CITY OF FRANKLIN, GEORGIA

Financial Statements
For the Year Ended December 31, 2012
and
Independent Auditor's Report

City of Franklin, Georgia
Financial Report
For the Year Ended December 31, 2012

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MICHELLE
ROBINSON LLC
CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Franklin, Georgia as of and for the year ended December 31, 2012, 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's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that I 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 significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the remaining aggregate fund information of the City of Franklin, Georgia as of December 31, 2012, and the respective changes in financial position, cash flows where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May1, 2013, on my consideration of the City of Franklin, Georgia's internal control over financial reporting and on my tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 important for assessing the results of my audit.

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The City of Franklin, Georgia has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of funding progress and combining statements presented on page 24 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Franklin, Georgia's basic financial statements as a whole. The schedule of projects acquired with special purpose local sales tax proceeds is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of projects acquired with special purpose local option sales tax proceeds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mikell Robinson LLC

May 1, 2013

City of Franklin, Georgia
Statement of Net Assets
December 31, 2012

	Primary Government	
	Governmental Activities	Component Unit
Assets		
Current Assets		
Cash and cash equivalents	$ 1,374,037	$ -
Receivables:		
Other taxes	66,014	-
Accounts	16,409	-
Prepaid items	31,904	-
Restricted cash and cash equivalents	152,099	-
Total Current Assets	1,640,463	-
Capital Assets		
Nondepreciable capital assets	483,617	-
Depreciable capital assets, net	3,398,498	-
Total Capital Assets	3,882,115	-
Total Assets	$ 5,522,578	$ -
Liabilities		
Current Liabilities		
Accounts payable	$ 8,658	$ -
Intergovernmental agreement payable	237,231	-
Total Current Liabilities	245,889	-
Long-Term Liabilities		
Intergovernmental agreement payable (net of current portion)	-	-
Total Liabilities	245,889	-
Net Assets		
Invested in capital assets, net of related debt	3,644,884	-
Restricted for:		
Debt service	152,099	-
Capital projects	967,837	-
Unrestricted	511,869	-
Total Net Assets	$ 5,276,689	$ -

The notes to the basic financial statements are an integral part of these statements.

City of Franklin, Georgia
Statement of Activities
For the Year Ended December 31, 2012

Function	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities	Net (Expense) Revenues and Changes in Net Assets: Component Unit
Primary Government						
General government	$ 267,190	$ 38,117	$ -	$ 56,678	$ (172,395)	$ -
Public safety	621,350	75,627	53,962	66,879	(424,882)	-
Public works	302,138	-	-	292,045	(10,093)	-
Judicial	48,084	-	-	6,390	(41,694)	-
Housing and development	4,771	-	-	-	(4,771)	-
Culture and recreation	61,376	-	-	2,790	(58,586)	-
Interest	13,223	-	-	-	(13,223)	-
Total Governmental Activities	$ 1,318,132	$ 113,744	$ 53,962	$ 424,782	$ (725,644)	$ -
Component Unit						
Downtown Development Authority	$ -	$ -	$ -	$ -	$ -	$ -

General Revenues	
Ad valorem taxes	$ -
Sales tax	575,367
Franchise tax	122,154
Alcoholic beverage tax	43,085
Insurance premium tax	52,936
Investment revenue	586
Other	29,948
Total General Revenues	824,076
Change in Net Assets	98,432
Net Assets at Beginning of Year	5,178,257
Prior Period Adjustment	-
Net Assets at End of Year	$ 5,276,689

The notes to the basic financial statements are an integral part of these statements.

City of Franklin, Georgia
Balance Sheet
Governmental Funds
December 31, 2012

	General	SPLOST	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 410,937	$ 955,531	$ 152,099	$ 7,569	$ 1,526,136
Receivables					
Other taxes	53,708	12,306	-	-	66,014
Accounts	16,409	-	-	-	16,409
Prepaid items	31,904	-	-	-	31,904
Total Assets	$ 512,958	$ 967,837	$ 152,099	$ 7,569	$ 1,640,463
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 8,658	$ -	$ -	$ -	$ 8,658
Total Liabilities	8,658	-	-	-	8,658
Fund Balances					
Reserved for:					
Prepaid items	31,904	-	-	-	31,904
Capital outlay	-	967,837	-	-	967,837
Debt service	-	-	152,099	-	152,099
Unreserved:					
Undesignated, reported in:					
General fund	472,396	-	-	-	472,396
Special revenue funds	-	-	-	7,569	7,569
Total Fund Balances	504,300	967,837	152,099	7,569	1,631,805
Total Liabilities and Fund Balances	$ 512,958	$ 967,837	$ 152,099	$ 7,569	$ 1,640,463

The notes to the basic financial statements are an integral part of these statements.

City of Franklin, Georgia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
December 31, 2012

Total Governmental Fund Balances		$ 1,631,804
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		
Cost	$ 5,543,123	
Less accumulated depreciation	(1,661,008)	3,882,115
Liabilities not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	-	
Intergovernmental agreement payable	(237,231)	(237,231)
Net Assets of Governmental Activities		$ 5,276,688

The notes to the basic financial statements are an integral part of these statements.

City of Franklin, Georgia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	General	SPLOST	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	$ -	$ -	$ -	$ -	$ -
Sales taxes	575,367	-	-	-	575,367
Franchise taxes	122,154	-	-	-	122,154
Other local taxes	96,021	-	-	-	96,021
Intergovernmental	53,962	424,782	-	-	478,744
Charges for services	27,911	-	-	-	27,911
Licenses and permits	10,206	-	-	-	10,206
Fines and forfeitures	75,627	-	-	-	75,627
Interest	186	400	-	-	586
Other	10,148	15,300	-	4,500	29,948
Total revenues	971,582	440,482	-	4,500	1,416,564
Expenditures					
Current					
General government	250,384	-	-	-	250,384
Public safety	510,864	-	-	-	510,864
Public works	244,012	-	-	-	244,012
Judicial	47,856	-	-	-	47,856
Housing and development	4,771	-	-	-	4,771
Culture and recreation	29,021	-	-	1,796	30,817
Debt service-principal	-	-	217,231	-	217,231
Debt service-interest	-	-	13,223	-	13,223
Capital outlay	-	142,096	-	-	142,096
Total expenditures	1,086,908	142,096	230,454	1,796	1,461,254
Excess (deficiency) of revenues over (under) expenditures	(115,326)	298,386	(230,454)	2,704	(44,690)
Other Financing Sources (uses)					
Transfers in	-	-	234,804	-	234,804
Transfers out	-	(234,804)	-	-	(234,804)
Total other financing sources (uses)	-	(234,804)	234,804	-	-
Net change in fund balances	(115,326)	63,582	4,350	2,704	(44,690)
Fund balances-Beginning of Year	619,626	904,255	147,749	4,864	1,676,494
Prior period adjustment	-	-	-	-	-
Fund balances-End of year	$ 504,300	$ 967,837	$ 152,099	$ 7,568	$ 1,631,804

The notes to the basic financial statements are an integral part of these statements.

City of Franklin, Georgia
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2012

Net changes in fund balances - Total Governmental Funds		$ (44,690)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Capital Outlay	142,096	
Depreciation	(216,206)	(74,110)
Repayment of the intergovernmental agreement payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		217,231
Compensated absences reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Liability at December 31, 2011	8,844	
Liability at December 31, 2012	(8,844)	-
Interfund transfers are eliminated for the government-wide statements.		
Transfers in	234,804	
Transfers out	(234,804)	-
Changes in net assets of governmental activities		$ 98,431

The notes to the basic financial statements are an integral part of these statements.

City of Franklin, Georgia
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Taxes	$ 868,400	$ 868,400	$ 793,542	$ (74,858)
Intergovernmental	38,785	38,785	53,962	15,177
Charges for services	26,000	26,000	27,911	1,911
Licenses and permits	25,600	25,600	10,206	(15,394)
Fines and forfeitures	80,550	80,550	75,627	(4,923)
Interest	750	750	186	(564)
Other	11,485	11,485	10,148	(1,337)
Total revenues	1,051,570	1,051,570	971,582	(79,988)
Expenditures				
Current:				
General government	257,747	257,747	250,384	7,363
Public safety	515,724	515,724	510,864	4,860
Public works	248,046	248,046	244,012	4,034
Judicial	49,070	49,070	47,856	1,214
Housing and development	4,836	4,836	4,771	65
Culture and recreation	29,385	29,385	29,021	364
Capital outlay	-	-	-	-
Total expenditures	1,104,808	1,104,808	1,086,908	17,900
Excess (deficiency) of revenues over (under) expenditures	(53,238)	(53,238)	(115,326)	(62,088)
Other financing sources and uses:				
Transfers out	-	-	-	-
Net change in fund balances	$ (53,238)	$ (53,238)	(115,326)	$ (62,088)
Fund balance at beginning of year			619,626	
Prior period adjustment			-	
Fund balance at end of year			$ 504,300	

The notes to the basic financial statements are an integral part of these statements.

1) Summary of Significant Accounting Policies

The financial statements of the City of Franklin, Georgia (the City) have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental and financial reporting.

The most significant of the City's accounting policies are described below.

1-A. Reporting Entity

The reporting entity is comprised of the primary government, a component unit and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City, this entity includes the City and its constitutional officers.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt.

The component unit column included on the government-wide financial statements identifies the financial data of the City's discretely presented component unit. It is reported separately to emphasize that the component unit is legally separate from the City.

A brief description of the discretely presented component unit follows:

The Franklin Downtown Development Authority (FDDA) exists to promote the City of Franklin and to encourage business activity within the City. The FDDA is reported as a discretely presented component unit because the entity is legally separate; however, the City appoints a voting majority of the Authority's governing board, and the City is able to impose its will on the entity. The FDDA is presented as a discretely presented component unit because the entity does not provide services entirely to the City, and the Authority and the City do not have substantively the same governing boards. Separate financial statements for the component unit are not available. For the year ended December 31, 2012, the FDDA has no activity and no ending balances.

1) Summary of Significant Accounting Policies (continued)

1-B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements, which provide a more detailed level of information.

Government-wide Financial Statements – The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole. The primary government and the component unit are presented separately within these financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and the City's general revenues. Neither fiduciary funds nor component units that are fiduciary in nature are included.

The statement of net assets presents the financial position of the governmental activities of the City and it's discretely presented component unit at year-end.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for charges for services is which function generates the revenue. For grants and contributions, the determining factor is to which function the revenues are restricted.

Other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

1) Summary of Significant Accounting Policies (continued)

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental funds.

Major individual governmental funds are reported in separate columns.

Fund Accounting – The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses one category of funds: governmental.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance.

Major individual governmental funds are reported as separate columns in the fund financial statements. The City reports the following major governmental funds:

General Fund – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund's balance is available to the City for any purpose, provided it is expended or transferred according to the general laws of the State of Georgia.

SPLOST (Capital Projects Fund) – This fund accounts for capital improvements being financed from grant revenues and Special Purpose Local Option Sales Tax revenues.

Debt Service Fund – This fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The City also reports the following fund type within the non-major governmental funds:

Special Revenue Funds – These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

1) Summary of Significant Accounting Policies (continued)

1-C. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operations of the City are included on the statement of net assets. The statement of activities reports revenues and expenses.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

1-D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase "available for exchange transactions" means expected to be received within 60 days of year-end.

1) Summary of Significant Accounting Policies (continued)

Revenues – Non-exchange Transactions – Non-exchange transactions, in which the City receives value without directly giving equal value, in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year the taxes are levied. (Note 4) Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, sales taxes, investment earnings and federal and state grants.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as deferred revenue (i.e., they are measurable but not available) rather than as revenue.

Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) also are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

1-E. Assets, Liabilities and Fund Equity

Cash, Cash Equivalents, and Investments – Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Receivables – All trade and property tax receivables are reported net of an allowance for uncollectibles, where applicable.

1) Summary of Significant Accounting Policies (continued)

Prepaid Items – Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

Capital Assets – General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net assets but does not report these assets in the governmental fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of $250. The City's infrastructure consists primarily of sidewalks. Infrastructure assets acquired or constructed after January 1, 2004 have been capitalized. Prior infrastructure assets have not been reported. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

All reported capital assets are depreciated except for land, right-of-ways and construction in progress, when applicable. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Asset Class	Governmental Activities Estimated Lives
Buildings and improvements	20-80 years
Machinery and equipment	5-20 years
Vehicles	7-30 years
Infrastructure	50 years

1) Summary of Significant Accounting Policies (continued)

Compensated Absences – In general, employees earn sick and vacation leave, but are not allowed to carry unused leave over to subsequent years.

However, public safety employees earn holiday benefits due to their unique work schedule. Holiday benefits are accrued as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. All compensated absences liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Governmental funds report the compensated absence liability at the fund reporting level only "when due."

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance which are legally separated for a specific future use or which do not represent available, expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods. Designations are management's intent to set aside these resources for specific services.

Net Assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net asset amount also is adjusted by any bond issuance deferral amounts. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net assets are reported as unrestricted.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in the governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Transfers between funds reported in the governmental activities column are eliminated.

1) Summary of Significant Accounting Policies (continued)

Equity Classifications

Government-wide Statements

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets."

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- **Non-spendable** – Fund balances are reported as non-spendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

- **Restricted** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Committed** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the Mayor and City Council through the adoption of a resolution or motion. The Mayor and City Council also may modify or rescind the commitment.

- **Assigned** – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution or motion, the Mayor and City Council has authorized the City's Clerk to assign fund balances.

- **Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

1) Summary of Significant Accounting Policies (continued)

Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2) Stewardship, Compliance and Accountability

A. Budgetary Information

The City adopts an annual operating budget for the general fund and each special revenue fund, if any. A project budget is adopted for each capital projects fund. The proposed budgets are prepared by a Budget Committee consisting of the Mayor and Council. Requests from the various City departments are presented for Committee consideration. Public hearings are held to solicit citizen input. The final budget resolution is presented and adopted in a public hearing prior to December 31. The budget resolution reflects the total of each department's appropriation in each fund.

The general and special revenue fund budgets, if any, are adopted on a basis consistent with GAAP. Budgets for capital project funds are adopted on a basis consistent with GAAP except the budget period is a project period rather than an annual period.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund. Any change in total to a fund or departmental appropriation within a fund requires approval of the City Council. The Mayor may approve budget transfers within departments, with the exception of salary amounts. During the year, the City Council approved budget revisions. All unexpended annual appropriations lapse at year end.

3) Custodial Credit Risk-Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties or municipalities. At December 31, 2012, all of the deposits of the City were fully collateralized in accordance with the state statutes.

4) Receivables

Receivables at December 31, 2012, consisted of taxes and fees. Receivables and payables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectability.

5) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1, based on property tax values as assessed on that same date. Taxes are levied on October 31 and are due by December 30 of the same year. After December 30, the bill becomes delinquent and penalties and interest may be assessed by the government. The City bills and collects its own property taxes. No property taxes have been levied for the digest year 2012.

6) Long-Term Debt

The City has agreed, through an intergovernmental agreement, to pay the annual debt service on $1,000,000 of Heard County (the County) Georgia General Obligations Bonds. The Bonds were issued by the County in October 2008 to advance fund projects to be constructed with Special Purpose Local Option Sales Tax (SPLOST) proceeds. The voters of Heard County approved the SPLOST and the advance funding on July 21, 2008. The County is primarily responsible for the full amount of the bonds issued ($16,250,000); the City is obligated to pay the portion agreed to through the intergovernmental agreement.

The City's projects, funded through the intergovernmental agreement, include improvements to City Hall, a community center and other capital projects. SPLOST proceeds are disbursed by the State of Georgia directly to a debt service (custodial) account held by Regions. The City's portion of the debt service is paid simultaneously with the County's portion when due. All SPLOST proceeds are pledged for repayment of the bonds.

Future maturities of the intergovernmental agreement payable are as follows:

	Principal	Interest	Total
2013	$ 237,231	$ 4,437	$ 241,668

Interest expense on long-term debt amounted to $13,223 for 2012.

Changes in long-term obligations for the year ended December 31, 2012 were as follows:

	Balance December 31, 2011	Additions	Retirements	Balance December 31, 2012
Intergovernmental agreement payable	$ 454,462	$ -	$ 217,231	$ 237,231

7) Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance December 31, 2011	Additions	Retirements	Balance December 31, 2012
Governmental Activities:				
Capital Assets not Being Depreciated				
Land	$ 483,617	$ -	$ -	$ 483,617
Capital Assets Being Depreciated				
Land improvements	215,297	6,963	-	222,260
Buildings	2,025,478	-	-	2,025,478
Equipments	675,105	55,615	-	730,720
Vehicles	1,068,581	22,277	-	1,090,858
Infastructure	932,949	57,241	-	990,190
	5,401,027	142,096	-	5,543,123
Less Accumulated Depreciation:				
Land Improvements	42,041	9,185	-	51,226
Buildings	281,894	44,106	-	326,000
Equipment	432,631	80,035	-	512,666
Vehicles	611,284	62,938	-	674,222
Infastructure	76,952	19,942	-	96,894
	1,444,802	216,206	-	1,661,008
Total Capital Assets Being Depreciated, Net	$ 3,472,608	$ (74,110)	$ -	$ 3,398,498
Governmental Activities Capital Assets, Net	$ 3,956,225	$ (74,110)	$ -	$ 3,882,115

Depreciation expense charged to governmental activities was $216,206 for the year ended December 31, 2012.

Governmental activities depreciation expense:	
General Government	$ 16,806
Public Safety	110,486
Public Works	58,126
Culture and Recreation	30,559
Judicial	228
Total government activities depreciation expense	$ 216,206

8) Joint Venture

Under Georgia law, the City, in conjunction with other cities and counties in the ten county west central Georgia area, is a member of the Three Rivers Regional Commission (RC) and is required to pay annual dues thereto. During the year ended December 31, 2012, the City paid $987 in such dues. Membership in an RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of an RC in Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area.

9) Related Organization

The Housing Authority of the City of Franklin, Georgia (the Authority) is considered to be a related organization under GASB 26. The City of Franklin appoints the governing board of the Authority, but is not able to impose its will on the Authority nor is the City financially responsible for Authority obligations. Separate financial statements of the Authority may be obtained.

10) Pensions

A. Plan Description

The City provides a defined benefit pension plan for all of its full time employees through the Georgia Municipal Employees Benefit System, an agent multiple-employer public employee retirement system administered by the Georgia Municipal Association (GMA). The City's payroll for employees covered by the Plan as of July 1, 2012 (the most recent actuarial valuation date) was $462,247 (based on covered earnings for the preceding year). The City's total payroll was $489,250. The GMA issues a publicly available financial report that includes financial statements and required supplementary information for the City of Franklin

All full time City employees are eligible to participate in the Plan after completing one year of service. Benefits vest after ten years of service. Participants become eligible to retire at the earlier of: a) age 65 with 5 years of participation in the Plan, or b) age 55 and 10 years of service, excluding City officials with immediate vesting. The plan also provides benefits in the event of death or disability. These benefit provisions were established by an adoption agreement executed by the City Council.

10) Pensions (continued)

B. Funding Policy

The City is required to contribute at an actuarially determined rate. Section 47-2-1-0 of the Georgia Code sets forth the funding standards for state and local government pension plans. Administrative expenses are based on total covered payroll of plan members and are added to the annual funding requirement.

The Georgia Constitution enables the governing authority of the City, the City Council, to establish and amend from time to time, the contribution rates for the employer and its plan members.

City employees are not required to contribute to the Plan.

For 2012, the City's annual pension cost was $27,041 ($22,969 normal cost plus $4,072 administrative expenses) and actual contributions were $12,058. The actual contributions were less than the required minimum contribution established under the public retirement systems standards law of $39,099. The minimum required contribution was determined as part of the July 1, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (2) 7.75% investment rate of return, (b) projected salary increases per a table of rates based on age and service, and 0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.95%. The asset valuation method used is market value. The remaining amortization period at July 1, 2012, varies for the basis.

A copy of the plan's financial report may be obtained from Georgia Municipal Employee Benefit System, 201 Pryor Street, S.W., Atlanta, Georgia 30303.

C. Membership in the Plan

Retirees and beneficiaries receiving benefits	10
Terminated plan members entitled to, but not yet receiving benefits	2
Active plan members	19
Total	31

10) Pensions (continued)

D. Trend Information

Four year trend information as of the actuarial valuation dates of July 1, 2012, 2011, and 2010:

	2012	2011	2010	2009
Actuarial Value of Plan Assets	$ 446,937	$ 426,317	$ 400,408	$ 332,520
Actuarial Accrued Liability	531,876	514,646	482,609	465,131
Unfunded Liability (Surplus)	84,939	88,329	82,201	132,611
Annual Covered Payroll	462,247	381,744	455,414	456,755
Annual Pension Cost	27,041	23,740	23,243	23,811
Contributions Made	12,058	12,538	11,668	24,340
Percentage of Annual Pension Cost Contributed	44.59%	52.81%	50.00%	102.22%
Percentage of Obligation (Surplus) to Covered Payroll	18.38%	23.14%	18.05%	29.03%
Percentage of Contribution to Covered Payroll	2.61%	3.28%	2.56%	5.33%
Percentage of Actuarial Value of Assets to Actuarial Accrued Liability	84.03%	82.84%	82.97%	71.49%

11) Net Assets

Net assets invested in capital assets, net of related debt and net assets restricted for program purposes on the Government-wide statement of net assets as of December 31, 2012 are detailed as follows:

Investment in capital assets, net of related debt:

Cost of capital assets	$ 5,543,123
Less accumulated depreciation	(1,661,008)
Book value	3,882,115
Less capital related debt	(237,231)
Investment in capital assets, net of related debt	$ 3,644,884

12) Risk Management

The City is exposed to various risks of losses related to tort, thefts of, damage to and destructions of assets; errors and omissions; injuries to employees; and natural disasters.

The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Property and Liability Insurance Fund, and the Georgia Municipal Association Self-Insurance Workers Compensation Fund, both public entity risk pools currently operating as common risk management and insurance programs for member local governments.

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools to cooperate with the pools' agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also to allow the pools' agents and attorneys to represent the City in any investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

This coverage includes all risk categories except natural disasters, for which the City if self-insured. Because of no recent history of loss from natural disasters, not estimated liability has been recorded.

There was no decrease in the City's general liability coverage for the year ending December 31, 2012. The City is not aware of any outstanding and unpaid claims as of December 31, 2012.

13) Commitments and Contingencies

The City's attorney has advised that there are no legal actions that were in progress by, or against, the City at December 31, 2012. The City does not contribute to the State Unemployment system. Instead, the City reimburses the State for unemployment benefits paid on its behalf each year. At December 31, 2012 there were no unpaid claims that management believes to be material.

The City has received federal and state grant awards for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

14) Interfund Transactions and Balances

Transfers and payments within the reporting entity are substantially for the purpose of maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

Transfers	Transfers In	Transfers Out
SPLOST Fund	$ -	$ 234,804
Debt Service Fund	234,804	-
	$ 234,804	$ 234,804

City of Franklin, Georgia
Schedule of Funding Progress
Pension Plan
For the Year Ended December 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded Actuarial Liabilities (UAAL) (2)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
September 1, 2008	380,689	420,095	39,406	90.62%	369,224	10.67%
October 1, 2009	332,520	465,131	132,611	71.49%	456,755	29.03%
July 1, 2010	400,408	482,609	82,201	82.97%	455,414	18.05%
July 1, 2011	426,317	514,646	88,329	82.84%	381,744	23.14%
July 1, 2012	446,937	531,876	84,939	84.03%	462,247	18.38%

(1) Actuarial liability determined under the entry age method.

(2) Actuarial liability less actuarial value of assets, if any.

COMBINING FUND STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

City of Franklin, Georgia
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2012

	Special Revenue Funds		
	Special Events	Confiscated Assets	Total
Assets			
Cash and cash equivalents	$ 2,034	$ 5,535	$ 7,569
Receivables		-	
Property taxes	-	-	-
Other taxes	-	-	-
Accounts	-	-	-
Interfund	-	-	-
Prepaid items	-	-	-
Total Assets	$ 2,034	$ 5,535	$ 7,569
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ -	$ -	$ -
Interfund payable	-	-	-
Deferred revenue	-	-	-
Total Liabilities	-	-	-
Fund Balances			
Unreserved	2,034	5,535	7,569
Total Liabilities and Fund Balances	$ 2,034	$ 5,535	$ 7,569

The notes to the basic financial statements are an integral part of these statements.

City of Franklin, Georgia
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2012

	Special Events	Confiscated Assets	Total
Revenues			
Fines and forfeitures	$ -	$ -	$ -
Other	3,055	1,445	4,500
Total revenues	3,055	1,445	4,500
Expenditures			
Current			
Public safety	-	-	-
Culture and recreation	1,796	-	1,796
Total expenditures	1,796	-	1,796
Excess (deficiency) of revenues over (under) expenditures	1,259	1,445	2,704
Fund balances-Beginning of Year	775	4,090	4,865
Fund balances-End of year	$ 2,034	$ 5,535	$ 7,569

The notes to the basic financial statements are an integral part of these statements.

City of Franklin, Georgia
Schedule of Projects Acquired with Special Sales Tax Proceeds
For the Year Ended December 31, 2012

	Original Estimated Cost	Current Estimated Cost	Expenditures Prior Years	Expenditures Current Year	Total
2007 SPLOST					
Community center	$ 500,000	$ 669,600	$ 669,600	$ -	$ 669,600
City hall renovations	475,000	197,826	197,826	-	197,826
General equipment	-	47,661	38,865	8,796	47,661
Public works equipment	-	71,190	71,190	-	71,190
Public works building	-	81,886	81,886	-	81,886
Roads and bridges	423,000	264,679	258,289	6,390	264,679
Sidewalks	-	102,314	102,314	-	102,314
Highway 34 lift station	-	37,055	37,055	-	37,055
Police department vehicles and equipment	292,000	229,141	162,262	66,879	229,141
Fire department building and equipment	-	10,513	10,513	-	10,513
Recreation facilities and equipment	-	143,272	140,482	2,790	143,272
Water & sewer	1,000,000	194,860	137,619	57,241	194,860
Total expenditures	$ 2,690,000	$2,049,997	$ 1,907,901	$ 142,096	$ 2,049,997

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*

MICHELLE ROBINSON LLC
CERTIFIED PUBLIC ACCOUNTANT

MEMBER OF GEORGIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF 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, Georgia

I have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the remaining aggregate fund information of the City of Franklin, Georgia as of and for the year ended December 31, 2012, which collectively comprise the City of Franklin, Georgia's basic financial statements and have issued my report thereon dated May 1, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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 I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies in internal control over financial reporting. The findings are identified as 12-01 and 12-02 in the accompanying schedule of findings and responses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Franklin, Georgia's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

I also noted certain other matters that I reported to management of City of Franklin, Georgia, in a separate letter dated May 1, 2013.

The City of Franklin, Georgia's response to the findings in my audit is described in the accompanying Schedule of Findings and Responses. I did not audit the City of Franklin, Georgia's response and, accordingly, I express no opinion on it.

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 those specified parties.

Michelle Robinson LLC

May 1, 2013