financial planning and control. All agencies and departments of the City of Franklin are required to submit requests for appropriation to the City Manager in March. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget by no later than June 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. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. Budget-to-actual comparisons for the General Fund are provided on page 77 of the report.

Factors Affecting Financial Condition

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

Local Economy. The City of Franklin's current economic environment, consistent with the national economic environment, is changing. In October 2009, International Paper, Incorporated announced that the paper mill, which operated just across the City limits in Isle of Wight County, would cease operations in spring of 2010. Approximately 1,100 jobs were lost. Although the local economy continues to absorb the full impact of the plant's closing, it is anticipated that for the fiscal year ending June 30, 2013 approximately \$1.2 million in tax revenues generated by the plant, and paid to the City through a revenue sharing agreement with Isle of Wight County, will be eliminated.

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

Established industries include Hercules Inc., located in Southampton County; Birdsong Peanut Co.; Money Mailer, LLC, a direct-mail coupon distributor, and Southampton Memorial Hospital which is the City's largest employer.

Factors Affecting Financial Condition: (Continued)

The City's largest source of revenue is provided by assessments on real estate. The City's tax rate was decreased to \$0.77 per \$100 of assessed value for the fiscal year beginning July 1, 2008, as a result of a general re-assessment. The rate remains at this level.

Long-Term Financial Planning. City Council and management continue in their commitment to plan for future growth of the City of Franklin. A business incubator building was opened in the spring of 2005. Through an Economic Development Authority grant and other sources, an old warehouse was renovated to provide office space for start-up businesses. In addition, the City has secured grant funding to create additional office space on the Incubator's fourth floor. In conjunction with Southampton County and local foundations, the City supports a joint economic development authority. Franklin also developed Pretlow Industrial Park with industrial sites adjacent to Route 58. The City will continue to work with developers and investors in an effort to promote the long-term economic growth of the City. In the spring of 2010, the City refunded several bond issues to take advantage of a favorable interest rate environment and to restructure outstanding debt.

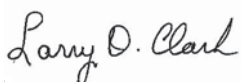
Cash Management Policies and Practices. The City uses a pooled cash concept to allow greater investment flexibility and, consequently, a better investment return. Cash from all funds, except that restricted for specific purposes or managed by fiscal agents, is pooled for investment purposes. All of the City's cash is deposited with the Director of Finance, who is responsible for investing all City funds. City cash is invested primarily in overnight repurchase agreements and certificates of deposit in Virginia Banks as permissible under the Virginia Public Investment Act. At June 30, 2010, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$3,537,844 for the Governmental Activities and \$2,697,420 for Business-type Activities.

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

Acknowledgements

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

Respectfully Submitted,



Larry D. Clark
Interim Director of Finance

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the School Textbook Fund of the Component Unit School Board, which represent 25 and 1 percent, respectively, of the assets and revenues of the Component Unit School Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the School Textbook Fund, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, 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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2010 on our consideration of the City of Franklin, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Budgetary Comparison Information, and Schedule of Pension Funding Progress and Schedule of Funding Progress for Other Post-Employment Benefits as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

November 26, 2010

Management's Discussion and Analysis Fiscal Year July 1, 2009 - June 30, 2010

The management of the City of Franklin (the City's) provides this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statements information included in this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Franklin exceeded its liabilities at the close of fiscal year 2010 by \$34,374,051 (net assets). Of this amount, \$7,668,142 represents unrestricted net assets which may be used to meet the City's ongoing obligations. The residual \$26,705,909 relates to capital assets, net of related debt, and is not available for expenditure.
- The City's total net assets increased by \$2,888,482 from the prior year. Of this amount, governmental fund net assets increased \$702,307; while proprietary fund net assets increased \$2,186,175. The \$702,307 governmental fund increase was primarily due to the receipt of restricted grants, and cost reductions instituted by the City in response to a plant closure by a major employer and the economic downturn. The proprietary fund increase was related to capital grants relative to the airport and a March 20, 2010 electric fund rate increase of six percent.
- The General Fund, on a current financial resources basis, reported an excess of revenues and other financing sources over expenditures and other financing uses of \$540,186, a decrease of \$132,349 when compared to the prior year. This decrease is primarily due to a \$419,063 reduction in revenues relative to property tax collections, state funding and the annual transfer from the electric fund. Expenditures decreased \$286,714 when compared to fiscal year 2008-09, due to the City's cost cutting measures. See Exhibit 5 for details.
- The City's total outstanding general obligation debt at June 30, 2010 was \$17,711,550. This includes \$3,995,409 in business-activity debt, and \$13,716,141 in general government activities (\$6,660,879 School related debt and \$7,055,262 other general government debt - details in Note 8 - Notes to the Financial Statements). In April 2010, the City of Franklin advanced refunded (defeased) portions of the Series 1998A, Series 1998B, Series 2001B, Series 2003, and Series 2006 Bonds with the issuance of Series 2010 Refunding Bonds totaling \$8,670,000. The Series 2010 Bonds were structured to defer principal payments for three to five years.
- The combined unreserved fund balance (\$6,235,123) for all Governmental Funds, as a percentage of actual Fiscal Year 2009-10 expenditures, totaled 23.9 percent. City of Franklin financial guidelines require an unreserved fund balance of 15% to 25% of annual expenditures. The unreserved fund balance approximates the sum of cash balances for governmental funds which totaled \$3,537,844 at June 30, 2010. The \$2,697,279 difference is primarily due to outstanding receivables that will be converted into cash during fiscal year 2010-11.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Government-wide financial statements: (Continued)

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

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

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

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

Fund Financial Statements

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

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

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

The City maintains 25 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Capital Projects and Debt Service funds. Data from the other governmental funds are combined into a single aggregate presentation. Individual funds data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Fund Financial Statements

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

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

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

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

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City, including financial information of the School Board component unit. Supplementary information (other and required supplementary information) can be found in Exhibits 11 - 28 of this report.

Government-Wide Financial Statements Analysis

Over time, net assets may serve as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City's assets exceeded its liabilities by \$34,374,051.

Statement of Net Assets						
June 30 , 2010						
	Governmental Activities		Business-Type Activities		Total	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Current and other assets	\$ 8,943,372	\$ 8,309,822	\$ 3,896,377	\$ 2,910,867	\$ 12,839,749	\$ 11,220,689
Capital assets	30,525,368	31,642,846	13,132,596	12,327,331	43,657,964	43,970,177
Total assets	\$ 39,468,740	\$ 39,952,668	\$ 17,028,973	\$ 15,238,198	\$ 56,497,713	\$ 55,190,866
Current and other liabilities	\$ 1,310,851	\$ 1,513,567	\$ 992,351	\$ 971,223	\$ 2,303,202	\$ 2,484,790
Long-term liabilities	15,761,182	16,744,701	4,059,278	4,475,806	19,820,460	21,220,507
Total liabilities	\$ 17,072,033	\$ 18,258,268	\$ 5,051,629	\$ 5,447,029	\$ 22,123,662	\$ 23,705,297
Net assets:						
Invested in capital assets, net of related debt	\$ 17,477,560	\$ 17,319,997	\$ 9,228,349	\$ 8,004,309	\$ 26,705,909	\$ 25,324,306
Unrestricted net assets	4,919,147	4,374,403	2,748,995	1,786,860	7,668,142	6,161,263
Total Net assets	\$ 22,396,707	\$ 21,694,400	\$ 11,977,344	\$ 9,791,169	\$ 34,374,051	\$ 31,485,569

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Government-Wide Financial Statements Analysis: (Continued)

The largest portion of the City's total net assets of \$34,374,051, is its \$26,705,909 investment in capital assets (e.g. land, buildings and improvements, machinery and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining net assets totaling \$7,668,142 represent unrestricted net assets, which may be used to meet the City's ongoing obligations.

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

Changes in Net Assets For the Fiscal Year Ended June 30, 2010						
	Governmental Activities		Business-Type Activities		Total	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Revenues						
Program Revenues:						
Charges for Services	\$ 2,678,132	\$ 2,345,618	\$ 15,607,631	\$ 17,145,612	\$ 18,285,763	\$ 19,491,230
Operating grants & contributions	4,077,928	4,056,878	-	-	4,077,928	4,056,878
Capital grants & contributions	49,197	656,776	2,023,538	102,004	2,072,735	758,780
General Revenues:						
Real estate & pers. Prop. taxes	6,668,337	6,974,226	-	-	6,668,337	6,974,226
Other local taxes	4,911,007	4,929,297	-	-	4,911,007	4,929,297
Revenue Sharing from Counties	1,316,661	1,310,461	-	-	1,316,661	1,310,461
Use of money & property	354,881	362,362	6,445	7,760	361,326	370,122
Grants and contributions - not restricted to specific programs	1,673,064	1,687,289	-	-	1,673,064	1,687,289
Miscellaneous	305,705	533,867	-	-	305,705	533,867
Total Revenues	\$ 22,034,912	\$ 22,856,774	\$ 17,637,614	\$ 17,255,376	\$ 39,672,526	\$ 40,112,150
Expenses						
General government	\$ 2,301,552	\$ 2,570,721	\$ -	\$ -	\$ 2,301,552	\$ 2,570,721
Judicial	227,580	238,213	-	-	227,580	238,213
Public safety	5,786,765	6,175,136	-	-	5,786,765	6,175,136
Public works	4,497,628	4,328,943	-	-	4,497,628	4,328,943
Health and welfare	2,406,592	2,607,817	-	-	2,406,592	2,607,817
Education	4,633,929	4,866,262	-	-	4,633,929	4,866,262
Parks, recreation, cultural	1,049,424	1,156,868	-	-	1,049,424	1,156,868
Community development	1,370,039	1,249,752	-	-	1,370,039	1,249,752
Interest & fees on long-term debt	549,261	554,434	-	-	549,261	554,434
Water & Sewer	-	-	3,069,237	2,994,753	3,069,237	2,994,753
Electric	-	-	10,319,351	12,844,876	10,319,351	12,844,876
Airport	-	-	572,686	584,294	572,686	584,294
Total Expenses	\$ 22,822,770	\$ 23,748,146	\$ 13,961,274	\$ 16,423,923	\$ 36,784,044	\$ 40,172,069
Excess of revenue over expenses	\$ (787,858)	\$ (891,372)	\$ 3,676,340	\$ 831,453	\$ 2,888,482	\$ (59,919)
Transfers	1,490,165	1,619,891	(1,490,165)	(1,619,891)	-	-
Increase in net assets	\$ 702,307	\$ 728,519	\$ 2,186,175	\$ (788,438)	\$ 2,888,482	\$ (59,919)
Net assets - beginning of year	21,694,400	20,965,881	9,791,169	10,579,607	31,485,569	31,545,488
Net assets - ending of year	\$ 22,396,707	\$ 21,694,400	\$ 11,977,344	\$ 9,791,169	\$ 34,374,051	\$ 31,485,569

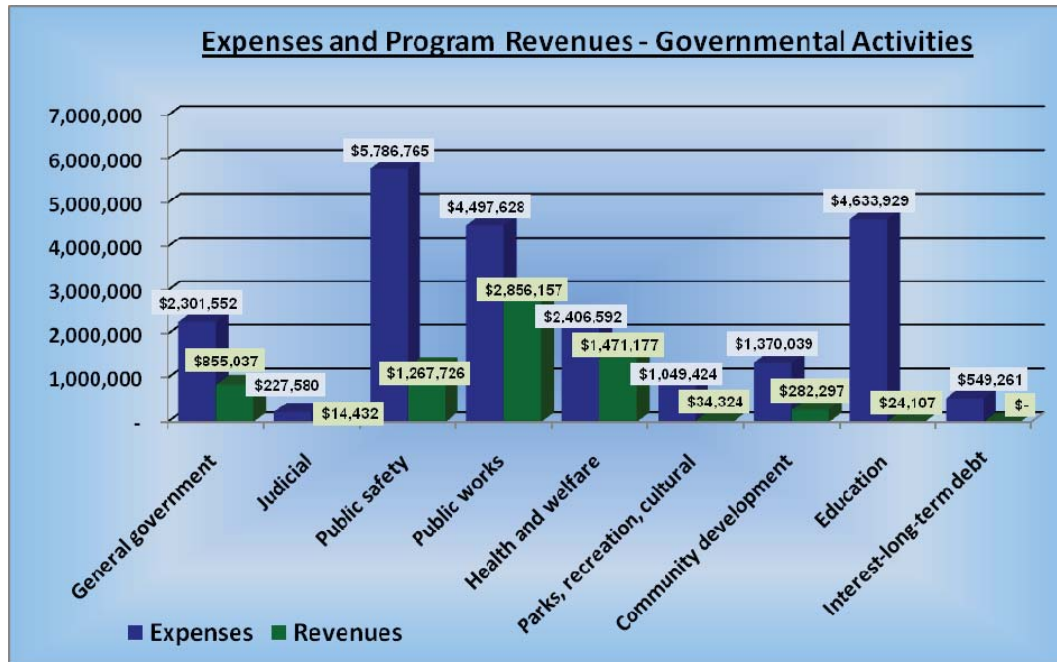
Governmental Activities

Real estate and personal property tax revenue, the City's largest revenue source, totaled \$6,668,337, down \$305,889 from the previous year. Of this 4.4% decrease, most was due to a decline in personal property tax revenues resulting from the economic downturn. The City's real estate tax rate remained at \$0.77 per hundred dollars of assessed value. Personal property was taxed at \$4.50 per \$100 of assessed value. The State Car Tax (Personal Property Tax Relief Act) payment is listed on the Grants & contributions - not restricted to specific programs line and totals \$1,048,897. This amount has been frozen and will remain at this level going forward, unless changed by some future legislation by the State General Assembly.

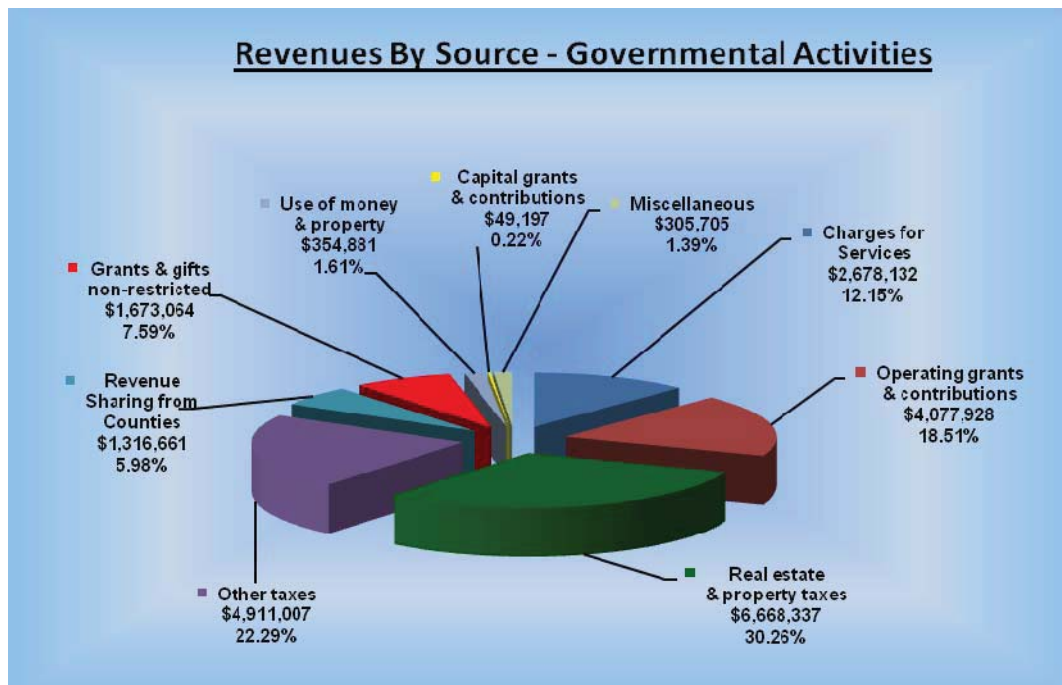
OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Governmental Activities: (Continued)

Other local tax revenues, which totaled \$4,911,007, consist primarily of local option sales, consumer utility, franchise license, motor vehicle license, and meals taxes. Starting January 1, 2007, the State collects all communications tax and remits to localities their share based on a historical percentage of the effective taxes the localities were collecting. The communication taxes the city was collecting (and will now receive from the Commonwealth) include cable franchise tax, telephone tax, E-911 tax and cellular tax. These taxes, which were previously classified as other local tax revenues, are now classified as state revenues per Auditor of Public Accounts guidance.



Revenues from other Counties of \$1,316,661 represent revenue sharing payments received from Isle of Wight and Southampton Counties as part of annexation and service providing agreements. The chart above provides an overview of program expenses and related revenues as reflected on Exhibit 2, the Statement of Activities. The chart below denotes the major sources of revenue for the governmental funds.



OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Business- Type Activities

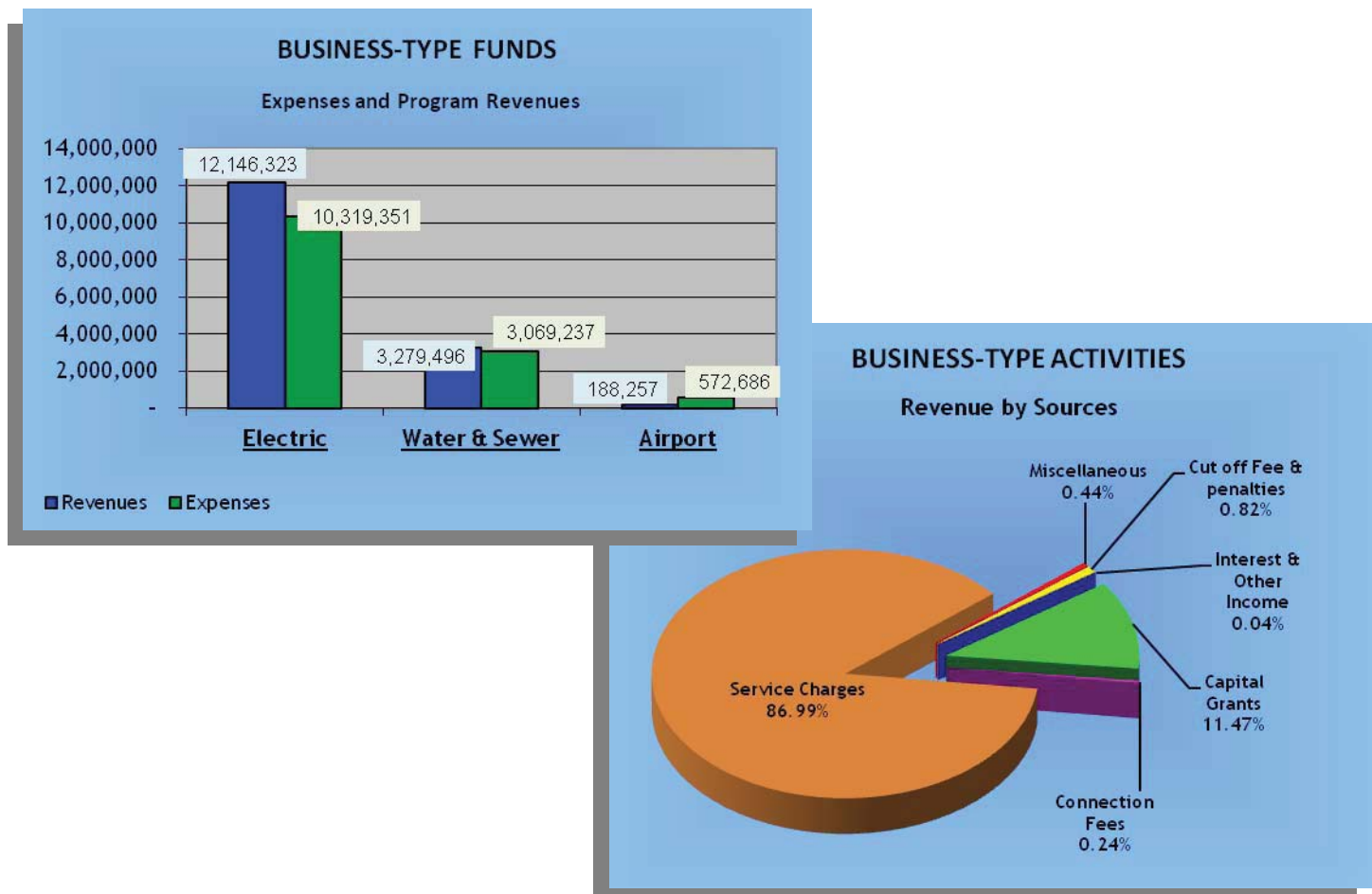
Business-type activities increased the City's net assets before transfers and capital grants by \$1,652,802 and after transfers and capital grants increased net assets by \$2,186,175. Key elements of the each fund were:

Water and Sewer Fund revenue (excluding a \$1,226 transfer) remained basically unchanged from the prior year. Revenues totaled \$3,279,496 (\$3,288,828 in 2009) with operating expenses of \$2,961,057 (\$2,853,071 in 2009) and interest expense on debt of \$108,180 (\$141,682 in 2009). Connection fee revenues were down \$51,500 due to the slow down in the economy, while charges for services increased \$45,221 primarily due to elevated temperatures and below levels of rainfall during the summer. The increase in expenses was primarily due to repairs and maintenance costs. Consideration for future capital needs and retaining adequate cash balances for operations are reasons for the \$211,485 net increase in assets.

The Electric Fund net income before transfers totaled \$1,826,972, up \$981,760 from the previous year's total of \$845,212. This increase is primarily due to the March 2010 rate increase of 6 percent, a \$2,452,231 reduction in the cost of wholesale electric, and a \$174,820 reduction in the cost of salary and benefits. Net assets, after a \$1,559,891 transfer to the general fund, increased \$267,978; which compares to a net loss of \$864,679 in 2009. City Council reduced the contribution transfer to the general fund by \$150,000 from the previous year's total of \$1,709,891.

Airport Fund net assets increased \$1,706,712, which compares to a \$217,834 decrease last year. This increase was directly related to state and federal capital grants totaling \$2,023,538. The net loss before capital grants and transfers totaled \$384,429, compared to a net loss of \$409,838 last year.

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



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$7,069,859, compared to \$6,551,759 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, unreserved fund balance totaled \$5,211,536, which reflects a \$540,186 increase over the prior year ending fund balance of \$4,671,350. The entire \$5,211,536 balance represents undesignated funds which are available for operations of the government. Unreserved 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, 2010 this percentage totaled 24.8 percent, which is in line with the City's financial policy of 15 to 25 percent. With the 2010 closure of the International Paper plant and the economic downturn, the City has taken steps to ensure that sufficient liquidity exist to weather any possible reduction in future revenues. These steps include the elimination of employee pay raises, restructuring of debt, postponement of new programs and capital projects, and reductions to outside agencies.

Capital projects fund. The capital projects fund accounts for all general government, including schools, construction projects, excluding capital projects related to business-type activities which are accounted for elsewhere. At the end of the current fiscal year, the fund balance totaled \$118,884, most of which is related to a capital grant that was received July, 2010.

Debt service fund. The debt service fund has an undesignated balance of \$509,237. This fund is used to report current debt payment requirements of the City. The balance sheet reflects \$834,736 of restricted assets which are being held by the bond holder to satisfy terms of the QZAB loans incurred by the school board.

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, municipal electric, and airport operations. Total net assets of the enterprise funds at the end of the current fiscal year totaled \$11,977,344, an increase \$2,186,175 over the prior balance of \$9,791,169. Most of the increase is related to Airport capital grants totaling \$2,023,538. Unrestricted net assets of the enterprise funds totaled \$2,748,995 at the end of the current fiscal year, which reflects a \$962,135 increase over last years ending balance of \$1,786,860. Cash totaled \$2,697,420; an increase of \$846,804 over the prior year.

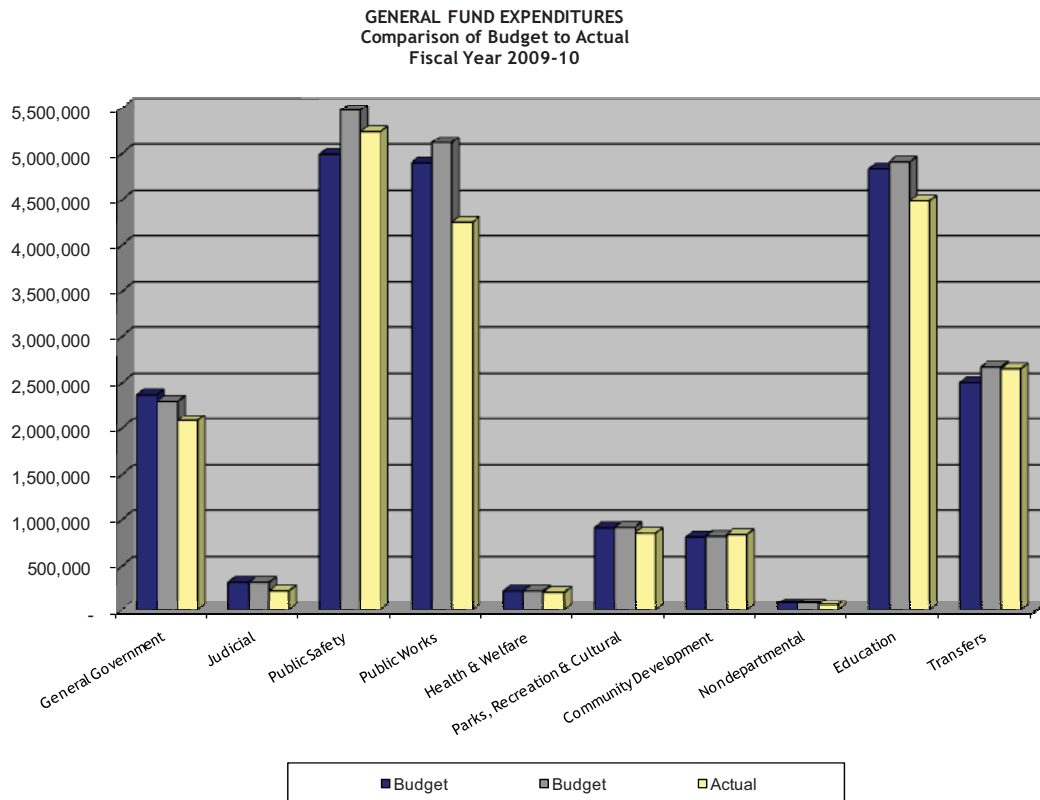
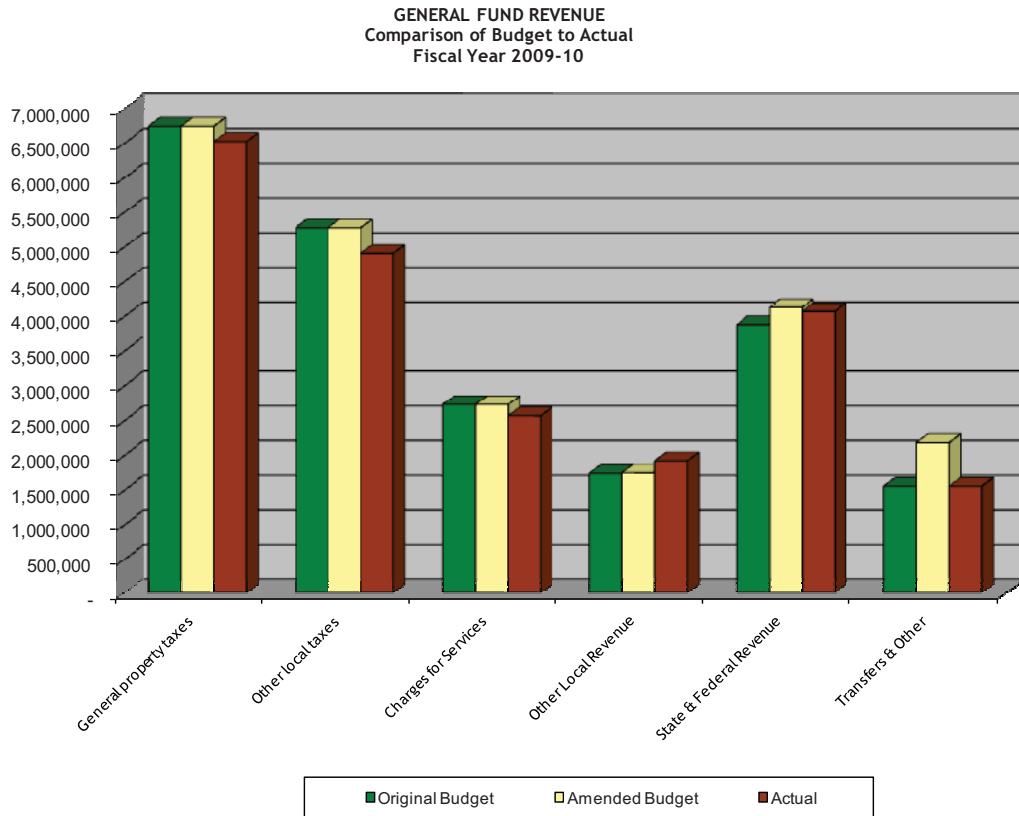
GENERAL FUND BUDGETARY HIGHLIGHTS

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

Differences between the general fund original budget and the final amended budget resulted in an \$880,546 increase in appropriations. The public safety budget increased \$482,568 as a result of grants and increased costs relative to inmate detention. The remaining increase was primarily due to the appropriation of prior year grant balances.

GENERAL FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

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



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, 2010, totaled \$43,657,964, net of accumulated depreciation. Investment in capital assets includes land and easements, buildings, improvements other than buildings, infrastructure, machinery and equipment and construction in progress. The current year reduction in capital asset of \$312,213 is primarily due to depreciation. School board capital assets are not included in the schedule below. Additional details on school board capital assets can be located in note 7 to the financial statements.

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-Type Activities		Total	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Land	\$ 5,069,980	\$ 5,060,480	\$ -	\$ -	\$ 5,069,980	\$ 5,060,480
Construction in progress	-	1,801,871	2,554,948	563,518	2,554,948	2,365,389
Buildings	13,821,968	12,824,919	420,405	508,311	14,242,373	13,333,230
Improvements other than buildings	1,767,039	1,888,923	-	-	1,767,039	1,888,923
Machinery and equipment	2,562,079	3,049,635	485,378	640,066	3,047,457	3,689,701
Infrastructure	4,688,864	4,303,818	9,671,865	10,615,436	14,360,729	14,919,254
Allocations of Component Units	2,615,438	2,713,200	-	-	2,615,438	2,713,200
Totals	<u>\$ 30,525,368</u>	<u>\$ 31,642,846</u>	<u>\$ 13,132,596</u>	<u>\$ 12,327,331</u>	<u>\$ 43,657,964</u>	<u>\$ 43,970,177</u>

Debt Administration. The City's total outstanding general obligation debt at June 30, 2010 was \$17,711,551. This includes \$6,660,879 School related debt and \$7,055,262 of general government debt. Of this total, \$13,716,141 is considered to be tax supported debt. A total \$3,995,410 of this total is related to Enterprise Fund (water & sewer, electric and airport) debt, which is directly supported by revenues generated from operations and not supported by taxes.

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

	FY 2010	FY 2009
General Government Activities:		
Bonds Payable - General	\$ 7,055,262	\$ 7,073,139
School Related Bonds & Notes	6,660,879	7,306,349
Total Tax Supported Debt	<u>\$ 13,716,141</u>	<u>\$ 14,379,488</u>
Business-type Activities	3,995,410	4,303,770
Total Long-Term Debt	<u>\$ 17,711,551</u>	<u>\$ 18,683,258</u>
Per Capita Tax Supported	\$ 1,556	\$ 1,634
Total Per Capita Debt	\$ 2,009	\$ 2,123

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

ECONOMIC FACTORS

The June 30, 2010 unemployment rate for the City of Franklin was 12.9% compared to 7.1% for Virginia and the national rate of 9.6%. The June 30, 2009 unemployment rate for the City of Franklin was 11.5%, compared to the state's unemployment rate of 6.9% and the average national rate of 9.4%.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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Government-wide Financial Statements

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Statement of Net Assets
June 30, 2010

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
ASSETS					
Cash and cash equivalents	\$ 3,537,844	\$ 2,697,420	\$ 6,235,264	\$ 1,483,220	\$ 14,254
Receivables (net of allowance for uncollectibles):					
Property taxes receivable	650,245	-	650,245	-	-
Other taxes receivable	232,984	-	232,984	-	-
Accounts receivable	123,439	2,032,345	2,155,784	2,909	-
Interest receivable	529	-	529	-	-
Due from other funds	-	-	-	-	-
Internal balances	969,874	(969,874)	-	-	-
Due from component unit	640,436	-	640,436	-	-
Due from other governmental units	1,828,834	-	1,828,834	477,840	-
Inventories	-	40,579	40,579	3,621	-
Prepaid expenses	-	-	-	276,283	-
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	834,736	-	834,736	-	-
Capital assets (net of accumulated depreciation):					
Land	5,069,980	-	5,069,980	-	-
Land improvements	-	-	-	66,106	-
Buildings	16,437,406	420,405	16,857,811	4,763,437	-
Improvements other than buildings	1,767,039	-	1,767,039	-	-
Machinery and equipment	2,562,079	485,378	3,047,457	993,157	-
Infrastructure	4,688,864	9,671,865	14,360,729	3,951,289	-
Construction in progress	-	2,554,948	2,554,948	129,319	-
Deposits	-	12,633	12,633	-	-
Unamortized bond issue costs	124,451	83,274	207,725	-	-
Total assets	\$ 39,468,740	\$ 17,028,973	\$ 56,497,713	\$ 12,147,181	\$ 14,254
LIABILITIES					
Accounts payable	\$ 772,548	\$ 341,276	\$ 1,113,824	\$ 54,209	\$ -
Accrued liabilities	349,531	51,077	400,608	1,231,075	-
Customers' deposits	-	578,987	578,987	-	-
Accrued interest payable	125,493	21,011	146,504	-	-
Due to primary government	-	-	-	300,950	339,486
Deferred revenue	35,850	-	35,850	-	-
Deposits held in escrow	27,429	-	27,429	-	-
Long-term liabilities:					
Due within one year	1,402,248	150,944	1,553,192	236,200	-
Due in more than one year	14,358,934	3,908,334	18,267,268	78,200	-
Total liabilities	\$ 17,072,033	\$ 5,051,629	\$ 22,123,662	\$ 1,900,634	\$ 339,486
NET ASSETS					
Invested in capital assets, net of related debt	\$ 17,477,560	\$ 9,228,349	\$ 26,705,909	\$ 9,903,308	\$ -
Unrestricted (deficit)	4,919,147	2,748,995	7,668,142	343,239	(325,232)
Total net assets	\$ 22,396,707	\$ 11,977,344	\$ 34,374,051	\$ 10,246,547	\$ (325,232)

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

CITY OF FRANKLIN, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 2,301,552	\$ 662,101	\$ 192,936	\$ -
Judicial administration	227,580	14,432	-	-
Public safety	5,786,765	510,261	757,465	-
Public works	4,497,628	1,469,356	1,361,711	25,090
Health and welfare	2,406,592	-	1,471,177	-
Education	4,633,929	-	-	24,107
Parks, recreation, and cultural	1,049,424	14,418	19,906	-
Community development	1,370,039	7,564	274,733	-
Interest on long-term debt	549,261	-	-	-
Total governmental activities	<u>\$ 22,822,770</u>	<u>\$ 2,678,132</u>	<u>\$ 4,077,928</u>	<u>\$ 49,197</u>
Business-type activities:				
Water and Sewer	\$ 3,069,237	\$ 3,276,636	\$ -	\$ -
Electric	10,319,351	12,142,738	-	-
Airport	572,686	188,257	-	2,023,538
Total business-type activities	<u>\$ 13,961,274</u>	<u>\$ 15,607,631</u>	<u>\$ -</u>	<u>\$ 2,023,538</u>
Total primary government	<u>\$ 36,784,044</u>	<u>\$ 18,285,763</u>	<u>\$ 4,077,928</u>	<u>\$ 2,072,735</u>
COMPONENT UNITS:				
School Board	\$ 16,455,859	\$ 143,770	\$ 11,426,072	\$ -
Industrial Development Authority	-	-	-	-
Total component units	<u>\$ 16,455,859</u>	<u>\$ 143,770</u>	<u>\$ 11,426,072</u>	<u>\$ -</u>

General revenues:

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

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
\$ (1,446,515)	\$	\$ (1,446,515)		
(213,148)		(213,148)		
(4,519,039)		(4,519,039)		
(1,641,471)		(1,641,471)		
(935,415)		(935,415)		
(4,609,822)		(4,609,822)		
(1,015,100)		(1,015,100)		
(1,087,742)		(1,087,742)		
(549,261)		(549,261)		
\$ (16,017,513)	\$	\$ (16,017,513)		
	\$ 207,399	\$ 207,399		
	1,823,387	1,823,387		
	1,639,109	1,639,109		
	\$ 3,669,895	\$ 3,669,895		
	\$ 3,669,895	\$ (12,347,618)		
			\$ (4,886,017)	\$ -
			-	-
			\$ (4,886,017)	\$ -
\$ 6,668,337	\$ -	\$ 6,668,337	\$ -	\$ -
1,589,864	-	1,589,864	-	-
1,203,730	-	1,203,730	-	-
843,227	-	843,227	-	-
619,809	-	619,809	-	-
654,377	-	654,377	-	-
1,316,661	-	1,316,661	-	-
354,881	6,445	361,326	482	21
305,705	-	305,705	343,509	-
-	-	-	4,569,996	-
1,673,064	-	1,673,064	-	-
1,490,165	(1,490,165)	-	-	-
\$ 16,719,820	\$ (1,483,720)	\$ 15,236,100	\$ 4,913,987	\$ 21
\$ 702,307	\$ 2,186,175	\$ 2,888,482	\$ 27,970	\$ 21
21,694,400	9,791,169	31,485,569	10,218,577	(325,253)
\$ 22,396,707	\$ 11,977,344	\$ 34,374,051	\$ 10,246,547	\$ (325,232)

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Fund Financial Statements

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Balance Sheet
Governmental Funds
June 30, 2010

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 3,067,662	\$ 364,110	\$ -	\$ 4,739	\$ 865,836	\$ 4,302,347
Receivables (net of allowance for uncollectibles):						
Property taxes receivable	650,245	-	-	-	-	650,245
Other taxes receivable	232,984	-	-	-	-	232,984
Accounts receivable	106,441	-	-	-	16,998	123,439
Interest receivable	-	-	-	-	529	529
Due from other funds	969,874	238,031	-	-	-	1,207,905
Due from component unit	640,436	-	-	-	-	640,436
Due from other governmental units	1,305,734	90,677	239,378	-	193,045	1,828,834
Restricted assets:						
Temporarily restricted:						
Cash and cash equivalents	-	-	-	834,736	-	834,736
Total assets	<u>\$ 6,973,376</u>	<u>\$ 692,818</u>	<u>\$ 239,378</u>	<u>\$ 839,475</u>	<u>\$ 1,076,408</u>	<u>\$ 9,821,455</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Reconciled overdraft	\$ -	\$ -	\$ 120,494	\$ 330,238	\$ 313,771	\$ 764,503
Accounts payable	605,008	145	-	-	167,395	772,548
Accrued liabilities	319,247	30,284	-	-	-	349,531
Due to other funds	238,031	-	-	-	-	238,031
Deferred revenue	599,554	-	-	-	-	599,554
Deposits held in escrow	-	-	-	-	27,429	27,429
Total liabilities	<u>\$ 1,761,840</u>	<u>\$ 30,429</u>	<u>\$ 120,494</u>	<u>\$ 330,238</u>	<u>\$ 508,595</u>	<u>\$ 2,751,596</u>
Fund balances:						
Reserved for:						
Debt service	\$ -	\$ -	\$ -	\$ 834,736	\$ -	\$ 834,736
Unreserved, reported in:						
General fund	5,211,536	-	-	-	-	5,211,536
Special revenue funds	-	662,389	-	-	431,753	1,094,142
Debt service funds	-	-	-	(325,499)	-	(325,499)
Capital projects funds	-	-	118,884	-	-	118,884
Permanent funds	-	-	-	-	136,060	136,060
Total fund balances	<u>\$ 5,211,536</u>	<u>\$ 662,389</u>	<u>\$ 118,884</u>	<u>\$ 509,237</u>	<u>\$ 567,813</u>	<u>\$ 7,069,859</u>
Total liabilities and fund balances	<u>\$ 6,973,376</u>	<u>\$ 692,818</u>	<u>\$ 239,378</u>	<u>\$ 839,475</u>	<u>\$ 1,076,408</u>	<u>\$ 9,821,455</u>

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

Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
June 30, 2010

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 7,069,859

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

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

Capital assets, cost	\$ 53,839,643	
Less: accumulated depreciation	<u>(23,314,275)</u>	30,525,368

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

Deferred revenue	\$ 563,704	
Unamortized bond issue costs	<u>124,451</u>	688,155

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

Bonds, notes and loans payable, net of premium and deferred amounts	\$ (13,463,660)	
Interest payable	(125,493)	
Capital lease obligations	(418,884)	
Compensated absences	(706,097)	
Other postemployment benefits obligation	(236,800)	
Landfill closure cost liability	<u>(935,741)</u>	<u>(15,886,675)</u>

Net assets of governmental activities	\$	<u><u>22,396,707</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General	Virginia Public Assistance	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES						
General property taxes	\$ 6,530,638	\$ -	\$ -	\$ -	\$ -	6,530,638
Other local taxes	5,496,343	-	-	-	-	5,496,343
Permits, privilege fees, and regulatory licenses	42,070	-	-	-	-	42,070
Fines and forfeitures	62,877	-	-	-	-	62,877
Revenue from the use of money and property	255,291	-	-	20,436	79,154	354,881
Charges for services	2,573,185	-	-	-	-	2,573,185
Miscellaneous	1,465,500	-	-	-	156,866	1,622,366
Recovered costs	100,749	-	-	-	-	100,749
Intergovernmental revenues:						
Local government	-	-	-	-	-	-
Commonwealth	3,126,636	422,226	-	24,107	243,664	3,816,633
Federal	363,110	805,287	25,090	-	204,733	1,398,220
Total revenues	\$ 20,016,399	\$ 1,227,513	\$ 25,090	\$ 44,543	\$ 684,417	\$ 21,997,962
EXPENDITURES						
Current:						
General government administration	\$ 2,083,550	\$ -	\$ -	\$ -	\$ -	2,083,550
Judicial administration	226,508	-	-	-	-	226,508
Public safety	5,243,890	-	-	-	135,594	5,379,484
Public works	4,253,984	-	-	-	-	4,253,984
Health and welfare	209,983	1,677,316	-	-	427,467	2,314,766
Education	4,490,040	-	-	-	-	4,490,040
Parks, recreation, and cultural	857,680	-	-	-	19,881	877,561
Community development	844,361	-	-	-	642,128	1,486,489
Nondepartmental	57,139	-	-	-	4,236	61,375
Capital projects	-	-	46,127	-	-	46,127
Debt service:						
Principal retirement	104,588	-	-	1,069,350	-	1,173,938
Interest and other fiscal charges	15,518	-	-	1,051,190	-	1,066,708
Total expenditures	\$ 18,387,241	\$ 1,677,316	\$ 46,127	\$ 2,120,540	\$ 1,229,306	\$ 23,460,530
Excess (deficiency) of revenues over (under) expenditures	\$ 1,629,158	\$ (449,803)	\$ (21,037)	\$ (2,075,997)	\$ (544,889)	\$ (1,462,568)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 1,559,891	\$ 452,459	\$ 50,000	\$ 1,731,032	\$ 345,646	4,139,028
Transfers out	(2,648,863)	-	-	-	-	(2,648,863)
Premium on issuance of bonds	-	-	-	84,500	-	84,500
Payment to refunding bond escrow agent	-	-	-	(4,828,997)	-	(4,828,997)
Issuance of G.O. refunding bonds	-	-	-	5,235,000	-	5,235,000
Total other financing sources (uses)	\$ (1,088,972)	\$ 452,459	\$ 50,000	\$ 2,221,535	\$ 345,646	\$ 1,980,668
Net change in fund balances	\$ 540,186	\$ 2,656	\$ 28,963	\$ 145,538	\$ (199,243)	518,100
Fund balances - beginning	4,671,350	659,733	89,921	363,699	767,056	6,551,759
Fund balances - ending	\$ 5,211,536	\$ 662,389	\$ 118,884	\$ 509,237	\$ 567,813	\$ 7,069,859

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

Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2010

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

Net change in fund balances - total governmental funds	\$	518,100
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following is a computation of these differences.

Capital asset additions	\$	756,987	
Depreciation expense		<u>(1,872,944)</u>	(1,115,957)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(1,521)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	137,699
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This following is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt, net of premiums and deferred amount on refunding	\$	(4,982,520)	
Principal payments		1,238,450	
Unamortized bond issue costs		124,451	
Payment to refunding bond escrow agent		4,828,997	
Increase in landfill liability		<u>(6,505)</u>	1,202,873

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

Compensated absences	\$	12,297	
Other postemployment benefits		(107,200)	
Accrued interest		<u>56,016</u>	<u>(38,887)</u>

Change in net assets of governmental activities	\$	<u><u>702,307</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Assets
 Proprietary Funds
 June 30, 2010

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,443,549	\$ 1,304,140	\$ -	\$ 2,747,689
Accounts receivable, net of allowances for uncollectibles	356,038	1,665,303	11,004	2,032,345
Inventories	-	-	40,579	40,579
Unamortized bond issue costs - current portion	3,931	2,017	-	5,948
Total current assets	<u>\$ 1,803,518</u>	<u>\$ 2,971,460</u>	<u>\$ 51,583</u>	<u>\$ 4,826,561</u>
Noncurrent assets:				
Other assets:				
Deposits	\$ -	\$ -	\$ 12,633	\$ 12,633
Unamortized bond issue costs	51,100	26,226	-	77,326
Capital assets:				
Buildings	-	34,966	1,405,576	1,440,542
Equipment and furniture/fixtures	995,109	1,927,916	262,595	3,185,620
Infrastructure	14,351,115	12,565,660	3,378,893	30,295,668
Less: accumulated depreciation	(11,500,140)	(9,618,815)	(3,225,227)	(24,344,182)
Construction in progress	442,249	-	2,112,699	2,554,948
Total capital assets	<u>\$ 4,288,333</u>	<u>\$ 4,909,727</u>	<u>\$ 3,934,536</u>	<u>\$ 13,132,596</u>
Total noncurrent assets	<u>\$ 4,339,433</u>	<u>\$ 4,935,953</u>	<u>\$ 3,947,169</u>	<u>\$ 13,222,555</u>
Total assets	<u>\$ 6,142,951</u>	<u>\$ 7,907,413</u>	<u>\$ 3,998,752</u>	<u>\$ 18,049,116</u>
LIABILITIES				
Current liabilities:				
Reconciled overdraft	\$ -	\$ -	\$ 50,269	\$ 50,269
Accounts payable	214,672	95,583	31,021	341,276
Accrued liabilities	19,875	28,752	2,450	51,077
Customers' deposits	-	578,987	-	578,987
Accrued interest payable	13,045	7,966	-	21,011
Due to other funds	-	-	969,874	969,874
Compensated absences	40,071	51,389	4,371	95,831
Current portion of long-term liabilities	55,113	-	-	55,113
Total current liabilities	<u>\$ 342,776</u>	<u>\$ 762,677</u>	<u>\$ 1,057,985</u>	<u>\$ 2,163,438</u>
Noncurrent liabilities:				
Long-term liabilities - less current portion	<u>\$ 2,768,101</u>	<u>\$ 1,137,273</u>	<u>\$ 2,960</u>	<u>\$ 3,908,334</u>
Total noncurrent liabilities	<u>\$ 2,768,101</u>	<u>\$ 1,137,273</u>	<u>\$ 2,960</u>	<u>\$ 3,908,334</u>
Total liabilities	<u>\$ 3,110,877</u>	<u>\$ 1,899,950</u>	<u>\$ 1,060,945</u>	<u>\$ 6,071,772</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 1,488,799	\$ 3,805,014	\$ 3,934,536	\$ 9,228,349
Unrestricted	1,543,275	2,202,449	(996,729)	2,748,995
Total net assets	<u>\$ 3,032,074</u>	<u>\$ 6,007,463</u>	<u>\$ 2,937,807</u>	<u>\$ 11,977,344</u>

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

Statement of Revenues, Expenses, and Changes in Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2010

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
OPERATING REVENUES				
Charges for services	\$ 3,255,957	\$ 11,899,335	\$ 187,159	\$ 15,342,451
Miscellaneous	179	77,184	1,098	78,461
Total operating revenues	<u>\$ 3,256,136</u>	<u>\$ 11,976,519</u>	<u>\$ 188,257</u>	<u>\$ 15,420,912</u>
OPERATING EXPENSES				
Salaries and benefits	\$ 715,116	\$ 899,932	\$ 98,575	\$ 1,713,623
Purchased services/goods - for resale	-	7,993,270	104,636	8,097,906
Contractual services	161,333	177,641	4,443	343,417
Utilities	169,255	18,942	16,742	204,939
Repairs and maintenance	470,619	42,471	12,327	525,417
Supplies and small equipment	171,556	204,659	4,068	380,283
Insurance	91,968	20,451	18,226	130,645
Taxes and licenses	12,798	515	-	13,313
Travel and training	-	1,665	-	1,665
Other charges	2,750	23,415	3,152	29,317
Payment to general fund for services and taxes	341,334	355,596	2,020	698,950
Depreciation and amortization	824,328	501,496	308,497	1,634,321
Total operating expenses	<u>\$ 2,961,057</u>	<u>\$ 10,240,053</u>	<u>\$ 572,686</u>	<u>\$ 13,773,796</u>
Operating income (loss)	<u>\$ 295,079</u>	<u>\$ 1,736,466</u>	<u>\$ (384,429)</u>	<u>\$ 1,647,116</u>
NONOPERATING REVENUES (EXPENSES)				
Connection fees	\$ 20,500	\$ 21,520	\$ -	\$ 42,020
Interest income	2,860	3,585	-	6,445
Cut-off fees and penalties	-	144,699	-	144,699
Interest expense	(108,180)	(79,298)	-	(187,478)
Total nonoperating revenues (expenses)	<u>\$ (84,820)</u>	<u>\$ 90,506</u>	<u>\$ -</u>	<u>\$ 5,686</u>
Income before capital grants and transfers	<u>\$ 210,259</u>	<u>\$ 1,826,972</u>	<u>\$ (384,429)</u>	<u>\$ 1,652,802</u>
Capital grants:				
Commonwealth	\$ -	\$ -	\$ 21,551	\$ 21,551
Federal	-	-	2,001,987	2,001,987
Transfers in	1,226	897	67,603	69,726
Transfers out	-	(1,559,891)	-	(1,559,891)
Change in net assets	<u>\$ 211,485</u>	<u>\$ 267,978</u>	<u>\$ 1,706,712</u>	<u>\$ 2,186,175</u>
Total net assets - beginning	<u>2,820,589</u>	<u>5,739,485</u>	<u>1,231,095</u>	<u>9,791,169</u>
Total net assets - ending	<u>\$ 3,032,074</u>	<u>\$ 6,007,463</u>	<u>\$ 2,937,807</u>	<u>\$ 11,977,344</u>

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

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2010

	Water and Sewer Fund	Electric Fund	Airport Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 3,441,713	\$ 11,719,944	\$ 181,560	\$ 15,343,217
Payments to suppliers for goods and services	(1,403,586)	(8,790,532)	(193,013)	(10,387,131)
Payments to and on behalf of employees	(718,189)	(860,594)	(96,016)	(1,674,799)
Net cash provided (used) by operating activities	\$ 1,319,938	\$ 2,068,818	\$ (107,469)	\$ 3,281,287
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ -	\$ (1,559,891)	\$ -	\$ (1,559,891)
Transfers from other funds	1,226	897	67,603	69,726
Net cash provided (used) by noncapital financing activities	\$ 1,226	\$ (1,558,994)	\$ 67,603	\$ (1,490,165)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants	\$ -	\$ -	\$ 2,023,538	\$ 2,023,538
Acquisition and construction of capital assets	(269,541)	(178,616)	(1,991,429)	(2,439,586)
Proceeds from refunding bonds net of premiums/deferred costs	2,184,093	1,076,470	-	3,260,563
Principal paid on capital debt	(436,876)	(84,251)	-	(521,127)
Payment to refunding bond escrow agent	(2,171,485)	(1,070,000)	-	(3,241,485)
Interest paid on capital debt	(147,458)	(71,927)	-	(219,385)
Connection and cut-off fees	20,500	166,219	-	186,719
Net cash provided (used) by capital and related financing activities	\$ (820,767)	\$ (162,105)	\$ 32,109	\$ (950,763)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 2,860	\$ 3,585	\$ -	\$ 6,445
Net cash provided (used) by investing activities	\$ 2,860	\$ 3,585	\$ -	\$ 6,445
Net increase (decrease) in cash and cash equivalents	\$ 503,257	\$ 351,304	\$ (7,757)	\$ 846,804
Cash and cash equivalents - beginning	940,292	952,836	(42,512)	1,850,616
Cash and cash equivalents - ending	\$ 1,443,549	\$ 1,304,140	\$ (50,269)	\$ 2,697,420
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 295,079	\$ 1,736,466	\$ (384,429)	\$ 1,647,116
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	\$ 824,328	\$ 501,496	\$ 308,497	\$ 1,634,321
(Increase) decrease in accounts receivable	185,577	(256,575)	(6,697)	(77,695)
(Increase) decrease in inventories	-	-	(1,563)	(1,563)
Increase (decrease) in accounts payable	1,161	64,381	(22,058)	43,484
Increase (decrease) in accrued liabilities	2,648	(16,480)	(439)	(14,271)
Increase (decrease) in compensated absences	425	(22,858)	(2,120)	(24,553)
Increase (decrease) in other postemployment benefits	10,720	14,740	1,340	26,800
Increase (decrease) in customer deposits	-	47,648	-	47,648
Total adjustments	\$ 1,024,859	\$ 332,352	\$ 276,960	\$ 1,634,171
Net cash provided (used) by operating activities	\$ 1,319,938	\$ 2,068,818	\$ (107,469)	\$ 3,281,287

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

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 127,233
Total assets	\$ <u>127,233</u>
LIABILITIES	
Amounts held for others	\$ 127,233
Total liabilities	\$ <u>127,233</u>

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

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

A. Government-wide and Fund Financial Statements

Management's Discussion and Analysis

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

Government-Wide Financial Statements

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

Statement of Net Assets

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

Statement of Activities

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

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

Budgetary Comparison Schedules

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

B. Other Related Organizations

Included in the City's Financial Report

None

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

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

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

Government-Wide and Fund Accounting Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

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

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

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

The fund financial statements of the General, Capital Projects, Debt Service, and Special Revenue Funds are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenues and other local taxes, the term “available” is limited to collections within 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.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

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

Governmental Funds

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

General Fund

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

Special Revenue Funds

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

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

Special Revenue Funds: (Continued)

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

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

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

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

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

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

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

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

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

Debt Service Fund

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

Capital Projects Fund

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

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

Permanent Funds

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

Proprietary Funds

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the primary government's business activities are accounted for through proprietary funds. The measurement focus is on the determination of net income, financial position, and cash flows. Proprietary Funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Proprietary Funds are charges for services. Operating expenses include cost of sales and services, personnel, contractual services, and depreciation. The City applies all GASB as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements. The City's proprietary funds consist of only enterprise funds.

Enterprise Funds

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

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

Fiduciary Funds

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

Trust and Agency Funds

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

Agency Funds

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

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

Franklin-Southampton Economic Development Commission-accounts for monies received from the City and Southampton County to promote business development.

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

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

Discretely Presented Component Units

City of Franklin Public Schools

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

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

Industrial Development Authority

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

D. Budgets and Budgetary Accounting

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

D. Budgets and Budgetary Accounting: (Continued)

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

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

E. Allowance for Uncollectible Accounts

The City calculates its allowances for uncollectible property taxes, refuse collection and utility service charges using historical collection data. At June 30, 2010, the allowance attributed to property taxes amounted to \$212,864, refuse collection in the amount of \$32,156 and utility service charges in the amount of \$1,139,310.

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.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

H. Capital Assets: (Continued)

The estimated useful lives of capital assets are as follows:

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

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

I. Compensated Absences

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

J. Deferred Revenue

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

K. Statement of Cash Flows

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

L. Estimates

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

M. Credit Risk

The assessed value of real estate and personal property for the City's ten largest taxpayers comprise 13.24% and 12.56% of the City's real estate and personal property tax base, respectively. Concentration of credit risk with respect to receivables is limited due to the large number of citizens comprising the City's taxpayer base.

N. Net Assets/Fund Equity

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

In the fund financial statements, City funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2—DEPOSITS AND INVESTMENTS:

Deposits

All cash of the primary government and its discretely presented component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

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

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

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 one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investors Service.

Interest Rate Risk

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

NOTE 3—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Interfund balances at June 30, 2010 were as follows:

	<u>Interfund receivable</u>	<u>Interfund payable</u>
Major funds:		
General	\$ 969,874	\$ 238,031
Virginia public assistance	238,031	-
Proprietary funds:		
Airport	-	969,874
Total	<u>\$ 1,207,905</u>	<u>\$ 1,207,905</u>

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

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

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

Interfund transfers for the year ended June 30, 2010 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major funds:		
General	\$ 1,559,891	\$ 2,648,863
Virginia public assistance	452,459	-
Capital projects	50,000	-
Debt service	1,731,032	-
Nonmajor governmental funds:		
Comprehensive services act	140,000	-
Economic development	205,646	-
Proprietary funds:		
Water and sewer	1,226	-
Airport	67,603	-
Electric	897	1,559,891
Total	<u>\$ 4,208,754</u>	<u>\$ 4,208,754</u>

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

NOTE 4—RECEIVABLES:

Receivables in the fund statements at June 30, 2010, are as follows:

Primary Government

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Business- type Activities</u>	<u>Total</u>
Real estate taxes	\$ 548,671	\$ -	\$ -	\$ 548,671
Personal property taxes	314,438	-	-	314,438
Other taxes	232,984	-	-	232,984
Accounts receivable	138,597	16,998	3,171,655	3,327,250
	<u>\$ 1,234,690</u>	<u>\$ 16,998</u>	<u>\$ 3,171,655</u>	<u>\$ 4,423,343</u>
Less-allowance for uncollectible accounts:				
Property taxes	(212,864)	-	-	(212,864)
Refuse collection	(32,156)	-	-	(32,156)
Utility service charges	-	-	(1,139,310)	(1,139,310)
Receivables - net	<u>\$ 989,670</u>	<u>\$ 16,998</u>	<u>\$ 2,032,345</u>	<u>\$ 3,039,013</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 5—DUE FROM OTHER GOVERNMENTS:

Due from other governments consists of the following at June 30, 2010:

Primary Government

	General	Virginia Public Assistance	Capital Projects	Nonmajor Governmental Funds	Total
Commonwealth of Virginia:					
Sales tax	\$ 280,391	\$ -	\$ -	\$ -	\$ 280,391
Rolling stock tax	5,689	-	-	-	5,689
Recordation tax	2,969	-	-	-	2,969
Auto rental tax	4,256	-	-	-	4,256
Communication tax	98,167	-	-	-	98,167
Compensation Board	14,262	-	-	-	14,262
Comprehensive Services Act	-	-	-	102,347	102,347
Department of Social Services	-	31,752	-	-	31,752
Total due from the Commonwealth of Virginia	<u>\$ 405,734</u>	<u>\$ 31,752</u>	<u>\$ -</u>	<u>\$ 102,347</u>	<u>\$ 539,833</u>
Federal Government:					
Department of Social Services	\$ -	\$ 58,925	\$ -	\$ -	\$ 58,925
Department of Transportation	-	-	239,378	-	239,378
Department of Housing and Community Development	-	-	-	90,698	90,698
Total due from federal government	<u>\$ -</u>	<u>\$ 58,925</u>	<u>\$ 239,378</u>	<u>\$ 90,698</u>	<u>\$ 389,001</u>
Local Governments:					
Isle of Wight County-revenue sharing	\$ 900,000	\$ -	\$ -	\$ -	\$ 900,000
Total due from local governments	<u>\$ 900,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 900,000</u>
Total due from other governments	<u>\$ 1,305,734</u>	<u>\$ 90,677</u>	<u>\$ 239,378</u>	<u>\$ 193,045</u>	<u>\$ 1,828,834</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 5—DUE FROM OTHER GOVERNMENTS: (CONTINUED)

Component Units

	<u>School Board</u>
Commonwealth of Virginia:	
State sales tax	\$ 204,158
Total due from the Commonwealth of Virginia	\$ 204,158
Federal Government:	
Title I	117,437
Title II, Part A	1,214
Special education cluster	108,361
School nutrition cluster	34,101
Drug free schools	2,393
Other	10,176
Total due from federal government	\$ 273,682
Total due from other governments	\$ 477,840

NOTE 6—DUE FROM/TO PRIMARY GOVERNMENT AND COMPONENT UNITS:

Details of the receivables and payables between the primary government and component units at June 30, 2010, are as follows:

<u>Primary Government Receivable Fund</u>	<u>Component Unit Payable</u>	
City General Fund	Industrial Development Authority	\$ 339,486
City General Fund	School General Fund	<u>300,950</u>
	Total	\$ 640,436

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 7—CAPITAL ASSETS:

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

Governmental Activities

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated				
Land	\$ 5,060,480	\$ 9,500	\$ -	\$ 5,069,980
Construction in progress	1,801,871	-	1,801,871	-
Total capital assets not being depreciated	\$ 6,862,351	\$ 9,500	\$ 1,801,871	\$ 5,069,980
Other capital assets				
Buildings	\$ 16,279,508	\$ 1,361,354	\$ -	\$ 17,640,862
Improvements other than buildings	3,120,844	30,458	-	3,151,302
Machinery and equipment	8,355,451	214,496	222,888	8,347,059
Infrastructure	13,799,304	943,050	-	14,742,354
Total other capital assets	\$ 41,555,107	\$ 2,549,358	\$ 222,888	\$ 43,881,577
Less-accumulated depreciation				
Buildings	\$ (3,454,589)	\$ (364,305)	\$ -	\$ (3,818,894)
Improvements other than buildings	(1,231,921)	(152,342)	-	(1,384,263)
Machinery and equipment	(5,305,816)	(700,531)	221,367	(5,784,980)
Infrastructure	(9,495,486)	(558,004)	-	(10,053,490)
Total accumulated depreciation	\$ (19,487,812)	\$ (1,775,182)	\$ 221,367	\$ (21,041,627)
Other capital assets - net	\$ 22,067,295	\$ 774,176	\$ 1,521	\$ 22,839,950
Subtotal capital assets, net	\$ 28,929,646	\$ 783,676	\$ 1,803,392	\$ 27,909,930
Allocation of School Board				
Buildings	\$ 4,888,086	\$ -	\$ -	\$ 4,888,086
Less-accumulated depreciation				
Buildings	(2,174,886)	(97,762)	-	(2,272,648)
Total allocated to City	\$ 2,713,200	\$ (97,762)	\$ -	\$ 2,615,438
Total capital assets, governmental activities, net	\$ 31,642,846	\$ 685,914	\$ 1,803,392	\$ 30,525,368

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

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

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

General Governmental Administration	\$	342,319
Public Safety		561,179
Public Works		639,424
Health and Welfare		51,978
Parks, Recreation, and Cultural		180,282
Education		97,762
Total	\$	<u>1,872,944</u>

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

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated				
Construction in progress	\$ 563,518	\$ 1,991,430	\$ -	\$ 2,554,948
Total capital assets not being depreciated	<u>\$ 563,518</u>	<u>\$ 1,991,430</u>	<u>\$ -</u>	<u>\$ 2,554,948</u>
Other capital assets				
Buildings	\$ 1,440,542	\$ -	\$ -	\$ 1,440,542
Infrastructure	29,866,908	428,759	-	30,295,667
Machinery and equipment	3,166,223	19,397	-	3,185,620
Total other capital assets	<u>\$ 34,473,673</u>	<u>\$ 448,156</u>	<u>\$ -</u>	<u>\$ 34,921,829</u>
Less - accumulated depreciation				
Buildings	\$ (932,231)	\$ (87,906)	\$ -	\$ (1,020,137)
Infrastructure	(19,251,472)	(1,372,330)	-	(20,623,802)
Machinery and equipment	(2,526,157)	(174,085)	-	(2,700,242)
Total accumulated depreciation	<u>\$ (22,709,860)</u>	<u>\$ (1,634,321)</u>	<u>\$ -</u>	<u>\$ (24,344,181)</u>
Subtotal capital assets, net	<u>\$ 11,763,813</u>	<u>\$ (1,186,165)</u>	<u>\$ -</u>	<u>\$ 10,577,648</u>
Total capital assets, business-type activities, net	<u>\$ 12,327,331</u>	<u>\$ 805,265</u>	<u>\$ -</u>	<u>\$ 13,132,596</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

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

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 129,319	\$ -	\$ 129,319
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ 129,319</u>	<u>\$ -</u>	<u>\$ 129,319</u>
Other capital assets				
Land improvement	\$ 144,911	\$ -	\$ -	\$ 144,911
Buildings	12,668,140	-	-	12,668,140
Infrastructure	4,292,955	-	-	4,292,955
Machinery and equipment	2,996,061	119,909	-	3,115,970
Total other capital assets	<u>\$ 20,102,067</u>	<u>\$ 119,909</u>	<u>\$ -</u>	<u>\$ 20,221,976</u>
Less - accumulated depreciation				
Land improvements	\$ (75,564)	\$ (3,241)	\$ -	\$ (78,805)
Buildings	(5,075,330)	(213,934)	-	(5,289,264)
Infrastructure	(285,605)	(56,061)	-	(341,666)
Machinery and equipment	(1,891,574)	(231,240)	-	(2,122,814)
Total accumulated depreciation	<u>\$ (7,328,073)</u>	<u>\$ (504,476)</u>	<u>\$ -</u>	<u>\$ (7,832,549)</u>
Other capital assets - net	<u>\$ 12,773,994</u>	<u>\$ (384,567)</u>	<u>\$ -</u>	<u>\$ 12,389,427</u>
Allocation to City				
Buildings	\$ (4,888,086)	\$ -	\$ -	\$ (4,888,086)
Less - accumulated depreciation				
Buildings	<u>2,174,886</u>	<u>97,762</u>	<u>-</u>	<u>2,272,648</u>
Total allocated to City	<u>\$ (2,713,200)</u>	<u>\$ 97,762</u>	<u>\$ -</u>	<u>\$ (2,615,438)</u>
Total capital assets, net	<u><u>\$ 10,060,794</u></u>	<u><u>\$ (157,486)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,903,308</u></u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS:

Following is a summary of the changes in long-term liabilities for governmental activities of the primary government and its Component Unit-School Board, respectively, for the year ended June 30, 2010.

	<u>Balance</u> <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due within</u> <u>one year</u>
Governmental Obligations:					
Primary Government:					
General obligation bonds	\$ 13,899,488	\$ 5,235,000	\$ 5,678,347	\$ 13,456,141	\$ 285,871
Premium on bond issuance	-	84,500	-	84,500	-
Deferred amount on refunding	-	(336,980)	-	(336,980)	-
Literary loans payable	200,000	-	100,000	100,000	100,000
Notes payable	280,000	-	120,000	160,000	160,000
Capital lease obligations	587,983	-	169,100	418,883	150,280
Landfill postclosure/ corrective action	929,236	6,505	-	935,741	-
Compensated absences	718,394	-	12,297	706,097	706,097
Other postemployment benefits	129,600	236,000	128,800	236,800	-
Total - Primary Government	<u>\$ 16,744,701</u>	<u>\$ 5,225,025</u>	<u>\$ 6,208,544</u>	<u>\$ 15,761,182</u>	<u>\$ 1,402,248</u>
Component Unit-School Board:					
Compensated absences	\$ 222,450	\$ 13,750	\$ -	\$ 236,200	\$ 236,200
Other postemployment benefits	41,400	75,700	38,900	78,200	-
Total School Board	<u>\$ 263,850</u>	<u>\$ 89,450</u>	<u>\$ 38,900</u>	<u>\$ 314,400</u>	<u>\$ 236,200</u>
Total Governmental Obligations	<u><u>\$ 17,008,551</u></u>	<u><u>\$ 5,314,475</u></u>	<u><u>\$ 6,247,444</u></u>	<u><u>\$ 16,075,582</u></u>	<u><u>\$ 1,638,448</u></u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

General obligation debt of the governmental activities at June 30, 2010, is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2010
General obligation bonds -					
Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	\$ 5,235,000	\$ 5,235,000
Public Improvement Series 2001C	10/01/01	01/15/22	6.00	685,000	515,000
Public Improvement Series 2002	10/02/02	09/01/42	4.625	2,500,000	2,323,062
Public Improvement Series 1999A	05/28/99	07/15/19	3.970	2,041,330	877,034
Public Improvement Series 2003C	12/04/03	01/15/27	5.550	565,000	496,792
Public Improvement Series 2004	12/01/04	12/01/14	3.640	310,000	168,340
Public Improvement Series 2008	02/15/08	01/15/18	3.56	400,000	333,000
Virginia General Obligation Qualified Zone Academy Bond, Series 2005	12/29/05	12/20/20	-	2,214,429	2,214,429
City of Franklin, Virginia School Bond Series 1992	11/01/92	07/15/12	4.90-6.35	285,325	55,811
Virginia Public School Authority Series 1995A	12/21/95	01/15/16	5.10-6.10	567,942	203,605
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	34,068
Total bonds payable					\$ 13,456,141
Loans payable:					
Literary Fund loan-Middle School	03/15/91	03/15/11	2.000	2,000,000	\$ 100,000
Total loans payable					\$ 100,000
Total general obligation debt					\$ 13,556,141

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

Note Payable

During 2006 the City purchased land and issued a note payable for \$640,000, payable in annual installments of \$120,000, with a balloon payment of \$160,000 in 2011. Principal payments are as follows:

Fiscal Year Ending June 30,	Principal
2011	\$ 160,000
	\$ 160,000

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 285,871	\$ 373,464
2012	310,032	406,777
2013	706,609	390,403
2014	994,472	366,137
2015	748,550	335,995
2016-2020	4,314,088	1,271,263
2021-2025	4,261,235	643,017
2026-2030	537,850	350,476
2031-2035	441,644	251,356
2036-2040	556,302	136,699
2041-2043	299,488	16,447
	<u>\$ 13,456,141</u>	<u>\$ 4,542,034</u>

Debt service on the preceding literary loans payable for future fiscal years is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 100,000	\$ 2,000
Total	<u>\$ 100,000</u>	<u>\$ 2,000</u>

Following is a schedule of capital lease obligations:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate %</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2010</u>
Voice over IP	12/20/06	12/20/11	4.82	315,624	\$ 102,777
Garbage Truck	10/05/07	09/30/12	4.15	187,524	95,510
E-911 Equipment	04/14/08	06/30/13	3.71	270,687	220,596
					<u>\$ 418,883</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Future minimum lease payments under capital leases with the present value (outstanding principal) of the net minimum lease payments as of June 30, 2010, are as follows:

Fiscal Year Ending June 30,		
2011	\$	165,422
2012		129,841
2013		94,259
2014		59,744
Total minimum lease payments		449,266
Less-amount representing interest		(30,383)
Present value of net minimum lease payments	\$	<u><u>418,883</u></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, 2010, the City's aggregate general obligation indebtedness is approximately \$49.1 million less than the Commonwealth's limit as summarized in the following table:

Total assessed value of taxed assessed value		
Assessed value of real estate	\$	<u><u>672,386,243</u></u>
 Debt limit - 10% of total assessed value	 \$	 67,238,624
 Amount of debt applicable to debt limit		
General obligation debt:		
Primary government	\$	13,456,141
Business-type		3,435,000
Capital leases		418,883
Virginia Resources Authority revolving loan		560,409
State Literary Fund loans - Component Unit -		
School Board		100,000
Note payable		160,000
Legal debt margin	\$	<u><u>18,130,433</u></u>
		<u><u>49,108,191</u></u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Note: The City was in compliance with all significant financial covenants contained in the various indentures at June 30, 2010.

Long-Term Liabilities - Business-Type Activities

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

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within One year
Bonds payable	\$ 3,689,865	\$ 3,435,000	\$ 3,689,865	\$ 3,435,000	\$ -
Premium on bond issuance	-	55,445	-	55,445	-
Deferred amount on refunding	-	(146,607)		(146,607)	
Capital lease obligation	19,252	-	19,252	-	-
Revolving loan	613,905	-	53,496	560,409	55,113
Total bonds and loans	\$ 4,323,022	\$ 3,343,838	\$ 3,762,613	\$ 3,904,247	\$ 55,113
Compensated absences	120,384	-	24,553	95,831	95,831
Other postemployment benefits	32,400	59,000	32,200	59,200	-
Total long-term liabilities	<u>\$ 4,475,806</u>	<u>\$ 3,402,838</u>	<u>\$ 3,819,366</u>	<u>\$ 4,059,278</u>	<u>\$ 150,944</u>

Long-term obligations, other than the capital lease, of the business-type activities at June 30, 2010, are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Authorized and Issued	Outstanding June 30, 2010
General obligation bonds - Public Improvement and Refunding Series 2010	04/27/10	01/15/26	2.00-4.50	\$ 3,435,000	\$ 3,435,000
Total bonds payable					\$ 3,435,000
Virginia Resources Authority - revolving loan	04/30/99	07/01/19	3.00	1,050,000	560,409
Total bonds payable and line of credit					<u>\$ 3,995,409</u>

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

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

Fiscal Year Ending June 30,	Principal	Interest
2011	\$ 55,113	\$ 92,216
2012	56,778	120,524
2013	58,495	118,808
2014	480,263	117,040
2015	577,084	106,818
2016-2020	2,267,676	293,632
2021-2024	500,000	40,650
	<u>\$ 3,995,409</u>	<u>\$ 889,688</u>

Defeased Debt

On April 27, 2010, the City issued General Obligation Public Improvement Refunding Bonds, Series 2010, in the amount of \$8,670,000 with interest rates of 2.0% to 4.5% to advance refund a portion of the following bond issues and related interest rates:

Refunding Series 1998A	3.60% - 4.60%
Series 1998B (Proprietary Debt)	3.60% - 4.87%
Series 2001B	3.00% - 5.00%
Series 2003B	3.64%
Series 2006	3.82%

The refunding bonds, Series 2010 were issued at a premium of \$139,945, with issuance costs of \$255,875 and payments to the refunding bond escrow agent totaling \$8,070,483 resulting in an economic loss of \$483,587. The proceeds from the refunding bonds, Series 2010 were allocated between the governmental activities and proprietary fund in the amounts of \$5,235,000 and \$3,435,000, respectively.

NOTE 9—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 \$706,097 and \$95,831, respectively, as of June 30, 2010.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 9—COMPENSATED ABSENCES: (CONTINUED)

City employees no longer earn sick leave. A new policy was adopted on January 1, 2002, in which all compensated absences are classified as annual leave. Any unused sick leave accrued as of January 1, 2002, was placed in a “sick leave bank” which can be used in the event of illness or injury in lieu of using paid time off days. Up to 3 days of banked sick leave may also be used annually for the sickness of an immediate family member. Employees who leave employment after 5 years or more of continuous service are paid for 25% of their sick leave balance (earned prior to January 1, 2002) based on their final rate of pay; however, the total amount of sick leave compensation may not exceed \$2,500. At June 30, 2010, accumulated unpaid sick leave for the governmental and business-type activities amounted to \$80,916 and \$5,904, respectively.

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

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

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

All employees of the City of Franklin Public Schools earn one day per month of sick leave. Employees who retire under provisions of the Virginia Retirement System Act while employed by the City of Franklin Public Schools will receive severance compensation for unused sick leave at a rate of \$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, 2010 accumulated unpaid vacation and sick leave amounted to \$169,912 and \$66,288, respectively.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 10—DEFINED PENSION BENEFIT OBLIGATION:

A. Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and if the employer elects, for other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. The City has elected to assume the 5.00% member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2010 was 9.73% of annual covered payroll.

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

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. The School Board has elected to assume the 5.00% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2010 was 8.01% of annual covered payroll.

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 10—DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

C. Annual Pension CostPrimary Government

For fiscal year 2010, the City's annual pension cost of \$642,989 was equal to the City's required and actual contributions (does not include employee share in the amount of \$330,416 which was assumed by the City).

Three-Year Trend Information - Primary Government

Fiscal Year Ending	Annual Pension Cost (APC)¹	Percentage of APC Contributed	Net Pension Obligation
6/30/08	\$ 655,648	100%	\$ -
6/30/09	671,065	100%	-
6/30/10	642,989	100%	-

¹Employer portion only

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years.

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

For fiscal year 2010, the School Board's annual pension cost of \$35,674 was equal to the School Board's required and actual contributions (does not include employee share in the amount of \$22,269 which was assumed by the School Board).

Three-Year Trend Information for School Board - Component Unit

Fiscal Year Ending	Annual Pension Cost (APC)¹	Percentage of APC Contributed	Net Pension Obligation
6/30/08	\$ 38,673	100%	\$ -
6/30/09	38,286	100%	-
6/30/10	35,674	100%	-

¹Employer portion only

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 10—DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

C. Annual Pension Cost: (Continued)

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years.

D. Funded Status and Funding Progress

Primary Government

As of June 30, 2009, the most recent actuarial valuation date, the plan was 84.26% funded. The actuarial accrued liability for benefits was \$28,434,041, and the actuarial value of assets was \$23,959,0707, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,474,971. The covered payroll (annual payroll of active employees covered by the plan) was \$7,077,456, and ratio of the UAAL to the covered payroll was 63.23%.

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

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

As of June 30, 2009, the most recent actuarial valuation date, the plan was 86.59% funded. The actuarial accrued liability for benefits was \$1,552,283, and the actuarial value of assets was \$1,344,094, resulting in an unfunded actuarial accrued liability (UAAL) of \$208,189. The covered payroll (annual payroll of active employees covered by the plan) was \$471,132, and ratio of the UAAL to the covered payroll was 44.19%.

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 10—DEFINED PENSION BENEFIT OBLIGATION: (CONTINUED)

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

Plan Description

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

Funding Policy

Plan members are required to contribute 5.00% of their annual covered salary and Franklin City School Board is required to contribute at an actuarially determined rate. The current rate is 8.81% of annual covered payroll for July 2009 through March 2010 and zero (0%) for April through June 2010. The contribution requirements of plan members and Franklin City School Board are established and may be amended by the VRS Board of Trustees. The School Board's contributions to VRS for the years ending June 30, 2010, 2009, and 2008 were \$865,317, \$1,061,534, and \$1,178,240, respectively, equal to the required contributions for each year.

NOTE 11—JOINT VENTURES AND RELATED ORGANIZATIONS:

Blackwater Regional Library

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

Franklin-Southampton Economic Development Commission

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

Western Tidewater Regional Jail Authority

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 11—JOINT VENTURES AND RELATED ORGANIZATIONS: (CONTINUED)

Western Tidewater Community Services Board

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

NOTE 12—CONTINGENT LIABILITIES:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 13—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 non-pension benefits, such as the City's retiree health benefit subsidy. Historically, the City's subsidy was funded on a pay-as-you go basis, but GASB Statement No. 45 requires that the City accrue the cost of the retiree health subsidy and other post-employment benefits during the period of the employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the City. This funding methodology mirrors the funding approach used for pension benefits.

City:

A. Plan Description:

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

B. Funding Policy:

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

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 \$296,000 for fiscal year 2010. The City has paid an estimated \$161,000 towards this obligation during the fiscal year. The City is required to contribute the annual required contribution of the employer (ARC) an amount actuarially determined in accordance within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

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

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

Annual required contribution	\$ 296,000
Interest on net OPEB obligation	6,000
Adjustment to annual required contribution	<u>(7,000)</u>
Annual OPEB cost (expense)	\$ 295,000
Estimated contributions made	<u>(161,000)</u>
Increase in net OPEB obligation	134,000
Net OPEB obligation, beginning of year	<u>162,000</u>
Net OPEB obligation, end of year	<u>\$ 296,000</u>

For 2010, the City's expected cash payment of \$161,000 was \$134,000 less than the OPEB cost. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and 2009 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 286,000	43%	\$ 162,000
June 30, 2010	295,000	55%	296,000

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

City: (Continued)

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010 (based on the valuation dated July 1, 2008) is as follows:

Actuarial accrued liability (AAL)	\$	3,378,000
Actuarial value of plan assets	\$	-
Unfunded actuarial accrued liability	\$	3,378,000
Funded ratio (actuarial value of plan assets / AAL)		0%
Covered payroll (active plan members)	\$	5,972,000
UAAL as a percentage of covered payroll		56.56%

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

E. Actuarial Methods and Assumptions

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

Cost Method

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

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

City: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

Cost Method: (Continued)

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.

Assumptions

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

School Board:

A. Plan Description:

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

B. Funding Policy:

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

School Board: (Continued)

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 \$75,700 for fiscal year 2010. The School Board has paid an estimated \$38,900 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	\$	75,700
Interest on net OPEB obligation		1,700
Adjustment to annual required contribution		(1,700)
Annual OPEB cost (expense)	\$	75,700
Estimated contributions made		(38,900)
Increase in net OPEB obligation	\$	36,800
Net OPEB obligation, beginning of year		41,400
Net OPEB obligation, end of year	\$	<u>78,200</u>

Annual OPEB Cost

For 2010, the School Board's expected cash payment of \$38,900 was \$36,800 less than the OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and 2009 are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

School Board: (Continued)

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010 (based on the valuation dated July 1, 2008) is as follows:

Actuarial accrued liability (AAL)	\$ 634,500
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	634,500
Funded ratio (actuarial value of plan assets / AAL)	0%
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

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

E. Actuarial Methods and Assumptions

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

Cost Method

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

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

School Board: (Continued)

E. Actuarial Methods and Assumptions: (Continued)

Cost Method: (Continued)

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.

Assumptions

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

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

A. Plan Description

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

B. Funding Policy

As a participating local political subdivision, the School Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2010 was .82% of annual covered payroll.

C. OPEB Cost and Net OPEB Obligation:

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

For 2010, the School Board's contribution of \$3,652 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 2010 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, 2010	\$ 3,652	100%	\$ -

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 28,225
Actuarial value of plan assets	16,390
Unfunded actuarial accrued liability	11,835
Funded ratio (actuarial value of plan assets / AAL)	58%
Covered payroll (active plan members)	471,132
UAAL as a percentage of covered payroll	2.51%

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS PROGRAM: (CONTINUED)

D. Funded Status and Funding Progress

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

E. Actuarial Methods and Assumptions

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

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

F. Professional Employees - Discretely Presented Component Unit School Board

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

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

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.04% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2010, 2009, and 2008 were \$57,984, \$83,016, and \$89,331, respectively and equaled the required contributions for each year.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS AS OF JUNE 30, 2010 (CONTINUED)

NOTE 14—LANDFILL POSTCLOSURE CARE COSTS:

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

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

NOTE 15—SURETY BONDS:

Surety bonds of the City of Franklin are as follows:

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

NOTE 16—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.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 16—ANNEXATIONS: (CONTINUED)

Southampton County: (Continued)

The City adopted a Revenue-Sharing Agreement with the County in January 1997. County residents approved this agreement in November 1997. The agreement was reviewed and recommended for Court approval by the Commission on Local Government of the Commonwealth of Virginia in January 1999. The Revenue Sharing Agreement covers approximately 17.1 square miles in Southampton County immediately contiguous to the City of Franklin. The agreement provides that the County will pay to the City on October 15th of each year, 30% of local tax revenue collected through June 30 of that year by industries and commercial establishments located within this area that are served by City water and sewer treatment. The City is required to provide potable water for non-residential use to industrial and commercial businesses in the designated area and receive wastewater from such businesses. The agreement is to remain in effect in perpetuity as adopted, subject to amendment by agreement of the parties, except if the City, or a City water and/or sewer authority decides to discontinue operation of both its water and sewer treatment systems, the agreement may be voided upon two years' notice to the County. The designated area, which includes all portions of the County immediately contiguous to the City, is immune from annexation as long as the agreement remains in force and the City exists as a political subdivision in the nature of a city. For the year ending June 30, 2010, the City received \$33,370 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:

Fiscal Year Ending	Percentage
1986	5%
1987	10%
1988 - 1995	20%
1996 and thereafter	17.23 % as adjusted by formula

The local revenues are payable to the City by the County of Isle of Wight on August 1, following the end of the fiscal year. During the year ended June 30, 2010, the City received \$1,283,291 from the County of Isle of Wight under this agreement for tax revenues collected for the year ended June 30, 2009. The City will receive approximately \$900,000 related to County of Isle of Wight tax revenues for the year ended June 30, 2010, which is included in intergovernmental receivables.

CITY OF FRANKLIN, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010 (CONTINUED)

NOTE 17—DEFICIT FUND BALANCE:

The following funds had a deficit fund balance at June 30, 2010:

<u>Fund</u>	<u>Amount</u>
Comprehensive Services Act	\$ (184,249)
Community Development Block Grant - Incubator	(9,187)
Community Development Downtown Grant	(47,403)
Neighborhood Stabilization Program Fund	(4,084)
Cobbtown Grant	(8,704)

NOTE 18—DEFERRED REVENUE:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting such amounts are measurable, but not available. Deferred revenue totaling \$599,554 is comprised of the following:

Deferred Property Tax Revenue: Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$563,704.

Prepaid Refuse and Waste Disposal Fee: Refuse and waste disposal fee billed subsequent to June 30, 2010, but paid in advance totaled \$35,850.

NOTE 19—EXPENDITURES IN EXCESS OF APPROPRIATIONS:

Total expenditures for several departments of the General Fund exceeded appropriations at June 30, 2010. Reference Schedule 2 of this report, found in the table of contents, for further details.

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REQUIRED SUPPLEMENTARY INFORMATION

Note to Required Supplementary Information:

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

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General Fund

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

For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 6,745,478	\$ 6,745,478	\$ 6,530,638	\$ (214,840)
Other local taxes	5,281,794	5,281,794	4,911,007	(370,787)
Permits, privilege fees, and regulatory licenses	65,450	65,450	42,070	(23,380)
Fines and forfeitures	62,500	62,500	62,877	377
Revenue from the use of money and property	257,114	257,114	255,291	(1,823)
Charges for services	2,734,550	2,734,550	2,573,185	(161,365)
Miscellaneous	1,322,699	1,324,248	1,465,500	141,252
Recovered costs	30,000	37,632	100,749	63,117
Intergovernmental revenues:				
Commonwealth	3,806,823	3,925,328	3,711,972	(213,356)
Federal	78,789	209,441	363,110	153,669
Total revenues	\$ 20,385,197	\$ 20,643,535	\$ 20,016,399	\$ (627,136)
EXPENDITURES				
Current:				
General government administration	\$ 2,362,269	\$ 2,292,655	\$ 2,083,550	\$ 209,105
Judicial administration	315,862	315,862	226,508	89,354
Public safety	4,990,855	5,473,423	5,243,890	229,533
Public works	4,900,582	5,118,166	4,253,984	864,182
Health and welfare	224,680	224,680	209,983	14,697
Education	4,837,395	4,911,775	4,490,040	421,735
Parks, recreation, and cultural	915,386	917,283	857,680	59,603
Community development	816,562	826,002	844,361	(18,359)
Nondepartmental	76,586	76,586	57,139	19,447
Debt service:				
Principal retirement	-	-	104,588	(104,588)
Interest and other fiscal charges	-	-	15,518	(15,518)
Total expenditures	\$ 19,440,177	\$ 20,156,432	\$ 18,387,241	\$ 1,769,191
Excess (deficiency) of revenues over (under) expenditures	\$ 945,020	\$ 487,103	\$ 1,629,158	\$ 1,142,055
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,559,891	\$ 1,559,891	\$ 1,559,891	\$ -
Transfers out	(2,503,766)	(2,668,057)	(2,648,863)	19,194
Total other financing sources and uses	\$ (943,875)	\$ (1,108,166)	\$ (1,088,972)	\$ 19,194
Net change in fund balances	\$ 1,145	\$ (621,063)	\$ 540,186	\$ 1,161,249
Fund balances - beginning	(1,145)	621,063	4,671,350	4,050,287
Fund balances - ending	\$ -	\$ -	\$ 5,211,536	\$ 5,211,536

Virginia Public Assistance Fund

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

For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Intergovernmental revenues:	\$	\$	\$	\$
Commonwealth	504,184	504,184	422,226	(81,958)
Federal	978,711	978,711	805,287	(173,424)
Total revenues	<u>\$ 1,482,895</u>	<u>\$ 1,482,895</u>	<u>\$ 1,227,513</u>	<u>\$ (255,382)</u>
EXPENDITURES				
Current:				
Health and welfare	\$ 1,933,649	\$ 1,935,354	\$ 1,677,316	\$ 258,038
Total expenditures	<u>\$ 1,933,649</u>	<u>\$ 1,935,354</u>	<u>\$ 1,677,316</u>	<u>\$ 258,038</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (450,754)</u>	<u>\$ (452,459)</u>	<u>\$ (449,803)</u>	<u>\$ 2,656</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 450,754	\$ 452,459	\$ 452,459	\$ -
Total other financing sources and uses	<u>\$ 450,754</u>	<u>\$ 452,459</u>	<u>\$ 452,459</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ -	\$ 2,656	\$ 2,656
Fund balances - beginning	-	-	659,733	659,733
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 662,389</u>	<u>\$ 662,389</u>

Required Supplementary Information

Schedule of Pension Funding Progress for the Virginia Retirement System

Last Three Fiscal Years

City:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c) (b) - (a)	Funded Ratio (d) (a) / (b)	Annual Covered Payroll (e)	UAAL as % of Payroll (f) (c) / (e)
6/30/2009	\$ 23,959,070	\$ 28,434,041	\$ 4,474,971	84.26%	\$ 7,077,456	63.23%
6/30/2008	23,583,001	26,312,773	2,729,772	89.63%	6,892,559	39.60%
6/30/2007	21,391,050	24,292,968	2,901,918	88.05%	6,661,177	43.56%

School Board Non-Professionals:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c) (b) - (a)	Funded Ratio (d) (a) / (b)	Annual Covered Payroll (e)	UAAL as % of Payroll (f) (c) / (e)
6/30/2009	\$ 1,344,094	\$ 1,552,283	\$ 208,189	86.59%	\$ 471,132	44.19%
6/30/2008	1,305,135	1,495,642	190,507	87.26%	490,860	38.81%
6/30/2007	1,171,409	1,368,622	197,213	85.59%	474,001	41.61%

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

City:

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

School Board:

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued (UAAL) (c) (b) - (a)	Funded Ratio (d) (a) / (b)	Annual Covered Payroll (e)	UAAL as % of Payroll (f) (c) / (e)
7/1/2008	\$ -	\$ 634,500	\$ 634,500	0.00%	N/A	N/A

School Board - VRS Health Insurance Credit:

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

OTHER SUPPLEMENTARY INFORMATION

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Combining and Individual Fund Statements and Schedules

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Primary Government

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2010

	Special Revenue Funds	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 733,853	\$ 131,983	\$ 865,836
Receivables (net of allowance for uncollectibles):			
Accounts receivable	13,450	3,548	16,998
Due from other governmental units	193,045	-	193,045
Total assets	<u>\$ 940,348</u>	<u>\$ 136,060</u>	<u>\$ 1,076,408</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Reconciled overdraft	\$ 313,771	\$ -	\$ 313,771
Accounts payable	167,395	-	167,395
Deposits held in escrow	27,429	-	27,429
Total liabilities	<u>\$ 508,595</u>	<u>\$ -</u>	<u>\$ 508,595</u>
Fund balances:			
Unreserved:			
Designated for subsequent expenditure	\$ -	\$ 136,060	\$ 136,060
Undesignated	431,753	-	431,753
Total fund balances	<u>\$ 431,753</u>	<u>\$ 136,060</u>	<u>\$ 567,813</u>
Total liabilities and fund balances	<u>\$ 940,348</u>	<u>\$ 136,060</u>	<u>\$ 1,076,408</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES			
Revenue from the use of money and property	\$ 78,179	\$ 975	\$ 79,154
Miscellaneous	147,332	9,534	156,866
Intergovernmental revenues:			
Commonwealth	243,664	-	243,664
Federal	204,733	-	204,733
Total revenues	<u>\$ 673,908</u>	<u>\$ 10,509</u>	<u>\$ 684,417</u>
EXPENDITURES			
Current:			
Public safety	\$ 135,594	\$ -	\$ 135,594
Health and welfare	427,467	-	427,467
Parks, recreation, and cultural	19,881	-	19,881
Community development	642,128	-	642,128
Nondepartmental	-	4,236	4,236
Total expenditures	<u>\$ 1,225,070</u>	<u>\$ 4,236</u>	<u>\$ 1,229,306</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (551,162)</u>	<u>\$ 6,273</u>	<u>\$ (544,889)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 345,646	\$ -	\$ 345,646
Transfers out	-	-	-
Total other financing sources and uses	<u>\$ 345,646</u>	<u>\$ -</u>	<u>\$ 345,646</u>
Net change in fund balances	\$ (205,516)	\$ 6,273	\$ (199,243)
Fund balances - beginning	637,269	129,787	767,056
Fund balances - ending	<u><u>\$ 431,753</u></u>	<u><u>\$ 136,060</u></u>	<u><u>\$ 567,813</u></u>

CITY OF FRANKLIN, VIRGINIA

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2010

			Regional Fire Training Grounds Fund	Foundation Grants Fund	Community Development		
	Disaster Recovery Fund	Comprehensive Services Act Fund			Block Grant Fund	Block Grant Incubator	Downtown Grant Fund
ASSETS							
Cash and cash equivalents	\$ 129,235	\$ -	\$ 2,984	\$ 77,928	\$ 141,525	\$ -	\$ -
Receivables (net of allowance for uncollectibles):							
Accounts receivable	-	-	-	-	-	-	1,000
Due from other governmental units	-	102,347	-	-	-	90,698	-
Total assets	<u>\$ 129,235</u>	<u>\$ 102,347</u>	<u>\$ 2,984</u>	<u>\$ 77,928</u>	<u>\$ 141,525</u>	<u>\$ 90,698</u>	<u>\$ 1,000</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Reconciled overdraft	\$ -	\$ 222,620	\$ -	\$ -	\$ -	\$ 40,036	\$ 28,163
Accounts payable	-	63,976	66	33,406	-	59,849	-
Deposits held in escrow	-	-	-	-	-	-	20,240
Total liabilities	<u>\$ -</u>	<u>\$ 286,596</u>	<u>\$ 66</u>	<u>\$ 33,406</u>	<u>\$ -</u>	<u>\$ 99,885</u>	<u>\$ 48,403</u>
Fund balances:							
Unreserved:							
Undesignated	\$ 129,235	\$ (184,249)	\$ 2,918	\$ 44,522	\$ 141,525	\$ (9,187)	\$ (47,403)
Total fund balances	<u>\$ 129,235</u>	<u>\$ (184,249)</u>	<u>\$ 2,918</u>	<u>\$ 44,522</u>	<u>\$ 141,525</u>	<u>\$ (9,187)</u>	<u>\$ (47,403)</u>
Total liabilities and fund balances	<u>\$ 129,235</u>	<u>\$ 102,347</u>	<u>\$ 2,984</u>	<u>\$ 77,928</u>	<u>\$ 141,525</u>	<u>\$ 90,698</u>	<u>\$ 1,000</u>

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	Fire and Rescue Volunteers Fund	Total
\$ 20,249	\$ -	\$ -	\$ 5,028	\$ 2,099	\$ 1,477	\$ 123,108	\$ 170,362	\$ 53,263	\$ 6,595	\$ 733,853
-	12,450	-	-	-	-	-	-	-	-	13,450
-	-	-	-	-	-	-	-	-	-	193,045
<u>\$ 20,249</u>	<u>\$ 12,450</u>	<u>\$ -</u>	<u>\$ 5,028</u>	<u>\$ 2,099</u>	<u>\$ 1,477</u>	<u>\$ 123,108</u>	<u>\$ 170,362</u>	<u>\$ 53,263</u>	<u>\$ 6,595</u>	<u>\$ 940,348</u>
\$ -	\$ 14,248	\$ 8,704	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 313,771
-	2,286	-	-	-	-	24	7,788	-	-	167,395
-	-	-	-	-	-	-	7,189	-	-	27,429
<u>\$ -</u>	<u>\$ 16,534</u>	<u>\$ 8,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24</u>	<u>\$ 14,977</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 508,595</u>
\$ 20,249	\$ (4,084)	\$ (8,704)	\$ 5,028	\$ 2,099	\$ 1,477	\$ 123,084	\$ 155,385	\$ 53,263	\$ 6,595	\$ 431,753
\$ 20,249	\$ (4,084)	\$ (8,704)	\$ 5,028	\$ 2,099	\$ 1,477	\$ 123,084	\$ 155,385	\$ 53,263	\$ 6,595	\$ 431,753
<u>\$ 20,249</u>	<u>\$ 12,450</u>	<u>\$ -</u>	<u>\$ 5,028</u>	<u>\$ 2,099</u>	<u>\$ 1,477</u>	<u>\$ 123,108</u>	<u>\$ 170,362</u>	<u>\$ 53,263</u>	<u>\$ 6,595</u>	<u>\$ 940,348</u>

CITY OF FRANKLIN, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2010

	Disaster Recovery Fund	Compre- hensive Services Act Fund	Regional Fire Training Grounds Fund	Foundation Grants Fund	Block Grant Fund	Community Development Block Grant Incubator	Downtown Grant Fund	Western Tidewater Home Consortium Fund
REVENUES								
Revenue from the use of money and property	\$ -	\$ -	\$ 13	\$ 236	\$ 3,191	\$ -	\$ -	\$ -
Miscellaneous	-	7,547	-	98,710	-	-	12,984	9,499
Intergovernmental revenues:								
Commonwealth	-	243,664	-	-	-	-	-	-
Federal	-	-	-	-	-	136,188	-	-
Total revenues	\$ -	\$ 251,211	\$ 13	\$ 98,946	\$ 3,191	\$ 136,188	\$ 12,984	\$ 9,499
EXPENDITURES								
Current:								
General government administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	1,538	114,099	-	-	-	-
Health and welfare	-	427,467	-	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	890	-	-	-	-
Community development	-	-	-	17,170	423	145,375	138,127	9,499
Total expenditures	\$ -	\$ 427,467	\$ 1,538	\$ 132,159	\$ 423	\$ 145,375	\$ 138,127	\$ 9,499
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (176,256)	\$ (1,525)	\$ (33,213)	\$ 2,768	\$ (9,187)	\$ (125,143)	\$ -
OTHER FINANCING SOURCES (USES)								
Transfers in	\$ -	\$ 140,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources and uses	\$ -	\$ 140,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ -	\$ (36,256)	\$ (1,525)	\$ (33,213)	\$ 2,768	\$ (9,187)	\$ (125,143)	\$ -
Fund balances - beginning	129,235	(147,993)	4,443	77,735	138,757	-	77,740	20,249
Fund balances - ending	\$ 129,235	\$ (184,249)	\$ 2,918	\$ 44,522	\$ 141,525	\$ (9,187)	\$ (47,403)	\$ 20,249

Neighborhood Stabilization Program Fund	Cobbtown Grant Fund	Police Federal Forfeiture Fund	Police State Forfeiture Fund	Police Evidence Holding Fund	Camp Home- stead Fund	Economic Develop- ment Fund	Willie Camp Younts Fund	Fire and Rescue Volunteers Fund	Total
\$ -	-	\$ 2	\$ 2	\$ -	\$ 380	\$ 72,226	\$ 2,126	\$ 3	\$ 78,179
-	-	-	2,237	-	1,625	3,396	-	11,334	147,332
-	-	-	-	-	-	-	-	-	243,664
68,545	-	-	-	-	-	-	-	-	204,733
<u>\$ 68,545</u>	<u>-</u>	<u>\$ 2</u>	<u>\$ 2,239</u>	<u>\$ -</u>	<u>\$ 2,005</u>	<u>\$ 75,622</u>	<u>\$ 2,126</u>	<u>\$ 11,337</u>	<u>\$ 673,908</u>
\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
-	-	-	10,018	-	-	-	-	9,939	135,594
-	-	-	-	-	-	-	-	-	427,467
-	-	-	-	-	18,089	-	902	-	19,881
72,629	-	-	-	-	-	258,905	-	-	642,128
<u>\$ 72,629</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 10,018</u>	<u>\$ -</u>	<u>\$ 18,089</u>	<u>\$ 258,905</u>	<u>\$ 902</u>	<u>\$ 9,939</u>	<u>\$ 1,225,070</u>
<u>\$ (4,084)</u>	<u>-</u>	<u>\$ 2</u>	<u>\$ (7,779)</u>	<u>\$ -</u>	<u>\$ (16,084)</u>	<u>\$ (183,283)</u>	<u>\$ 1,224</u>	<u>\$ 1,398</u>	<u>\$ (551,162)</u>
\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ 205,646	\$ -	\$ -	\$ 345,646
-	-	-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 345,646</u>
\$ (4,084)	-	\$ 2	\$ (7,779)	\$ -	\$ (16,084)	\$ 22,363	\$ 1,224	\$ 1,398	\$ (205,516)
-	(8,704)	5,026	9,878	1,477	139,168	133,022	52,039	5,197	637,269
<u>\$ (4,084)</u>	<u>(8,704)</u>	<u>\$ 5,028</u>	<u>\$ 2,099</u>	<u>\$ 1,477</u>	<u>\$ 123,084</u>	<u>\$ 155,385</u>	<u>\$ 53,263</u>	<u>\$ 6,595</u>	<u>\$ 431,753</u>

Combining Balance Sheet
 Nonmajor Permanent Funds
 June 30, 2010

	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
ASSETS					
Cash and cash equivalents	\$ 3,732	\$ 9,558	\$ 106,706	\$ 11,987	\$ 131,983
Receivables (net of allowance for uncollectibles):					
Accounts receivable	-	3,548	-	-	3,548
Interest receivable	-	-	-	529	529
Total assets	<u>\$ 3,732</u>	<u>\$ 13,106</u>	<u>\$ 106,706</u>	<u>\$ 12,516</u>	<u>\$ 136,060</u>
FUND BALANCES					
Fund balances:					
Unreserved:					
Designated for subsequent expenditure	\$ 3,732	\$ 13,106	\$ 106,706	\$ 12,516	\$ 136,060
Total fund balances	<u>\$ 3,732</u>	<u>\$ 13,106</u>	<u>\$ 106,706</u>	<u>\$ 12,516</u>	<u>\$ 136,060</u>
Total liabilities and fund balances	<u>\$ 3,732</u>	<u>\$ 13,106</u>	<u>\$ 106,706</u>	<u>\$ 12,516</u>	<u>\$ 136,060</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Permanent Funds
For the Year Ended June 30, 2010

	Southview Cemetery Trust Fund	Employee Emergency Trust Fund	Cemetery Perpetual Care Trust Fund	Charles Smith Cemetery Trust Fund	Total
REVENUES					
Revenue from the use of money and property	\$ -	\$ 225	\$ 221	\$ 529	\$ 975
Miscellaneous	-	5,934	3,600	-	9,534
Total revenues	\$ -	\$ 6,159	\$ 3,821	\$ 529	\$ 10,509
EXPENDITURES					
Current:					
Nondepartmental	\$ 49	\$ 4,187	\$ -	\$ -	\$ 4,236
Total expenditures	\$ 49	\$ 4,187	\$ -	\$ -	\$ 4,236
Excess (deficiency) of revenues over (under) expenditures	\$ (49)	\$ 1,972	\$ 3,821	\$ 529	\$ 6,273
Net change in fund balances	\$ (49)	\$ 1,972	\$ 3,821	\$ 529	\$ 6,273
Fund balances - beginning	3,781	11,134	102,885	11,987	129,787
Fund balances - ending	\$ 3,732	\$ 13,106	\$ 106,706	\$ 12,516	\$ 136,060

Combining Statement of Fiduciary Net Assets
 Agency Funds
 June 30, 2010

Agency Funds					
	Special Welfare Fund	Special Welfare - SSI Fund	Flexible Spending Fund	Early Childhood Comission Fund	Total
ASSETS					
Cash and cash equivalents	\$ 4,713	\$ 15,934	\$ 5,903	\$ 100,683	\$ 127,233
Total assets	<u>\$ 4,713</u>	<u>\$ 15,934</u>	<u>\$ 5,903</u>	<u>\$ 100,683</u>	<u>\$ 127,233</u>
LIABILITIES					
Amounts held for others	\$ 4,713	\$ 15,934	\$ 5,903	\$ 100,683	\$ 127,233
Total liabilities	<u>\$ 4,713</u>	<u>\$ 15,934</u>	<u>\$ 5,903</u>	<u>\$ 100,683</u>	<u>\$ 127,233</u>

Combining Statement of Changes in Assets and Liabilities
 Agency Funds
 For the Year Ended June 30, 2010

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Special Welfare Fund:				
ASSETS				
Cash and cash equivalents	\$ 5,677	\$ 8,286	\$ 9,250	\$ 4,713
Total assets	<u>\$ 5,677</u>	<u>\$ 8,286</u>	<u>\$ 9,250</u>	<u>\$ 4,713</u>
LIABILITIES				
Amounts held for others	\$ 5,677	\$ 8,286	\$ 9,250	\$ 4,713
Total liabilities	<u>\$ 5,677</u>	<u>\$ 8,286</u>	<u>\$ 9,250</u>	<u>\$ 4,713</u>
Special Welfare - SSI Fund:				
ASSETS				
Cash and cash equivalents	\$ 14,277	\$ 1,657	\$ -	\$ 15,934
Total assets	<u>\$ 14,277</u>	<u>\$ 1,657</u>	<u>\$ -</u>	<u>\$ 15,934</u>
LIABILITIES				
Amounts held for others	\$ 14,277	\$ 1,657	\$ -	\$ 15,934
Total liabilities	<u>\$ 14,277</u>	<u>\$ 1,657</u>	<u>\$ -</u>	<u>\$ 15,934</u>
Flexible Spending Fund:				
ASSETS				
Cash and cash equivalents	\$ 6,226	\$ 9,105	\$ 9,428	\$ 5,903
Total assets	<u>\$ 6,226</u>	<u>\$ 9,105</u>	<u>\$ 9,428</u>	<u>\$ 5,903</u>
LIABILITIES				
Amounts held for others	\$ 6,226	\$ 9,105	\$ 9,428	\$ 5,903
Total liabilities	<u>\$ 6,226</u>	<u>\$ 9,105</u>	<u>\$ 9,428</u>	<u>\$ 5,903</u>
Early Childhood Commission Fund:				
ASSETS				
Cash and cash equivalents	\$ 153,509	\$ 449,435	\$ 502,261	\$ 100,683
Total assets	<u>\$ 153,509</u>	<u>\$ 449,435</u>	<u>\$ 502,261</u>	<u>\$ 100,683</u>
LIABILITIES				
Amounts held for others	\$ 153,509	\$ 449,435	\$ 502,261	\$ 100,683
Total liabilities	<u>\$ 153,509</u>	<u>\$ 449,435</u>	<u>\$ 502,261</u>	<u>\$ 100,683</u>
Totals - All Agency Funds:				
ASSETS				
Cash and cash equivalents	\$ 179,689	\$ 468,483	\$ 520,939	\$ 127,233
Total assets	<u>\$ 179,689</u>	<u>\$ 468,483</u>	<u>\$ 520,939</u>	<u>\$ 127,233</u>
LIABILITIES				
Amounts held for others	\$ 179,689	\$ 468,483	\$ 520,939	\$ 127,233
Total liabilities	<u>\$ 179,689</u>	<u>\$ 468,483</u>	<u>\$ 520,939</u>	<u>\$ 127,233</u>

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Discretely Presented Component Unit
– School Board –

Combining Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2010

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 841,829	\$ 74,613	\$ 566,778	\$ 1,483,220
Receivables (net of allowance for uncollectibles):				
Accounts receivable	-	-	2,909	2,909
Notes receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other funds	-	18,639	-	18,639
Due from primary government	-	-	-	-
Due from other governmental units	443,739	34,101	-	477,840
Inventories	-	3,621	-	3,621
Prepaid items	276,283	-	-	276,283
Total assets	<u>\$ 1,561,851</u>	<u>\$ 130,974</u>	<u>\$ 569,687</u>	<u>\$ 2,262,512</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 54,209	\$ -	\$ -	\$ 54,209
Accrued liabilities	1,188,053	43,022	-	1,231,075
Due to other funds	18,639	-	-	18,639
Due to primary government	300,950	-	-	300,950
Total liabilities	<u>\$ 1,561,851</u>	<u>\$ 43,022</u>	<u>\$ -</u>	<u>\$ 1,604,873</u>

Fund balances:

Unreserved:

Designated for subsequent
expenditure

Total fund balances

Total liabilities and fund balances

\$ -	\$ 87,952	\$ 569,687	\$ 657,639
-	87,952	569,687	657,639
<u>\$ 1,561,851</u>	<u>\$ 130,974</u>	<u>\$ 569,687</u>	<u>\$ 2,262,512</u>

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

Total fund balances per above \$ 657,639

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

Capital assets	\$ 15,463,209	
Less: accumulated depreciation	<u>(5,559,901)</u>	9,903,308

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	\$ (78,200)	
Compensated absences	<u>(236,200)</u>	(314,400)

Net assets of governmental activities \$ 10,246,547

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2010

	School Operating Fund	Cafeteria Fund	Textbook Fund	Total Governmental Funds
REVENUES				
Revenue from the use of money and property	\$ -	\$ -	\$ 482	\$ 482
Charges for services	24,554	119,216	-	143,770
Miscellaneous	343,509	-	-	343,509
Recovered costs	36,729	-	2,721	39,450
Intergovernmental revenues:				
Local government	4,472,234	-	-	4,472,234
Commonwealth	8,071,230	6,379	-	8,077,609
Federal	2,791,686	556,777	-	3,348,463
Total revenues	<u>\$ 15,739,942</u>	<u>\$ 682,372</u>	<u>\$ 3,203</u>	<u>\$ 16,425,517</u>
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 12,007,424	\$ -	\$ 40,613	12,048,037
Administration, attendance and health	867,613	-	-	867,613
Transportation	629,673	-	-	629,673
Operations and maintenance	1,387,389	-	-	1,387,389
Technology	649,123	-	-	649,123
Food services	-	607,676	-	607,676
Total expenditures	<u>\$ 15,541,222</u>	<u>\$ 607,676</u>	<u>\$ 40,613</u>	<u>\$ 16,189,511</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 198,720</u>	<u>\$ 74,696</u>	<u>\$ (37,410)</u>	<u>\$ 236,006</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 198,720	\$ 198,720
Transfers out	(198,720)	-	-	(198,720)
Total other financing sources and uses	<u>\$ (198,720)</u>	<u>\$ -</u>	<u>\$ 198,720</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ 74,696	\$ 161,310	\$ 236,006
Fund balances - beginning	-	13,256	408,377	421,633
Fund balances - ending	<u>\$ -</u>	<u>\$ 87,952</u>	<u>\$ 569,687</u>	<u>\$ 657,639</u>

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

Net change in fund balances - total governmental funds - per above \$ 236,006

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	\$ 249,228	
Depreciation expense	(406,714)	(157,486)

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. (50,550)

Change in net assets of governmental activities \$ 27,970

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, 2010

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts			
	Original	Final	Actual	
REVENUES				
Revenue from the use of money and property	\$ -	\$ -	\$ -	\$ -
Charges for services	10,400	10,400	24,554	14,154
Miscellaneous	144,718	364,718	343,509	(21,209)
Recovered costs	-	-	36,729	36,729
Intergovernmental revenues:				
Local government	4,837,395	5,355,480	4,472,234	(883,246)
Commonwealth	8,298,101	7,955,811	8,071,230	115,419
Federal	5,000	3,095,089	2,791,686	(303,403)
Total revenues	\$ 13,295,614	\$ 16,781,498	\$ 15,739,942	\$ (1,041,556)
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 9,920,930	\$ 13,406,814	\$ 12,007,424	\$ 1,399,390
Administration, attendance and health	974,833	974,833	867,613	107,220
Transportation	478,388	478,388	629,673	(151,285)
Operations and maintenance	1,308,301	1,308,301	1,387,389	(79,088)
Technology	613,162	613,162	649,123	(35,961)
Food services	-	-	-	-
Total expenditures	\$ 13,295,614	\$ 16,781,498	\$ 15,541,222	\$ 1,240,276
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 198,720	\$ 198,720
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	(198,720)	(198,720)
Total other financing sources and uses	\$ -	\$ -	\$ (198,720)	\$ (198,720)
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

Cafeteria Fund				Textbook Fund			
Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
Original	Final			Original	Final		
\$ -	\$ 20	\$ -	\$ (20)	\$ -	\$ -	\$ 482	\$ 482
-	201,138	119,216	(81,922)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,721	2,721
-	-	-	-	-	-	-	-
-	7,012	6,379	(633)	-	-	-	-
-	441,243	556,777	115,534	-	-	-	-
\$ -	\$ 649,413	\$ 682,372	\$ 32,959	\$ -	\$ -	\$ 3,203	\$ 3,203
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,613	\$ (40,613)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	649,413	607,676	41,737	-	-	-	-
\$ -	\$ 649,413	\$ 607,676	\$ 41,737	\$ -	\$ -	\$ 40,613	\$ (40,613)
\$ -	\$ -	\$ 74,696	\$ 74,696	\$ -	\$ -	\$ (37,410)	\$ (37,410)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,720	\$ 198,720
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,720	\$ 198,720
\$ -	\$ -	\$ 74,696	\$ 74,696	\$ -	\$ -	\$ 161,310	\$ 161,310
-	-	13,256	13,256	-	-	408,377	408,377
\$ -	\$ -	\$ 87,952	\$ 87,952	\$ -	\$ -	\$ 569,687	\$ 569,687

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Discretely Presented Component Unit
- Industrial Development Authority -

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Statement of Net Assets

Discretely Presented Component Unit - Industrial Development Authority

June 30, 2010

	<u>Industrial Development Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>14,254</u>
Total assets	\$ <u>14,254</u>
LIABILITIES	
Current liabilities:	
Due to primary government	\$ <u>339,486</u>
Total liabilities	\$ <u>339,486</u>
NET ASSETS	
Unrestricted	\$ <u>(325,232)</u>
Total net assets	\$ <u><u>(325,232)</u></u>

Statement of Revenues, Expenses, and Changes in Net Assets
Discretely Presented Component Unit - Industrial Development Authority
For the Year Ended June 30, 2010

	Industrial Development Authority
	<u> </u>
OPERATING REVENUES	
Miscellaneous	\$ <u> </u> -
Total operating revenues	\$ <u> </u> -
 Operating income (loss)	 \$ <u> </u> -
NONOPERATING REVENUES (EXPENSES)	
Interest income	\$ <u> </u> 21
Total nonoperating revenues (expenses)	\$ <u> </u> 21
Income before contributions and transfers	\$ <u> </u> 21
 Change in net assets	 \$ <u> </u> 21
 Total net assets - beginning	 <u> </u> (325,253)
Total net assets - ending	<u> </u> \$ <u> </u> (325,232)

Statement of Cash Flows

Discretely Presented Component Unit - Industrial Development Authority

For the Year Ended June 30, 2010

	Industrial Development Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ -
Net cash provided (used) by operating activities	\$ -
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	\$ 21
Net cash provided (used) by investing activities	\$ 21
Net increase (decrease) in cash and cash equivalents	\$ 21
Cash and cash equivalents - beginning	14,233
Cash and cash equivalents - ending	\$ 14,254
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ -
Net cash provided (used) by operating activities	\$ -

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Supporting Schedules

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Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2010

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 5,154,824	\$ 5,154,824	\$ 5,056,885	\$ (97,939)
Real and personal public service corporation taxes	76,951	76,951	57,332	(19,619)
Personal property taxes	1,341,229	1,341,229	1,228,219	(113,010)
Machinery and tools taxes	55,474	55,474	61,291	5,817
Penalties and interest	117,000	117,000	126,911	9,911
Total general property taxes	\$ 6,745,478	\$ 6,745,478	\$ 6,530,638	\$ (214,840)
Other local taxes:				
Local sales and use taxes	\$ 1,650,000	\$ 1,650,000	\$ 1,589,864	\$ (60,136)
Consumers' utility taxes	625,184	625,184	619,809	(5,375)
Right-of-way use fee	31,412	31,412	34,599	3,187
Electric consumption taxes	33,000	33,000	34,622	1,622
Business license taxes	1,017,698	1,017,698	843,227	(174,471)
Motor vehicle license taxes	150,000	150,000	134,264	(15,736)
Bank stock taxes	40,000	40,000	63,401	23,401
Taxes on recordation and wills	64,500	64,500	18,704	(45,796)
Cigarette taxes	250,000	250,000	230,469	(19,531)
Lodging taxes	165,000	165,000	138,318	(26,682)
Restaurant food taxes	1,255,000	1,255,000	1,203,730	(51,270)
Total other local taxes	\$ 5,281,794	\$ 5,281,794	\$ 4,911,007	\$ (370,787)
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 2,300	\$ 2,300	\$ 1,595	\$ (705)
Building and related permits	31,500	31,500	22,654	(8,846)
Zoning, subdivision fees and rezoning permits	10,250	10,250	5,570	(4,680)
Transfer fees	14,400	14,400	8,873	(5,527)
Permits and other licenses	7,000	7,000	3,378	(3,622)
Total permits, privilege fees, and regulatory licenses	\$ 65,450	\$ 65,450	\$ 42,070	\$ (23,380)
Fines and forfeitures:				
Court fines and forfeitures	\$ 62,500	\$ 62,500	\$ 62,877	\$ 377
Total fines and forfeitures	\$ 62,500	\$ 62,500	\$ 62,877	\$ 377
Revenue from use of money and property:				
Revenue from use of money	\$ 8,400	\$ 8,400	\$ 7,881	\$ (519)
Revenue from use of property	248,714	248,714	247,410	(1,304)
Total revenue from use of money and property	\$ 257,114	\$ 257,114	\$ 255,291	\$ (1,823)
Charges for services:				
Law library fees	\$ 4,200	\$ 4,200	\$ 4,428	\$ 228
Other court fees	4,150	4,150	4,259	109
Police services	3,000	3,000	-	(3,000)

Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2010

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Fire and emergency services	\$ 358,354	\$ 358,354	\$ 418,501	\$ 60,147
Animal boarding and adoption fees	-	-	375	375
Janitorial services	17,133	17,133	16,734	(399)
Armory operations and maintenance	14,984	14,984	13,198	(1,786)
Waste collection and disposal	1,642,937	1,642,937	1,441,757	(201,180)
Demolition and debris removal	2,000	2,000	2,550	550
Administration - water and sewer	321,048	321,048	314,874	(6,174)
Administration - airport	2,020	2,020	2,020	-
Administration - electric	296,314	296,314	296,314	-
Recreation fees and admissions	28,177	28,177	14,418	(13,759)
Other charges for services	40,233	40,233	43,757	3,524
Total charges for services	<u>\$ 2,734,550</u>	<u>\$ 2,734,550</u>	<u>\$ 2,573,185</u>	<u>\$ (161,365)</u>
Miscellaneous revenue:				
Annexation payments - County of Isle of Wight	\$ 1,120,000	\$ 1,120,000	\$ 1,283,291	\$ 163,291
Revenue sharing - Southampton County	35,000	35,000	33,370	(1,630)
Payment in lieu of taxes - from enterprise activities	95,319	95,319	98,145	2,826
Sale of supplies and publications	1,200	1,200	1,034	(166)
Sale of surplus	500	500	2,705	2,205
Sale of cemetery lots	64,680	64,680	25,450	(39,230)
Auction proceeds	-	-	11,925	11,925
Miscellaneous other	6,000	7,549	9,580	2,031
Total miscellaneous revenue	<u>\$ 1,322,699</u>	<u>\$ 1,324,248</u>	<u>\$ 1,465,500</u>	<u>\$ 141,252</u>
Recovered costs:				
Insurance recovery - workers' compensation	\$ 10,000	\$ 10,000	\$ 24,380	\$ 14,380
Insurance recovery - liability	10,000	17,632	11,207	(6,425)
Personal property seizure	-	-	6,829	6,829
Other recovered costs	10,000	10,000	58,333	48,333
Total recovered costs	<u>\$ 30,000</u>	<u>\$ 37,632</u>	<u>\$ 100,749</u>	<u>\$ 63,117</u>
Total revenue from local sources	<u>\$ 16,499,585</u>	<u>\$ 16,508,766</u>	<u>\$ 15,941,317</u>	<u>\$ (567,449)</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Railroad rolling stock tax	\$ 5,523	\$ 5,523	\$ 5,753	\$ 230
Motor vehicle rental tax	28,707	28,707	20,553	(8,154)
Communication taxes	609,802	609,802	585,336	(24,466)
State recordation tax	25,165	25,165	12,525	(12,640)
Personal property tax relief funds	1,048,897	1,048,897	1,048,897	-
Total noncategorical aid	<u>\$ 1,718,094</u>	<u>\$ 1,718,094</u>	<u>\$ 1,673,064</u>	<u>\$ (45,030)</u>

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 90,188	\$ 90,188	\$ 83,059	\$ (7,129)
Treasurer	70,525	70,525	70,371	(154)
Registrar/electoral board	52,578	52,578	39,506	(13,072)
Total shared expenses	<u>\$ 213,291</u>	<u>\$ 213,291</u>	<u>\$ 192,936</u>	<u>\$ (20,355)</u>
Other categorical aid:				
HB 599 Law enforcement grant	\$ 447,278	\$ 447,278	\$ 404,416	\$ (42,862)
Fire and rescue grant	-	-	29,701	29,701
Street and highway maintenance funds	1,358,258	1,358,258	1,356,586	(1,672)
Litter control grant	5,307	5,307	5,125	(182)
Wireless 911 grant	43,000	43,000	49,059	6,059
Fire grants	-	14,600	-	(14,600)
Arts grant	5,000	5,000	-	(5,000)
Emergency services grant	16,595	16,595	-	(16,595)
Police grant	-	96,109	-	(96,109)
Other categorical aid	-	7,796	1,085	(6,711)
Total other categorical aid	<u>\$ 1,875,438</u>	<u>\$ 1,993,943</u>	<u>\$ 1,845,972</u>	<u>\$ (147,971)</u>
Total categorical aid	<u>\$ 2,088,729</u>	<u>\$ 2,207,234</u>	<u>\$ 2,038,908</u>	<u>\$ (168,326)</u>
Total revenue from the Commonwealth	<u>\$ 3,806,823</u>	<u>\$ 3,925,328</u>	<u>\$ 3,711,972</u>	<u>\$ (213,356)</u>
Revenue from the federal government:				
Categorical aid:				
Law enforcement terrorism prevention program	\$ -	\$ -	\$ 96,108	\$ 96,108
ARRA - Ed Byrne memorial justice assistance grant	-	35,514	35,514	-
ARRA - WIA youth activities	-	17,806	14,906	(2,900)
Bulletproof vest partnership program	-	1,168	1,168	-
Staffing for adequate fire and emergency response	56,077	56,077	71,415	15,338
Public safety partnership and community policing grants	-	7,594	31,093	23,499
Appalachian regional development	-	-	20,000	20,000
State homeland security program	-	-	14,600	14,600
Community facilities loans and grants	-	50,000	50,000	-
Promotion of the arts partnership agreement	-	-	5,000	5,000
Emergency management performance grant	-	-	16,595	16,595
Alcohol open container requirements	-	-	6,711	6,711
Other federal categorical aid	22,712	41,282	-	(41,282)
Total categorical aid	<u>\$ 78,789</u>	<u>\$ 209,441</u>	<u>\$ 363,110</u>	<u>\$ 153,669</u>
Total revenue from the federal government	<u>\$ 78,789</u>	<u>\$ 209,441</u>	<u>\$ 363,110</u>	<u>\$ 153,669</u>
Other financing sources:				
Transfer from electric fund	\$ 1,559,891	\$ 1,559,891	\$ 1,559,891	-
Prior year budget and surplus carryover	-	621,063	-	(621,063)
Total other financing sources	<u>\$ 1,559,891</u>	<u>\$ 2,180,954</u>	<u>\$ 1,559,891</u>	<u>\$ (621,063)</u>
Total General Fund	<u>\$ 21,945,088</u>	<u>\$ 22,824,489</u>	<u>\$ 21,576,290</u>	<u>\$ (1,248,199)</u>

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Special Revenue Fund:				
Virginia Public Assistance Fund:				
Revenue from the Commonwealth:				
Categorical aid:				
Welfare administration and public assistance	\$ 504,184	\$ 504,184	\$ 422,226	\$ (81,958)
Total categorical aid	\$ 504,184	\$ 504,184	\$ 422,226	\$ (81,958)
Total revenue from the Commonwealth	\$ 504,184	\$ 504,184	\$ 422,226	\$ (81,958)
Revenue from the federal government:				
Categorical aid:				
Welfare administration and public assistance	\$ 978,711	\$ 978,711	\$ 805,287	\$ (173,424)
Total categorical aid	\$ 978,711	\$ 978,711	\$ 805,287	\$ (173,424)
Total revenue from the federal government	\$ 978,711	\$ 978,711	\$ 805,287	\$ (173,424)
Other financing sources:				
Transfer from general fund	\$ 450,754	\$ 452,459	\$ 452,459	\$ -
Total other financing sources	\$ 450,754	\$ 452,459	\$ 452,459	\$ -
Total Virginia Public Assistance Fund	\$ 1,933,649	\$ 1,935,354	\$ 1,679,972	\$ (255,382)

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2010

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
City council	\$ 226,062	\$ 184,207	\$ 164,242	\$ 19,965
General and financial administration:				
City manager	\$ 213,538	\$ 184,694	\$ 146,509	\$ 38,185
City attorney	128,021	128,370	131,101	(2,731)
Management services and human resources	163,241	162,315	145,979	16,336
Commissioner of revenue	230,309	230,659	223,611	7,048
Reassessment	111,658	111,745	101,265	10,480
Treasurer	79,543	180,141	138,391	41,750
Accounting	330,709	353,693	346,986	6,707
Collections	199,404	99,200	92,822	6,378
Purchasing	70,000	56,021	51,113	4,908
Utility billings and collections	217,308	208,916	204,175	4,741
Insurance	101,088	101,088	101,577	(489)
Information technology	174,816	174,860	125,104	49,756
Total general and financial administration	\$ 2,019,635	\$ 1,991,702	\$ 1,808,633	\$ 183,069
Board of elections:				
Electoral board and officials	\$ 116,572	\$ 116,746	\$ 110,675	\$ 6,071
Total board of elections	\$ 116,572	\$ 116,746	\$ 110,675	\$ 6,071
Total general government administration	\$ 2,362,269	\$ 2,292,655	\$ 2,083,550	\$ 209,105
Judicial administration:				
Courts:				
Circuit court - joint operations	\$ 11,578	\$ 11,578	\$ 11,578	\$ -
General district court	22,100	22,100	12,679	9,421
Special magistrates	150	150	-	150
Clerk of the circuit court	32,422	32,422	32,422	-
Juvenile and domestic relations court	114,394	114,394	34,613	79,781
Sheriff - courts	92,070	92,070	92,069	1
Total courts	\$ 272,714	\$ 272,714	\$ 183,361	\$ 89,353
Commonwealth's attorney:				
Commonwealth's attorney	\$ 43,148	\$ 43,148	\$ 43,147	\$ 1
Total commonwealth's attorney	\$ 43,148	\$ 43,148	\$ 43,147	\$ 1
Total judicial administration	\$ 315,862	\$ 315,862	\$ 226,508	\$ 89,354
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,610,855	\$ 2,893,017	\$ 2,745,219	\$ 147,798
Police mini station	-	-	-	-
Total law enforcement and traffic control	\$ 2,610,855	\$ 2,893,017	\$ 2,745,219	\$ 147,798

Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Public safety: (Continued)				
Emergency services:				
E-911 operations	\$ 554,734	\$ 556,071	\$ 515,470	\$ 40,601
Emergency management services	1,200,210	1,311,268	1,309,967	1,301
Total emergency services	<u>\$ 1,754,944</u>	<u>\$ 1,867,339</u>	<u>\$ 1,825,437</u>	<u>\$ 41,902</u>
Correction and detention:				
Detention - Western Tidewater Regional Jail	\$ 65,579	\$ 152,791	\$ 152,791	\$ -
Total correction and detention	<u>\$ 65,579</u>	<u>\$ 152,791</u>	<u>\$ 152,791</u>	<u>\$ -</u>
Inspections:				
Building	\$ 371,246	\$ 371,683	\$ 351,533	\$ 20,150
Total inspections	<u>\$ 371,246</u>	<u>\$ 371,683</u>	<u>\$ 351,533</u>	<u>\$ 20,150</u>
Other protection:				
Animal control	\$ 119,351	\$ 119,713	\$ 103,566	\$ 16,147
Civil defense	65,380	65,380	65,049	331
Safety and health	3,500	3,500	295	3,205
Total other protection	<u>\$ 188,231</u>	<u>\$ 188,593</u>	<u>\$ 168,910</u>	<u>\$ 19,683</u>
Total public safety	<u>\$ 4,990,855</u>	<u>\$ 5,473,423</u>	<u>\$ 5,243,890</u>	<u>\$ 229,533</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Streets and highways	\$ 2,024,526	\$ 2,240,142	\$ 1,728,538	\$ 511,604
Snow removal	7,000	7,000	12,345	(5,345)
Garage	228,738	229,088	221,170	7,918
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 2,260,264</u>	<u>\$ 2,476,230</u>	<u>\$ 1,962,053</u>	<u>\$ 514,177</u>
Sanitation and waste removal:				
Refuse collection	\$ 1,642,937	\$ 1,643,680	\$ 1,446,576	\$ 197,104
Total sanitation and waste removal	<u>\$ 1,642,937</u>	<u>\$ 1,643,680</u>	<u>\$ 1,446,576</u>	<u>\$ 197,104</u>
Maintenance of general buildings and grounds:				
Maintenance of general buildings and grounds	\$ 669,162	\$ 669,775	\$ 546,215	\$ 123,560
Maintenance of armory	57,441	57,528	52,212	5,316
Maintenance of city hall	171,456	171,543	166,190	5,353
Maintenance of social services	99,322	73,805	59,864	13,941
Maintenance of health department	-	25,605	20,874	4,731
Total maintenance of general buildings and grounds	<u>\$ 997,381</u>	<u>\$ 998,256</u>	<u>\$ 845,355</u>	<u>\$ 152,901</u>
Total public works	<u>\$ 4,900,582</u>	<u>\$ 5,118,166</u>	<u>\$ 4,253,984</u>	<u>\$ 864,182</u>
Health and welfare:				
Health:				
Local health department	\$ 130,507	\$ 130,507	\$ 130,507	\$ -
Mosquito control	30,000	30,000	15,303	14,697
Mental health	64,173	64,173	64,173	-
Total health	<u>\$ 224,680</u>	<u>\$ 224,680</u>	<u>\$ 209,983</u>	<u>\$ 14,697</u>
Total health and welfare	<u>\$ 224,680</u>	<u>\$ 224,680</u>	<u>\$ 209,983</u>	<u>\$ 14,697</u>

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2010

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Education:				
Contribution to local school board	\$ 4,837,395	\$ 4,893,969	\$ 4,472,234	\$ 421,735
Summer youth work experience - ARRA	-	17,806	17,806	-
Total education	<u>\$ 4,837,395</u>	<u>\$ 4,911,775</u>	<u>\$ 4,490,040</u>	<u>\$ 421,735</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Programs and operations	\$ 412,295	\$ 413,918	\$ 386,635	\$ 27,283
Senior citizen programs	131,330	131,504	125,704	5,800
Tax relief for the elderly	13,001	13,001	-	13,001
Cemeteries	60,600	60,700	45,454	15,246
Total parks and recreation	<u>\$ 617,226</u>	<u>\$ 619,123</u>	<u>\$ 557,793</u>	<u>\$ 61,330</u>
Library:				
Library administration	\$ 298,160	\$ 298,160	\$ 299,887	\$ (1,727)
Total library	<u>\$ 298,160</u>	<u>\$ 298,160</u>	<u>\$ 299,887</u>	<u>\$ (1,727)</u>
Total parks, recreation, and cultural	<u>\$ 915,386</u>	<u>\$ 917,283</u>	<u>\$ 857,680</u>	<u>\$ 59,603</u>
Community development:				
Planning and community development:				
Planning	\$ 98,929	\$ 86,467	\$ 59,360	\$ 27,107
Beautification commission	16,820	38,722	7,406	31,316
Downtown development	110,813	110,813	104,065	6,748
Payments to Southampton County	590,000	590,000	673,530	(83,530)
Total planning and community development	<u>\$ 816,562</u>	<u>\$ 826,002</u>	<u>\$ 844,361</u>	<u>\$ (18,359)</u>
Total community development	<u>\$ 816,562</u>	<u>\$ 826,002</u>	<u>\$ 844,361</u>	<u>\$ (18,359)</u>
Nondepartmental:				
Bank service charges	\$ 10,000	\$ 10,000	\$ 26,999	\$ (16,999)
Nondepartmental capital	66,586	66,586	-	66,586
Other nondepartmental	-	-	30,140	(30,140)
Total nondepartmental	<u>\$ 76,586</u>	<u>\$ 76,586</u>	<u>\$ 57,139</u>	<u>\$ 19,447</u>
Debt service:				
Principal retirement	\$ -	\$ -	\$ 104,588	\$ (104,588)
Interest and other fiscal charges	-	-	15,518	(15,518)
Total debt service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,106</u>	<u>\$ (120,106)</u>

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2010

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Other financing uses:				
Transfers:				
Transfer to social services fund	\$ 450,754	\$ 452,459	\$ 452,459	\$ -
Transfer to comprehensive services act fund	140,000	140,000	140,000	-
Transfer to school capital fund	50,000	50,000	50,000	-
Transfer to school debt fund	643,708	803,953	803,953	-
Transfer to airport fund	67,429	67,603	67,603	-
Transfer to economic development fund	150,000	150,000	150,000	-
Transfer to economic development incubator fund	55,602	55,646	55,646	-
Transfer to debt service fund	946,273	946,273	927,079	19,194
Transfer to water and sewer fund	-	1,226	1,226	-
Transfer to electric fund	-	897	897	-
Total other financing uses	\$ 2,503,766	\$ 2,668,057	\$ 2,648,863	\$ 19,194
 Total General Fund	 \$ 21,943,943	 \$ 22,824,489	 \$ 21,036,104	 \$ 1,788,385
Special Revenue Fund:				
Virginia Public Assistance Fund:				
Health and welfare:				
Welfare and social services:				
Welfare administration	\$ 1,383,077	\$ 1,384,782	\$ 1,318,701	\$ 66,081
Public assistance	550,572	550,572	358,615	191,957
Total welfare and social services	\$ 1,933,649	\$ 1,935,354	\$ 1,677,316	\$ 258,038
 Total health and welfare	 \$ 1,933,649	 \$ 1,935,354	 \$ 1,677,316	 \$ 258,038
 Total Virginia Public Assistance Fund	 \$ 1,933,649	 \$ 1,935,354	 \$ 1,677,316	 \$ 258,038

Statistical Tables

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City of Franklin, Virginia

Table 1

Government-Wide Revenues
Year Ended June 30,

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

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

Government-Wide Expenses by Function
Year Ended June 30,

Fiscal Year	General Government	Judicial	Public		Health and Welfare	Parks, Recreation and Cultural			Community Development	Non- Departmental	Interest on Long-term Debt	Water and Sewer		Electric	Airport	Total Expenditures
			Safety	Works		Education	Cultural	Development				Sewer				
2010	\$ 2,301,552	\$ 227,580	\$ 5,786,765	\$ 4,497,628	\$ 2,406,592	\$ 4,633,929	\$ 1,049,424	\$ 1,370,039	\$ -	\$ 549,261	\$ 3,069,237	\$ 10,319,351	\$ 572,686	\$ 36,784,044		
2009	\$ 2,570,721	\$ 238,213	\$ 6,175,136	\$ 4,328,943	\$ 2,607,817	\$ 4,866,262	\$ 1,156,868	\$ 1,249,752	\$ -	\$ 554,434	\$ 2,994,753	\$ 12,844,876	\$ 584,294	\$ 40,172,069		
2008	\$ 2,648,658	\$ 254,382	\$ 5,244,287	\$ 4,360,802	\$ 2,479,570	\$ 5,005,226	\$ 1,030,677	\$ 1,551,031	\$ -	\$ 594,528	\$ 3,028,136	\$ 11,084,995	\$ 637,885	\$ 37,920,177		
2007	\$ 2,418,619	\$ 276,708	\$ 5,199,732	\$ 4,049,898	\$ 2,328,871	\$ 5,877,702	\$ 1,035,540	\$ 1,658,873	\$ -	\$ 879,419	\$ 2,931,072	\$ 10,833,758	\$ 628,378	\$ 38,118,570		
2006	\$ 3,579,360	\$ 220,786	\$ 4,581,392	\$ 3,273,363	\$ 2,476,948	\$ 4,358,068	\$ 908,320	\$ 1,154,255	\$ 580,617	\$ 717,482	\$ 2,895,536	\$ 10,704,954	\$ 571,601	\$ 36,022,682		
2005	\$ 2,154,840	\$ 227,962	\$ 4,385,901	\$ 4,452,836	\$ 2,138,779	\$ 4,155,196	\$ 993,109	\$ 213,146	\$ 577,465	\$ 734,457	\$ 2,794,462	\$ 8,887,833	\$ 614,946	\$ 32,330,932		
2004	\$ 2,136,656	\$ 107,674	\$ 4,172,103	\$ 3,711,353	\$ 2,148,536	\$ 7,271,975	\$ 869,713	\$ 4,464,002	\$ 546,196	\$ 751,139	\$ 2,714,447	\$ 8,645,465	\$ 620,913	\$ 38,160,172		
2003	\$ 1,975,927	\$ 267,988	\$ 3,940,130	\$ 3,996,765	\$ 1,807,915	\$ 4,264,145	\$ 871,299	\$ 3,477,458	\$ 536,786	\$ 613,353	\$ 2,603,237	\$ 7,926,959	\$ 570,952	\$ 32,852,914		

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General property taxes	\$ 6,530,638	\$ 6,738,891	\$ 6,583,034	\$ 5,996,085	\$ 6,359,770	\$ 5,782,264	\$ 5,523,583	\$ 5,509,757	\$ 5,306,578	\$ 5,191,290
Other local taxes	5,496,343	5,508,466	5,612,005	5,598,044	5,245,322	5,037,186	4,801,060	4,366,505	4,250,437	3,804,429
Permits, fees and licenses	42,070	50,721	85,785	84,958	111,310	69,920	72,184	43,889	39,303	50,365
Fines and forfeitures	62,877	59,119	51,650	67,106	42,865	51,248	62,331	49,407	57,330	79,354
Use of money and property	355,363	363,039	380,946	463,110	612,208	456,174	385,383	249,722	376,718	362,681
Charges for services	2,716,955	2,395,449	2,205,796	2,109,470	1,688,388	1,773,283	1,572,875	1,469,736	1,393,338	1,205,154
Miscellaneous and donations	1,965,875	2,212,987	2,561,414	2,375,228	1,856,200	1,481,570	1,368,093	1,582,999	1,981,749	1,725,897
Recovered costs	140,199	109,572	208,839	832,764	162,534	130,621	154,223	92,106	156,802	174,407
Intergovernmental	16,640,925	17,063,702	17,187,544	17,823,513	18,955,586	20,107,570	21,443,712	19,708,670	13,732,213	16,474,100
Total	\$ 33,951,245	\$ 34,501,946	\$ 34,877,013	\$ 35,350,278	\$ 35,034,183	\$ 34,889,836	\$ 35,383,444	\$ 33,072,791	\$ 27,294,468	\$ 29,067,677

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

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General government administration	\$ 2,083,550	\$ 2,231,540	\$ 2,342,771	\$ 2,170,465	\$ 2,033,571	\$ 1,916,668	\$ 1,898,128	\$ 1,921,302	\$ 1,859,894	\$ 1,905,069
Judicial administration	226,508	236,455	260,681	277,318	220,786	227,962	166,707	267,988	132,119	125,702
Public safety	5,379,484	5,871,389	5,132,088	5,179,909	4,352,306	4,363,831	3,986,257	4,242,378	3,454,288	3,364,673
Public works	4,253,984	4,155,038	4,279,138	4,729,833	4,131,807	4,031,172	4,048,957	4,159,512	4,060,813	3,404,675
Health and welfare	2,314,766	2,531,118	2,418,143	2,395,651	2,411,904	2,068,157	2,097,930	1,794,405	1,815,008	1,543,135
Education	16,189,511	16,245,264	16,260,078	15,648,683	14,264,376	15,767,293	12,777,477	13,906,854	13,067,817	12,322,151
Parks, recreation and cultural	877,561	1,098,785	1,142,871	978,109	989,414	910,516	839,088	831,648	724,478	766,057
Community development	1,486,489	1,306,902	1,553,177	1,668,299	866,223	953,592	4,464,002	2,272,636	1,613,500	2,626,464
Nondepartmental	61,375	50,554	782,653	20,869	718,739	578,963	551,561	535,925	522,669	531,476
Capital Projects	46,127	152,417	1,231,340	2,413,468	1,332,763	1,569,281	1,453,738	4,055,653	5,265,185	786,255
Debt service:										
Principal retirement	1,173,938	1,157,421	1,041,923	2,557,013	2,575,710	1,008,779	715,570	3,446,839	739,387	721,464
Interest and fiscal charges	1,066,708	577,131	589,825	679,916	761,876	737,999	715,178	613,353	374,388	320,867
Totals	\$ 35,160,001	\$ 35,614,014	\$ 37,034,688	\$ 38,719,533	\$ 34,659,475	\$ 34,134,213	\$ 33,714,593	\$ 38,048,493	\$ 33,629,546	\$ 28,417,988

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

City of Franklin, Virginia

Table 5

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

Year	Total		Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax		Total Tax Collections	Percent of Total Tax Collections to Tax Levy		Outstanding Delinquent Taxes		Percent of Delinquent Taxes to Tax Levy
	Tax Levy (1)				Collections (1)(2)			Tax Levy		Taxes		
2010	\$ 7,355,039	\$	7,326,977	99.62%	\$ 125,647	\$	7,452,624	101.33%	\$	863,109		11.73%
2009	7,774,091		7,482,861	96.25%	182,767		7,665,628	98.60%		758,751		9.76%
2008	7,510,356		7,240,857	96.41%	232,401		7,473,258	99.51%		756,356		10.07%
2007	7,023,237		6,827,150	97.21%	179,681		7,006,831	99.77%		649,891		9.25%
2006	6,229,526		5,913,050	94.92%	279,881		6,192,931	99.41%		619,208		9.94%
2005	5,640,259		5,323,582	94.39%	290,026		5,613,608	99.53%		485,700		8.61%
2004	5,463,530		5,220,437	95.55%	286,425		5,506,862	100.79%		459,049		8.40%
2003	5,221,065		5,067,596	97.06%	329,579		5,397,175	103.37%		498,463		9.55%
2002	5,153,719		4,896,547	95.01%	230,318		5,126,865	99.48%		452,614		8.78%
2001	5,093,699		4,858,060	95.37%	250,038		5,108,098	100.00%		528,145		10.33%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

City of Franklin, Virginia

Table 6

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

Year	Public Service Corporations							Total
	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Real Estate	Personal Property		
2010	\$ 629,410,310	\$ 57,061,332	-	\$ 3,018,957	\$ 7,761,879	\$ 42,224	\$ 697,294,702	
2009	671,857,100	59,307,993	900	2,909,231	7,646,642	27,151	741,749,017	
2008	561,634,400	57,716,863	-	573,729	8,480,797	39,340	628,445,129	
2007	567,081,965	62,652,410	-	703,167	6,596,676	21,591	637,055,809	
2006	418,087,841	59,659,923	-	738,901	8,611,442	39,123	487,137,230	
2005	413,484,184	55,210,009	-	757,167	8,617,223	39,123	478,107,706	
2004	371,050,871	52,890,760	-	1,134,874	9,097,960	57,587	434,232,052	
2003	365,657,221	55,879,359	166,080	971,160	8,969,861	38,567	431,682,248	
2002	339,435,343	53,684,686	259,368	764,613	11,150,501	12,254	405,306,765	
2001	346,907,411	43,006,770	469,560	822,593	10,248,575	21,255	401,476,164	

City of Franklin, Virginia

Table 7

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

Year	Real Estate		Personal Property	Mobile Homes	Machinery and Tools	Public Service Corporation	
						Real Estate (1)	Personal Property
2010	\$ 0.77 / \$ 1.01	(5)	\$ 4.50	\$ 0.77	\$ 2.00	\$ 0.77	\$ 4.50
2009	\$ 0.77 / \$ 1.01	(5)	4.50	0.77	2.00	0.77	4.50
2008	\$ 0.90 / \$ 1.14	(3)	4.50	0.90	2.00	0.90	4.50
2007	\$ 0.85 / \$ 1.09	(2)	4.50	0.85	2.00	0.85	4.50
2006	\$ 0.95 / \$ 1.19	(4)	4.50	0.95	2.00	0.95	4.50
2005	\$ 0.90 / \$ 1.14	(3)	4.50	0.90	2.00	0.90	4.50
2004	\$ 0.90 / \$ 1.14	(3)	4.50	0.90	2.00	0.90	4.50
2003	\$ 0.90 / \$ 1.14	(3)	4.50	0.90	2.00	0.90	4.50
2002	\$ 0.90 / \$ 1.14	(3)	4.50	0.90	2.00	0.90	4.50
2001	\$ 0.90 / \$ 1.14	(3)	4.50	0.90	2.00	0.90	4.50

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

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

Year	Assessed Value (in Thousands)	Gross Bonded Debt (1)	Less:		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value
			Debt Service Escrow	Debt Payable from Enterprise Revenues (2)		
2010	\$ 637,172	\$ 17,711,550	\$ 834,736	\$ 3,995,409	\$ 12,881,405	2.02%
2009	679,504	18,683,258	644,623	4,303,770	13,734,865	2.02%
2008	570,115	20,202,716	460,698	4,788,132	14,953,886	2.62%
2007	573,679	21,351,648	279,236	5,319,576	15,752,836	2.75%
2006	426,699	24,486,173	-	5,920,883	18,565,290	4.35%
2005	422,101	23,479,028	-	6,597,451	16,881,577	3.53%
2004	380,149	24,583,588	-	7,099,588	17,484,000	4.03%
2003	374,627	22,871,597	-	9,111,219	13,760,378	3.19%
2002	350,586	22,481,784	-	9,766,132	12,715,652	3.14%
2001	357,156	17,006,239	-	8,816,527	8,189,712	2.04%

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

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

Fiscal Year	Expenditures - All Governmental Fund Types	Total Debt Service (1)	Percentage of Debt Service to Expenditures
2010	\$ 35,160,001	\$ 2,240,646	6.37%
2009	35,614,014	1,734,552	4.87%
2008	37,034,688	1,631,748	4.41%
2007	38,719,533	3,236,929	8.36%
2006	34,659,475	3,337,586	9.63%
2005	34,134,213	1,746,778	5.12%
2004	33,714,593	1,430,748	4.24%
2003	38,048,493	4,060,192	10.67%
2002	33,629,546	1,113,775	3.31%
2001	28,417,988	1,042,331	3.67%

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

City of Franklin, Virginia

Table 10

*Principal Taxpayers - Real Estate
June 30, 2010*

Taxpayer	Type of Business	2009 Assessed Valuation	Percent of Total Assessed Valuation of Real Estate
Community Health Systems Inc.	Hospital	\$ 25,961,800	4.07%
James L. Rifkin Estate	Shopping Center	13,496,900	2.12%
The Village at Woods Edge	Retirement Home	10,873,000	1.71%
Lowes Home Centers Inc.	Retail - Hardware	8,439,100	1.32%
Southampton Shopping Center L. P.	Shopping Center	7,049,800	1.11%
Mag II Franklin LLC	Shopping Center	6,343,400	1.00%
ACJCS LLC	Direct Mail - Advertising	6,055,700	0.95%
Hampton Roads Development LLC	Real Estate Development	5,508,350	0.86%
Meadowridge Associates L P	Apartments	5,101,400	0.80%
Dorchester Apartments L.P.	Apartments	4,507,800	0.71%
		<u>\$ 93,337,250</u>	<u>14.65%</u>
Total valuation of Real Estate		<u>\$ 637,172,189</u>	

City of Franklin, Virginia

Table 11

*Principal Taxpayers - Personal Property
June 30, 2010*

Taxpayer	Type of Business	2009 Assessed Valuation	Percent of Total Assessed Personal Property
Money Mailer LLC	Direct Mail - Advertising	\$ 2,338,113	3.89%
Franklin Hospital Corporation	Hospital	2,076,454	3.45%
Charter Communications	Service - Telecommunications	744,971	1.24%
Wal-Mart Stores Inc.	Retail - Variety	684,392	1.14%
Lowes Home Centers #2698	Retail - Hardware	653,922	1.09%
Richfood Procurement LLC	Retail - Grocery	637,366	1.06%
Butler Paper Recycling Inc	Paper Recycling	391,075	0.65%
Cee-Breeze Personal Care Services	Tour Bus Service	292,800	0.49%
Birdsong Corporation	Peanut Wholesaler Industry	248,552	0.41%
General Electric Credit Corporation	Lease - furniture & fixtures	241,494	0.40%
		<u>\$ 8,309,139</u>	<u>13.82%</u>
Total Valuation of Personal Property		<u>\$ 60,122,513</u>	

City of Franklin, Virginia

Table 12

*Demographic Statistics
Last Ten Fiscal Years*

Fiscal Year	Population	Per Capita Income (3)	School Enrollment (4)	Unemployment Rate (5)
2010	8,814 (1)	Not Available	1,160	12.90%
2009	8,877 (1)	Not Available	1,331	11.5%
2008	8,906 (1)	Not Available	1,319	6.4%
2007	8,800 (1)	Not Available	1,287	4.0%
2006	8,594 (1)	Not Available	1,307	5.2%
2005	8,594 (1)	\$25,750	1,360	5.2%
2004	8,450 (1)	\$25,024	1,384	5.0%
2003	8,324 (1)	\$24,478	1,434	4.9%
2002	8,181 (1)	\$23,767	1,404	4.9%
2001	8,263 (1)	\$23,046	1,423	4.4%

Source:

- (1) United States Census Estimates
- (2) 2000 United States Census
- (3) Weldon Cooper Center for Public Service combined amount for City of Franklin & Southampton County (US Commerce BEA)
- (4) Franklin School
- (5) Virginia Employment Commission

City of Franklin, Virginia

Table 13

*Net Assets by Component
June 30,*

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

Change in Net Assets
June 30,

	2010	2009	2008	2007	2006
Expenses					
Governmental activities:					
General government	\$ 2,301,552	\$ 2,570,721	\$ 2,648,658	\$ 2,418,619	\$ 3,579,360
Judicial	227,580	238,213	254,382	276,708	220,786
Public safety	5,786,765	6,175,136	5,244,287	5,199,732	4,581,392
Public works	4,497,628	4,328,943	4,360,802	4,049,898	3,273,363
Health and welfare	2,406,592	2,607,817	2,479,570	2,328,871	2,476,948
Education	4,633,929	4,866,262	5,005,226	5,877,702	4,358,068
Parks, recreation, and cultural	1,049,424	1,156,868	1,030,677	1,035,540	908,320
Community development	1,370,039	1,249,752	1,551,031	1,658,873	1,154,255
Interest on long-term debt	549,261	554,434	594,528	879,419	761,876
Nondepartmental	-	-	-	-	580,617
Total governmental activities	\$ 22,822,770	\$ 23,748,146	\$ 23,169,161	\$ 23,725,362	\$ 21,894,985
Business-type activities:					
Water and sewer	\$ 3,069,237	\$ 2,994,753	\$ 3,028,136	\$ 2,931,072	\$ 2,895,536
Electric	10,319,351	12,844,876	11,084,995	10,833,758	10,704,954
Airport	572,686	584,294	637,885	628,378	571,601
Total business-type activities	\$ 13,961,274	\$ 16,423,923	\$ 14,751,016	\$ 14,393,208	\$ 14,172,091
Total expenses	\$ 36,784,044	\$ 40,172,069	\$ 37,920,177	\$ 38,118,570	\$ 36,067,076
Program revenue					
Governmental activities:					
Charges for services:					
General government	\$ 662,101	\$ 615,929	\$ 607,034	\$ 613,334	\$ 754,493
Judicial	14,432	17,509	9,601	8,831	51,540
Public safety	510,261	464,978	384,793	493,587	244,800
Public works	1,469,356	1,207,847	1,101,485	877,464	799,434
Health and welfare	-	9,503	34,060	-	-
Parks, recreation, and cultural	14,418	20,197	22,216	19,185	54,750
Community development	7,564	9,655	32,003	-	48,868
Operating grants and contributions	4,077,928	4,056,878	2,520,711	4,096,205	3,698,397
Capital grants and contributions	49,197	656,776	2,532,197	1,207,312	93,952
Total governmental activities	\$ 6,805,257	\$ 7,059,272	\$ 7,244,100	\$ 7,315,918	\$ 5,746,234

**Change in Net Assets
June 30,**

	2010	2009	2008	2007	2006
Program revenue					
Business-type activities:					
Charges for services:					
Water and sewer	\$ 3,276,636	\$ 3,283,366	\$ 3,396,655	\$ 3,330,432	\$ 3,868,775
Electric	12,142,738	13,687,790	12,493,995	12,007,869	12,109,011
Airport	188,257	174,456	231,698	251,026	835,929
Capital grants and contributions:					
Airport	2,023,538	102,004	5,453	400,143	-
Total business-type activities	\$ 17,631,169	\$ 17,247,616	\$ 16,127,801	\$ 15,989,470	\$ 16,813,715
Total program revenue	\$ 24,436,426	\$ 24,306,888	\$ 23,371,901	\$ 23,305,388	\$ 22,559,949
Governmental activities net expense	\$ (16,017,513)	\$ (16,688,874)	\$ (15,925,061)	\$ (16,409,444)	\$ (16,148,751)
Business-type activities net expense	\$ 3,669,895	\$ 823,693	\$ 1,376,785	\$ 1,596,262	\$ 2,641,624
Total primary government net expense	\$ (12,347,618)	\$ (15,865,181)	\$ (14,548,276)	\$ (14,813,182)	\$ (13,507,127)
General revenues and other changes in net assets					
Governmental activities:					
Taxes:					
Property taxes	\$ 6,668,337	\$ 6,974,226	\$ 6,376,419	\$ 6,052,770	\$ 6,344,577
Other taxes	4,911,007	5,508,466	5,612,005	5,683,002	5,414,961
Revenue sharing from counties	1,316,661	1,310,461	1,279,456	1,175,879	1,136,199
Revenue from use of money and property	354,881	362,362	380,114	460,631	374,124
Grants & Gifts non-restricted	1,673,064	1,108,120	1,323,968	1,132,497	482,165
Miscellaneous	305,705	533,867	1,015,319	1,154,938	613,854
Transfers	1,490,165	1,619,891	1,766,207	1,926,907	2,100,872
Total governmental activities	\$ 16,719,820	\$ 17,417,393	\$ 17,753,488	\$ 17,586,624	\$ 16,466,752
Business-type activities:					
Revenue from use of money and property	\$ 6,445	\$ 7,760	\$ 94,278	\$ 73,346	\$ 65,481
Transfers	(1,490,165)	(1,619,891)	(1,766,207)	(1,926,907)	(2,100,872)
Total business-type activities	\$ (1,483,720)	\$ (1,612,131)	\$ (1,671,929)	\$ (1,853,561)	\$ (2,035,391)
Total general revenues and other	\$ 15,236,100	\$ 15,805,262	\$ 16,081,559	\$ 15,733,063	\$ 14,431,361
Changes in net assets	\$ 2,888,482	\$ (59,919)	\$ 1,533,283	\$ 919,881	\$ 924,234
Change in Net Assets					
Governmental activities	\$ 702,307	\$ 728,519	\$ 1,828,427	\$ 1,177,180	\$ 318,001
Business-type activities	2,186,175	(788,438)	(295,144)	(257,299)	606,233
Total primary government	\$ 2,888,482	\$ (59,919)	\$ 1,533,283	\$ 919,881	\$ 924,234

Taxable Sales by Category
Last Ten Calendar Years *

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Merchant Wholesaler, Durable Goods	\$ 319,700	\$ 160,501	\$ 206,624	\$ 370,011	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Motor Vehicle & Parts Dealers	4,177,804	3,978,697	4,485,996	4,740,931	N/A	N/A	N/A	N/A	N/A	N/A
Furniture & Home Furnishings	3,415,004	3,766,476	3,460,241	3,768,080	N/A	N/A	N/A	N/A	N/A	N/A
Building materials, Farm & Garden Supplies	-	-	-	3,683,597	N/A	N/A	N/A	N/A	N/A	N/A
Food and Beverage Stores	18,543,874	20,153,777	14,117,933	11,325,087	N/A	N/A	N/A	N/A	N/A	N/A
Health and Personal Care	1,708,589	1,181,688	914,493	-	N/A	N/A	N/A	N/A	N/A	N/A
Gasoline Stations	5,064,456	5,484,253	4,347,208	2,841,936	N/A	N/A	N/A	N/A	N/A	N/A
Clothing & Clothing Accessories Stores	1,992,877	1,910,099	1,954,980	2,057,085	N/A	N/A	N/A	N/A	N/A	N/A
Sporting Goods, Hobby, Book & Music Stores	34,340	-	-	229,560	N/A	N/A	N/A	N/A	N/A	N/A
General Merchandise Stores	60,044,952	60,639,197	60,217,521	53,083,978	N/A	N/A	N/A	N/A	N/A	N/A
Miscellaneous Store Retailers	1,745,625	1,735,875	2,469,992	2,912,936	N/A	N/A	N/A	N/A	N/A	N/A
Nonstore Retailers	1,169,469	1,518,049	2,895,028	3,550,649	N/A	N/A	N/A	N/A	N/A	N/A
Rental & Lease Services	929,073	796,030	1,291,440	960,998	N/A	N/A	N/A	N/A	N/A	N/A
Professional, Scientific and Technical Services	1,605,670	634,005	177,766	-	N/A	N/A	N/A	N/A	N/A	N/A
Food Services & Drinking Places	17,052,909	15,814,206	13,903,248	12,888,112	N/A	N/A	N/A	N/A	N/A	N/A
Repair & Maintenance	2,772,329	2,528,870	2,650,097	2,388,335	N/A	N/A	N/A	N/A	N/A	N/A
Personal & Laundry Services	905,405	1,309,468	1,252,258	922,640	N/A	N/A	N/A	N/A	N/A	N/A
All Other Businesses	213,205	318,129	1,352,993	5,437,841	N/A	N/A	N/A	N/A	N/A	N/A
Miscellaneous & Unidentifiable	27,559,023	28,788,615	24,690,382	22,719,304	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$ 149,254,304	\$ 150,717,935	\$ 140,388,200	\$ 133,881,080	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

* Source - Department of Taxation

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

Function/Program	Full-time Equivalent Employees as of June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
GENERAL FUND										
General Government	23.5	24	26	26	26	24.5	24.5	26	25.5	25
Police & Communications	39	40	37.5	42	42	42	42	42	42	41.5
Animal Control	1.5	1	1	1	1	1	1	1	1	1
Fire & Rescue - EMS	15	15	15	15	12	12	12	10	10	10
Community Services	5	7	7	6	6	5	5	5	5	4.5
Public Works-Streets	13.5	14	18	23	23	23	24	25	25	26
Garage	4	4	4	4	4	4	4	4	4	4
Refuse collection	9	8	7	9	9	9	9	9	9	9
Public Works-Bldgs & Grounds	9.5	9.5	11.5	9	9	9	7.5	7	6	6
Cemetery & Mosquito Control	0	0	0	0	0	0	0.5	1	1	1
Park and Recreation	4.5	3.5	3.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Senior Program	2.5	2.5	1.5	2	2	2	2	2	2	2
Library	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Economic Development	0	0	0	0	0	0	1	1	0	0
Downtown Development	1	1	1	1	1	1	1	1	1	2
Total General Fund	128.5	130	133.5	146	143	140.5	141.5	142	139.5	140
SOCIAL SERVICES FUND										
ELECTRIC	19	20	18	19	19	19	20	20	20	20
WATER & SEWER	14	16	15	20	20	20	20	20	20	20
INCUBATOR	14	14	15.5	16	16	17	18	18	18	18
AIRPORT	0	0	0.5	1	1	0	0	0	0	0
EARLY CHILDHOOD	2	2	2	2	2	2	2	1.5	1.5	1.5
	2	2	1	0	0	0	0	0	0	0
	51	54	52	58	58	58	60	59.5	59.5	59.5
Total	179.5	184	185.5	204	201	198.5	201.5	201.5	199	199.5

Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Police										
Physical arrests	638	686	721	1,223	955	954	882	695	667	435
Parking violations	39	37	39	45	108	80	110	120	188	411
Traffic violations	1792	1,406	1,172	1,370	1,955	1,069	1,022	1,220	1,001	1,485
Fire										
Emergency responses	2390	2,324	2,422	2,304	2,170	2,072	1,886	1,827	1,718	-
Fires extinguished	68	202	96	98	108	95	89	89	86	-
Inspections	22	17	1,726	18	11	10	12	10	7	-
Refuse collection										
Refuse collected (tons per day)	12.77	13.82	12.65	13.41	13.40	-	-	-	-	-
Recyclables collected (tons per day)	0.83	1.02	1.01	1.22	1.31	N/A	N/A	N/A	-	-
Other public works										
Street resurfacing (tons)	2,728	3,576	1,503	215	2,750	-	-	-	-	-
Potholes repaired	178	207	234	250	200	-	-	-	-	-
Park and recreation										
Athletic field permits issued	285	275	250	56	N/A	-	-	-	-	-
Community center admissions	30,214	29,634	33,026	25,956	25,956	26,605	N/A	N/A	18,438	19,038
Library										
Volumes in collection	37,000	47,000	53,000	50,000	50,000	N/A	-	-	-	-
Total volumes borrowed	121,000	116,000	106,000	97,000	107,672	102,455	-	-	-	-
Water										
New connections	5	11	24	25	40	42	36	11	7	15
Water mains breaks	50	54	75	68	20	-	-	-	-	-
Average daily consumption (thousands of gallons)	1,082	1,037	1,100	1,072	1,169	-	-	-	-	-
Peak daily consumption (thousands of gallons)	1,700	1,453	1,800	1,610	1,700	-	-	-	-	-
Wastewater										
Average daily sewage treatment	1,780	1,090	1,090	903	980	-	-	-	-	-
Sewer connections - New	5	9	21	25	40	42	36	11	7	15
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

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	16	16	28	27	27	27	27	27	27	27
Fire stations	2	2	2	2	2	2	2	2	2	2
Refuse collection										
Collection trucks	5	5	5	4	4	3	3	3	3	3
Other public works										
Street (miles)	35.50	35.5	35.50	35.50	35.50	-	-	-	-	-
Highways (miles)	15.09	15.09	15.09	15.09	15.09	-	-	-	-	-
Streetslights	945	937	945	953	953	-	-	-	-	-
Traffic signals	14	14	14	14	14	13	13	13	12	12
Park and recreation										
Acreage	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61	28.61
Playgrounds	4	4	4	4	4	4	4	4	4	4
Baseball/softball diamonds	6	6	6	6	6	6	6	6	6	6
Soccer/football fields	2	2	2	2	2	2	2	2	2	2
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	67	67	67	66	66	-	-	-	-	-
Fire hydrants	336	336	336	333	333	-	-	-	-	-
Storage capacity (thousands of gallons)	1,300	1,300	1,300	1,300	1,300	-	-	-	-	-
Wastewater										
Sanitary sewers (miles)	43	43	43	43	43	-	-	-	-	-
Storm sewers (miles)	210	210	210	210	210	-	-	-	-	-
Treatment capacity (thousands of gallons)	2,000	2,000	2,000	2,000	2,000	-	-	-	-	-

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Compliance

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Franklin, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the City of Franklin, Virginia's basic financial statements and have issued our report thereon dated November 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Franklin, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Franklin, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Franklin, Virginia's internal control over financial reporting.

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

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

Compliance and Other Matters: (Continued)

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

We noted other matters that we have reported to management of the City of Franklin, Virginia, in a separate letter dated November 26, 2010.

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
November 26, 2010

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

Compliance

We have audited the compliance of the City of Franklin, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City of Franklin, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Franklin, Virginia's management. Our responsibility is to express an opinion on the City of Franklin, Virginia's compliance based on our audit.

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

In our opinion, the City of Franklin, Virginia complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

Internal Control Over Compliance: (Continued)

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

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

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

Robinson, Farmer, Cox Associates
(Charlottesville, Virginia
November 26, 2010

CITY OF FRANKLIN, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass Through Payments:			
Department of Social Services:			
Promoting safe and stable families	93.556	0950109/0950110	\$ 15,286
Temporary assistance to needy families (TANF)	93.558	0400109/0400110	140,514
Refugee and entrant assistance - state administered programs	93.566	0500109/0500110	495
Low income home energy assistance	93.568	0600409/0600410	11,023
Child Care Cluster:			
Child care and development block grant	93.575	0770109/0770110	47,678
ARRA - Child care and development block grant	93.713	0740109/0780109	27,138
Child care mandatory and matching funds of the child care and development fund	93.596	0760109/0760110	77,878
Child welfare services - state grants	93.645	0900109/0900110	531
Foster care - Title IV-E	93.658	1100109/1100110	22,618
Adoption assistance	93.659	1120109/1120110	5,433
Social services block grant	93.667	1000109/1000110	87,075
Chafee foster care independence program	93.674	9150108/9150109/9150110	2,030
Children's health insurance program	93.767	0540109/0540110	9,976
Medical assistance program	93.778	1200109/1200110	130,170
Total Department of Health and Human Services			\$ 577,845
Department of Agriculture:			
Direct Payments:			
Water and waste disposal systems for rural communities	10.760		\$ 50,000
Pass Through Payments:			
Department of Agriculture:			
Child Nutrition Cluster:			
Food distribution - schools: school lunch program	10.555	10.555/2010/2009	50,318
Department of Education:			
Child Nutrition Cluster:			
National school breakfast program	10.553	10.553/2010/2009	117,950
National school lunch program	10.555	10.555/2010/2009	329,061
Summer food service program	10.559	10.559/2010/2009	59,448
Department of Social Services:			
SNAP Cluster:			
State administration grants for the supplemental nutrition assistance program	10.561	00101109/0040109/0040110	220,631
ARRA - State administration grants for the supplemental nutrition assistance program	10.561	00101109/0040109/0040110	6,811
Total Department of Agriculture			\$ 834,219
Department of Labor:			
Direct payments:			
ARRA - WIA youth activities	17.259		\$ 14,906
Department of Justice:			
Direct payments:			
Public safety partnership and community policing grants	16.710		\$ 31,093
Bulletproof vest partnership program	16.607		1,168
Pass Through Payments:			
Department of Criminal Justice Service:			
ARRA - Edward Byrne memorial justice assistance grant program	16.803	09SUB9033	35,514
Total Department of Justice			\$ 67,775

CITY OF FRANKLIN, VIRGINIA

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal Catalog Number	Pass-Through Entity Identifying Number	Expenditures
Department of Housing and Community Development:			
Pass Through Payments:			
Department of Housing and Community Development:			
Community development block grant	14.228		\$ 136,188
Department of Transportation:			
Direct Payments:			
ARRA - Airport improvement program	20.106		\$ 2,001,987
Highway planning and construction	20.205		25,090
Pass Through Payments:			
Department of Motor Vehicles:			
Alcohol open container requirements	20.607	154AL10504084031	6,711
Total Department of Transportation			\$ 2,033,788
National Endowment for the Arts			
Pass Through Payments:			
Virginia Commission for the Arts:			
Promotion of the arts partnership agreement	45.025	N/A	\$ 5,000
Department of Homeland Security:			
Direct Payments:			
Staffing for adequate fire and emergency response	97.083		\$ 71,415
Pass Through Payments:			
Department of Emergency Management:			
Emergency management performance grant	97.042	N/A	\$ 16,595
State homeland security grant program	97.073	N/A	14,600
Law enforcement terrorism prevention grant	97.074	N/A	96,108
Total Department of Homeland Security			\$ 198,718
Appalachian Regional Commission:			
Pass Through Payments Payments:			
Department of Housing and Community Development			
Appalachian regional development	23.001	N/A	\$ 88,545
Department of Education:			
Pass Through Payments:			
Department of Education:			
ARRA - State fiscal stabilization fund (SFSF) - education state grants	84.394	S394A090047	\$ 604,920
Adult basic education	84.002	V002A080046	21,274
Title I Cluster:			
Title I: Grants to local educational agencies	84.010	S010A080046	710,785
ARRA - Title I: Grants to local educational agencies	84.389	S389A090046	537,951
School improvement grants	84.377	S377A080047	96,379
Special Education Cluster:			
Special education - grants to states	84.027	H027A080107	332,757
ARRA - Title VI-B: Special education - grants to states	84.391	H391A090107	161,871
Special education preschool grants	84.173	H173A080112	22,138
ARRA - Title VI-B: Special Education Preschool Grants	84.392	H392A090112	11,616
Career and technical education: basic grants to states	84.048	V048A090046	44,260
Safe and drug free schools and communities state grant	84.186	Q186A080048	10,812
Rural education	84.358	S358B090046	32,177
Reading first state grants	84.357	S357A070048	68,810
Education technology state grants	84.318	S318X080046	8,859
ARRA - Education technology state grants	84.386	S386A090046	7,492
Improving teacher quality state grants	84.367	S367A080044	119,585
Total Department of Education			\$ 2,791,686
Total Expenditures of Federal Awards			\$ 6,748,670

CITY OF FRANKLIN, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2010

Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal grant activity of the City of Franklin, Virginia under programs of the federal government for the year ended June 30, 2010. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Franklin, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Franklin, Virginia.

Note 2 - Basis of Accounting

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

Note 3 - Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General fund	\$ 363,110
Special revenue funds:	
Virginia public assistance fund	805,287
Neighborhood stabilization program fund	68,545
Community development block grant - incubator fund	136,188
Capital projects funds:	
City capital projects fund	25,090
Enterprise funds:	
Airport fund	2,001,987
Total primary government	<u>\$ 3,400,207</u>

Component unit - City of Franklin Public Schools

School operating fund	\$ 2,791,686
School cafeteria fund	556,777
Total component unit public schools	<u>\$ 3,348,463</u>

Total federal expenditures per basic financial statements	<u>\$ 6,748,670</u>
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Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 6,748,670</u></u>
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CITY OF FRANKLIN, VIRGINIA

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No
Identification of major programs:	

CFDA #	Name of Federal Program or Cluster
	Child Care Cluster:
93.575	Child care and development block grant
93.713	ARRA - Child care and development block grant
93.596	Child care mandatory and matching funds of the child care development fund
	SNAP Cluster:
10.561	State Administration Grants for the Supplemental Nutrition Assistance Program
10.561	ARRA - State Administration Grants for the Supplemental Nutrition Assistance Program
	Title I Cluster:
84.010	Title I: Grants to local educational agencies
84.389	ARRA - Title I: Grants to local educational agencies
84.394	State fiscal stabilization funds
20.106	Airport improvement program - ARRA
	Special Education Cluster
84.027	Title VI-B: Handicapped state grant
84.173	Title VI-B: Special education preschool grant
84.391	ARRA - Title VI-B: Special Education - Grants to States
84.392	ARRA - Title VI-B: Special Education Preschool Grants

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

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Prior Year Findings

None