

**TOWN OF FRANKLIN
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

TOWN OF FRANKLIN, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

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MARTIN STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

To the Honorable Mayor and
Town Council
Franklin, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Franklin, North Carolina, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Franklin, North Carolina, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Town of Franklin ABC Board, which represents 74%, 73% and 96%, respectively, of the assets, net position, and revenues of the discretely presented component units as of June 30, 2022, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Franklin ABC Board, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of the Town of Franklin ABC Board were not audited in accordance with *Government Auditing Standards*.

Change in Accounting Principle

As discussed in Note 5 to the financial statements, in 2022 the Town adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Post-Employment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Employee Payroll be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Franklin's basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules, and the Tourism Development Authority schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied to the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, based on our audit and the report of the other auditors, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Tourism Development Authority schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2022 on our consideration of the Town of Franklin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Franklin's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Franklin's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 11, 2022

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Management's Discussion and Analysis

As management of the Town of Franklin, we offer readers of the Town of Franklin's financial statements this narrative overview and analysis of the financial activities of the Town of Franklin for the fiscal year ended June 30, 2022. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

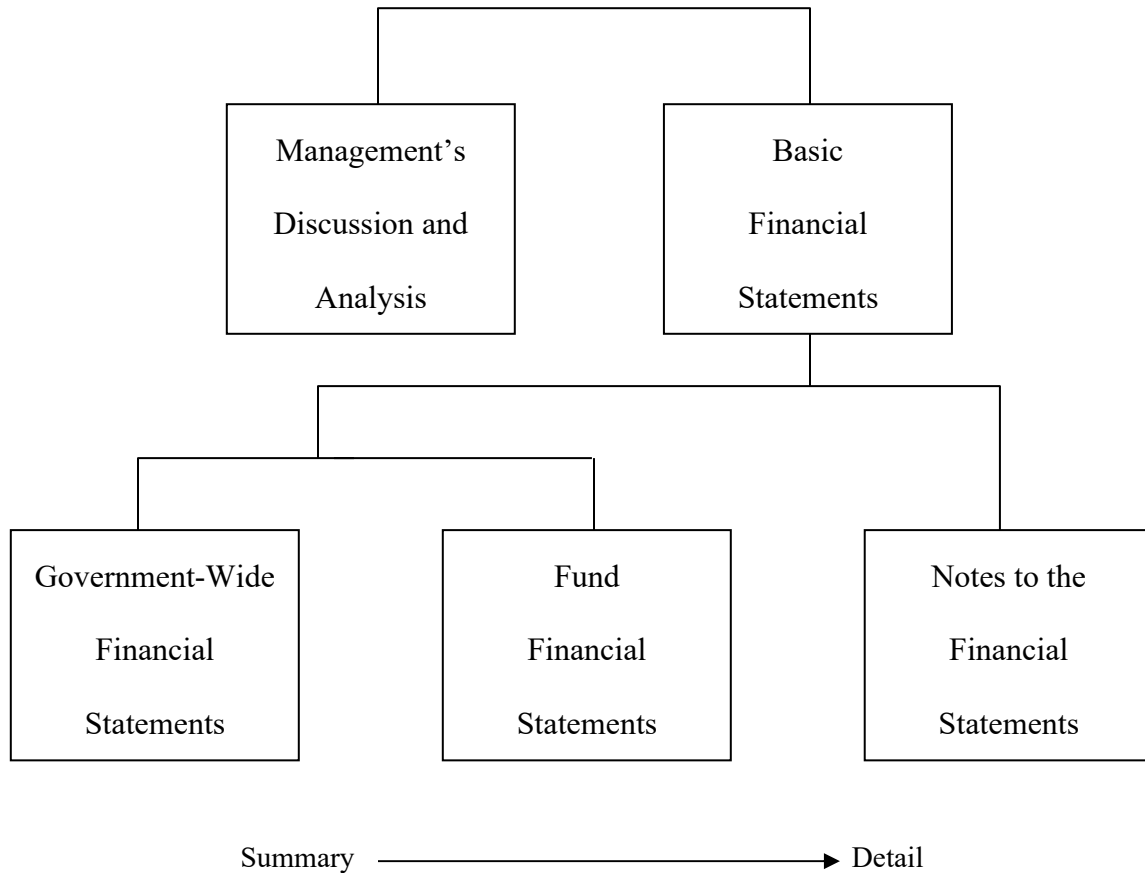
- The assets and deferred outflows of the Town of Franklin exceeded its liabilities and deferred inflows at the close of the fiscal year by \$34,765,368 (*net position*). For the Franklin Tourism Development Authority ("TDA"), the assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$305,722.
- The government's total net position increased by \$2,555,716, due to an increase in governmental net position and an increase in business-type activities net position. The TDA's total net position increased by \$63,507.
- As of the close of the current fiscal year, the Town of Franklin's General Fund reported total ending fund balance of \$5,975,393, an increase of \$1,028,619, in comparison with the prior year. Approximately 17.38% of this total amount, or \$1,038,262, is restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$5,432,488, or 112.8 percent, of total General Fund expenditures.
- The Town of Franklin's total debt decreased by \$789,210 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Franklin's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Franklin.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **government-wide financial statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C through I) are **fund financial statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component unit. The governmental activities include most of the Town's basic services such as general government, public safety, transportation, and cultural and recreation. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Franklin. The final category is the component units, of which the Town has two. The Town of Franklin Tourism Development Authority is considered a component unit of the Town because the Town exercises control over the Board by appointing its members and because the Board is required to expend the local occupancy taxes promoting travel and tourism for the Town. Although legally separate from the Town, the Town of Franklin ABC Board is important to the Town, because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Franklin, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Franklin can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Franklin adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Town Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Town Council; 2) the final budget as amended by the Town Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds. The Town of Franklin has one proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Franklin uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

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 begin on page 24 of this report.

Other Information

In addition to the basic financial statements and the accompanying notes, this report includes certain required supplementary information concerning the Town of Franklin's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 64 of this report.

Interdependence with Other Entities

The Town depends on financial resources flowing from or associated with both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations.

Government-Wide Financial Analysis

Town of Franklin's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets:						
Current and other assets	\$ 6,972,913	\$ 5,351,353	\$ 8,399,430	\$ 7,438,329	\$ 15,372,343	\$ 12,789,682
Right to use leased assets	45,062	-	10,615	-	55,677	-
Capital assets	7,005,115	6,822,339	23,924,593	24,537,223	30,929,708	31,359,562
Total assets	<u>14,023,090</u>	<u>12,173,692</u>	<u>32,334,638</u>	<u>31,975,552</u>	<u>46,357,728</u>	<u>44,149,244</u>
Deferred Outflows of Resources	<u>1,329,642</u>	<u>932,943</u>	<u>540,605</u>	<u>355,491</u>	<u>1,870,247</u>	<u>1,288,434</u>
Liabilities:						
Long-term liabilities						
outstanding	4,059,441	3,911,313	7,528,769	8,445,359	11,588,210	12,356,672
Other liabilities	<u>840,831</u>	<u>269,639</u>	<u>180,549</u>	<u>298,045</u>	<u>1,021,380</u>	<u>567,684</u>
Total liabilities	<u>4,900,272</u>	<u>4,180,952</u>	<u>7,709,318</u>	<u>8,743,404</u>	<u>12,609,590</u>	<u>12,924,356</u>
Deferred Inflows of Resources	<u>669,812</u>	<u>220,403</u>	<u>347,294</u>	<u>83,267</u>	<u>1,017,106</u>	<u>303,670</u>
Net Position:						
Net investment in capital assets	6,383,199	6,207,225	17,441,288	17,196,248	23,824,487	23,403,473
Restricted	1,038,262	1,046,578	-	-	1,038,262	1,046,578
Unrestricted	<u>2,361,187</u>	<u>1,451,477</u>	<u>7,541,432</u>	<u>6,308,124</u>	<u>9,902,619</u>	<u>7,759,601</u>
Total net position	<u>\$ 9,782,648</u>	<u>\$ 8,705,280</u>	<u>\$ 24,982,720</u>	<u>\$ 23,504,372</u>	<u>\$ 34,765,368</u>	<u>\$ 32,209,652</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Franklin exceeded liabilities and deferred inflows by \$34,765,368 as of June 30, 2022. The Town's net position increased by \$2,555,716 for the fiscal year ended June 30, 2022. However, the largest portion (69%) reflects the Town's net investment in capital assets (e.g. land, construction in progress, buildings, improvements, equipment, vehicles, furniture, infrastructure, and distribution systems). The Town of Franklin uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Franklin's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Franklin's net position \$1,038,262, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,902,619 is unrestricted.

At June 30, 2022, all of the TDA's net position is restricted for tourism activity, except for \$20,453, which is restricted for stabilization by state statute. Ending net position for the TDA was \$305,722.

The following aspect of the Town's financial operations positively influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes, an increase in sales & use taxes, and general charges for services. The town adopted a balanced budget.

Town of Franklin's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	\$ 54,986	\$ 96,608	\$ 5,023,344	\$ 4,425,330	\$ 5,078,330	\$ 4,521,938
Operating grants	283,618	208,454	50,191	106,256	333,809	314,710
Capital grants	163,244	116,842	-	-	163,244	116,842
General revenues:						
Property taxes	2,423,486	2,359,515	-	-	2,423,486	2,359,515
Other taxes	1,660,987	1,609,811	-	-	1,660,987	1,609,811
Miscellaneous	1,226,747	1,066,083	-	-	1,226,747	1,066,083
Investment earnings	7,637	1,018	9,634	410	17,271	1,428
Total revenues	<u>5,820,705</u>	<u>5,458,331</u>	<u>5,083,169</u>	<u>4,531,996</u>	<u>10,903,874</u>	<u>9,990,327</u>
Expenses:						
General government	859,335	888,183	-	-	859,335	888,183
Public safety	2,961,285	2,872,395	-	-	2,961,285	2,872,395
Transportation	524,735	448,900	-	-	524,735	448,900
Planning and economic	360,385	355,605	-	-	360,385	355,605
Interest on long-term debt	13,485	16,921	-	-	13,485	16,921
Water and sewer	-	-	3,628,933	3,336,088	3,628,933	3,336,088
Total expenses	<u>4,719,225</u>	<u>4,582,004</u>	<u>3,628,933</u>	<u>3,336,088</u>	<u>8,348,158</u>	<u>7,918,092</u>
Change in net position before transfers	1,101,480	876,327	1,454,236	1,195,908	2,555,716	2,072,235
Transfers	<u>(24,112)</u>	<u>-</u>	<u>24,112</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	1,077,368	876,327	1,478,348	1,195,908	2,555,716	2,072,235
Net Position:						
Beginning of year - July 1	<u>8,705,280</u>	<u>7,828,953</u>	<u>23,504,372</u>	<u>22,308,464</u>	<u>32,209,652</u>	<u>30,137,417</u>
End of year - June 30	<u>\$ 9,782,648</u>	<u>\$ 8,705,280</u>	<u>\$ 24,982,720</u>	<u>\$ 23,504,372</u>	<u>\$ 34,765,368</u>	<u>\$ 32,209,652</u>

Governmental Activities. Governmental activities increased the Town's net position by \$1,077,368.

Key elements of this increase are as follows:

- Decreases in the current fiscal year in operating expenses in administration, public safety, transportation, and interest on long-term debt

Business-Type Activities. Business-type activities increased the Town of Franklin's net position by \$1,478,348. Key elements of this increase are as follows:

- Water rate increase of four percent during the current year as well as unrealized project completions due to material costs and supply chain issues.

The TDA had a change in net position of \$63,507 during the fiscal year. Total revenues exceeded total expenditures at June 30, 2022.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Franklin's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Franklin's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Franklin. At the end of the current fiscal year, the Town of Franklin's fund balance available in the General Fund was \$5,432,488 while total fund balance reached \$5,975,393. The Town currently has an available fund balance of 112.8% of General Fund expenditures, while total fund balance represents 124.1% of General Fund expenditures.

At June 30, 2022, the General Fund of the Town of Franklin reported an increase in fund balance of 20.79% over last year, primarily due to increased revenues in the areas of charges for services, property and sales & use taxes.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and 3) increases in appropriations that become necessary to maintain services.

Proprietary Funds. The Town of Franklin's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$7,541,432. The total increase in net position for the fund was \$1,478,348. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Franklin's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Franklin’s capital assets for its governmental and business–type activities as of June 30, 2022 totals \$30,929,708 (net of accumulated depreciation). These assets include land, construction in progress, buildings, improvements, equipment, furnishings and fixtures, vehicles, infrastructure, and water and sewer distribution systems.

Town of Franklin’s Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 3,673,177	\$ 3,244,639	\$ 1,052,081	\$ 1,052,081	\$ 4,725,258	\$ 4,296,720
Construction in progress	-	214,074	-	113,497	-	327,571
Infrastructure	724,342	646,375	-	-	724,342	646,375
Buildings	1,869,241	1,925,282	1,124,881	1,156,607	2,994,122	3,081,889
Improvements to facilities	49,254	33,331	14,255	16,883	63,509	50,214
Vehicles	377,933	419,170	133,943	143,250	511,876	562,420
Equipment and furniture	311,168	339,468	181,291	168,297	492,459	507,765
Water and sewer distribution systems	-	-	21,418,142	21,886,608	21,418,142	21,886,608
Total	\$ 7,005,115	\$ 6,822,339	\$ 23,924,593	\$ 24,537,223	\$ 30,929,708	\$ 31,359,562

Additional information on the Town’s capital assets can be found in Note 2A of the basic financial statements.

Long-Term Debt. As of June 30, 2022, the Town of Franklin had no bonded debt outstanding.

Capital Leases and Other Long-Term Liabilities

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Lease liabilities	\$ 44,399	\$ -	\$ 10,351	\$ -	\$ 54,750	\$ -
Notes from direct borrowings and direct placements	628,560	615,114	6,483,569	7,340,975	7,112,129	7,956,089
Total OPEB liability	1,548,552	1,223,282	774,697	612,572	2,323,249	1,835,854
Net pension liability (LGERS)	337,867	749,893	198,432	440,415	536,299	1,190,308
Total pension liability (LEOSSA)	1,359,037	1,223,886	-	-	1,359,037	1,223,886
Compensated absences	141,026	99,138	61,720	51,397	202,746	150,535
Total	\$ 4,059,441	\$ 3,911,313	\$ 7,528,769	\$ 8,445,359	\$ 11,588,210	\$ 12,356,672

Town of Franklin's Outstanding Debt

The Town of Franklin's total debt decreased by \$789,210 during the past fiscal year.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Franklin is \$58,383,490.

Additional information regarding the Town of Franklin's long-term debt can be found in notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- Sales tax revenues have seen substantial growth and water and sewer revenues continue a steady increase due to commercial development in the area. Tourism and related business remains a primary driver for the Town's economy.
- During the fiscal year, the state and the nation were affected by the spread of a coronavirus. The Town of Franklin's response to the coronavirus included an increase in expenditures for sanitation and cleaning related items, some building modifications in order to ensure safety for both staff and the general public and various expenditures for messaging in order to share emergency related information with the general public. The Town of Franklin also saw a decrease in investment earnings due to the coronavirus pandemic.

Budget Highlights for the Year Ending June 30, 2023

Governmental Activities. The General Fund budget was decreased by \$123,753. There was no tax increase this fiscal year.

Budgeted expenditures have been maintained at levels consistent with the fiscal year 2021-2022 through item-specific savings while continuing to provide necessary services. Employee benefits remained unchanged with the exception of a one-time, merit-based payment based on salary for full-time employees. This performance-based payment is based on the town's personnel evaluation policy. Employee benefit contributions remain the same.

Business-Type Activities. Water and sewer rates were increased this current fiscal year based on the detailed water rate study that was completed in fiscal year 2019-2020. The Town has completed work on Phase I of the Water Plant Upgrade and Expansion Project. The Town has received approval for SRF funding for Phase II of the Water Plant Upgrade and Expansion Project.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the following: Amie Owens, Town Manager, PO Box 1479, Franklin, North Carolina 28744; phone - 828-524-2516; website - www.franklinnc.com.

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TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2022

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Town of Franklin ABC Board	Town of Franklin Tourism Development Authority
Assets:					
Current assets:					
Cash and cash equivalents	\$ 5,197,761	\$ 7,611,151	\$ 12,808,912	\$ 529,492	\$ 285,269
Receivables, net:					
Taxes	99,013	-	99,013	-	-
Accounts	428,378	510,103	938,481	-	-
Current portion of long-term note receivable	-	25,456	25,456	-	-
Due from other governments	163,167	38,910	202,077	-	-
Due from primary governments	-	-	-	-	20,453
Inventories	-	170,640	170,640	322,531	-
Prepaid expenses	-	-	-	7,066	-
Restricted assets - cash and cash equivalents	1,084,594	43,170	1,127,764	-	-
Total current assets	6,972,913	8,399,430	15,372,343	859,089	305,722
Non-current assets:					
Non-current portion of long-term note receivable	-	164,089	164,089	-	-
Right to use leased assets, net	45,062	10,615	55,677	-	-
Capital assets:					
Land and construction in progress	3,673,177	1,052,081	4,725,258	-	-
Other capital assets, net of depreciation	3,331,938	22,872,512	26,204,450	33,450	-
Total capital assets	7,005,115	23,924,593	30,929,708	33,450	-
Total non-current assets	7,050,177	24,099,297	31,149,474	33,450	-
Total assets	14,023,090	32,498,727	46,521,817	892,539	305,722
Deferred Outflows of Resources:					
OPEB deferrals	461,577	228,456	690,033	-	-
Pension deferrals	868,065	312,149	1,180,214	-	-
Total deferred outflows of resources	1,329,642	540,605	1,870,247	-	-
Liabilities:					
Current liabilities:					
Accounts payable	29,799	23,355	53,154	73,112	-
Accrued liabilities	204,099	101,752	305,851	-	-
Due to component unit	20,453	-	20,453	-	-
Accrued interest	3,224	12,272	15,496	-	-
Advance from grantor	583,256	-	583,256	-	-
Liabilities payable from restricted assets:					
Customer deposits	-	43,170	43,170	-	-
Total current liabilities	840,831	180,549	1,021,380	73,112	-
Long-term liabilities:					
Net pension liability - LGERS	337,867	198,432	536,299	-	-
Total pension liability - LEOSSA	1,359,037	-	1,359,037	-	-
Total OPEB liability	1,548,552	774,697	2,323,249	-	-
Due within one year	263,568	904,269	1,167,837	-	-
Due in more than one year	550,417	5,651,371	6,201,788	-	-
Total long-term liabilities	4,059,441	7,528,769	11,588,210	-	-
Total liabilities	4,900,272	7,709,318	12,609,590	73,112	-
Deferred Inflows of Resources:					
Prepaid taxes	6,279	-	6,279	-	-
OPEB deferrals	105,925	52,992	158,917	-	-
Pension deferrals	557,608	294,302	851,910	-	-
Total deferred inflows of resources	669,812	347,294	1,017,106	-	-
Net Position:					
Net investment in capital assets	6,383,199	17,441,288	23,824,487	33,450	-
Restricted for:					
Stabilization by state statute	542,905	-	542,905	-	20,453
Streets	470,683	-	470,683	-	-
Public safety	24,674	-	24,674	-	-
Other purposes	-	-	-	121,786	285,269
Unrestricted	2,361,187	7,541,432	9,902,619	664,191	-
Total net position	\$ 9,782,648	\$ 24,982,720	\$ 34,765,368	\$ 819,427	\$ 305,722

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 859,335	\$ 45,843	\$ 130,530	\$ -
Public safety	2,961,285	9,143	153,088	25,000
Transportation	524,735	-	-	138,244
Planning and economic	360,385	-	-	-
Interest on long-term debt	13,485	-	-	-
Total governmental activities	<u>4,719,225</u>	<u>54,986</u>	<u>283,618</u>	<u>163,244</u>
Business-Type Activities:				
Water and sewer	<u>3,628,933</u>	<u>5,023,344</u>	<u>50,191</u>	<u>-</u>
Total primary government	<u>\$ 8,348,158</u>	<u>\$ 5,078,330</u>	<u>\$ 333,809</u>	<u>\$ 163,244</u>
Component Units:				
ABC Board	\$ 3,986,243	\$ 4,139,201	\$ -	\$ -
Tourism Development Authority	121,670	184,932	-	-
Total component units	<u>\$ 4,107,913</u>	<u>\$ 4,324,133</u>	<u>\$ -</u>	<u>\$ -</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Town of Franklin ABC Board	Town of Franklin Tourism Development Authority
Functions/Programs:					
Primary Government:					
Governmental Activities:					
General government	\$ (682,962)	\$ -	\$ (682,962)		
Public safety	(2,774,054)	-	(2,774,054)		
Transportation	(386,491)	-	(386,491)		
Planning and economic	(360,385)	-	(360,385)		
Interest on long-term debt	(13,485)	-	(13,485)		
Total governmental activities	<u>(4,217,377)</u>	<u>-</u>	<u>(4,217,377)</u>		
Business-Type Activities:					
Water and sewer	<u>-</u>	<u>1,444,602</u>	<u>1,444,602</u>		
Total primary government	<u>(4,217,377)</u>	<u>1,444,602</u>	<u>(2,772,775)</u>		
Component Units:					
ABC Board				\$ 152,958	\$ -
Tourism Development Authority				<u>-</u>	<u>63,262</u>
Total component units				<u>152,958</u>	<u>63,262</u>
General Revenues:					
Taxes:					
Property taxes, levied for general purposes	2,423,486	-	2,423,486	-	-
Other taxes and licenses	1,660,987	-	1,660,987	-	-
Local option sales tax	1,226,747	-	1,226,747	-	-
Investment earnings, unrestricted	<u>7,637</u>	<u>9,634</u>	<u>17,271</u>	<u>46</u>	<u>245</u>
Total general revenues	<u>5,318,857</u>	<u>9,634</u>	<u>5,328,491</u>	<u>46</u>	<u>245</u>
Transfers	<u>(24,112)</u>	<u>24,112</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>5,294,745</u>	<u>33,746</u>	<u>5,328,491</u>	<u>46</u>	<u>245</u>
Change in net position	1,077,368	1,478,348	2,555,716	153,004	63,507
Net Position:					
Beginning of year - July 1	<u>8,705,280</u>	<u>23,504,372</u>	<u>32,209,652</u>	<u>666,423</u>	<u>242,215</u>
End of year - June 30	<u>\$ 9,782,648</u>	<u>\$ 24,982,720</u>	<u>\$ 34,765,368</u>	<u>\$ 819,427</u>	<u>\$ 305,722</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2022

	Major		Non-Major	Total
	General Fund	Coronavirus State and Local Fiscal Recovery Special Revenue Fund	Other Governmental Fund	
Assets:				
Cash and cash equivalents	\$ 5,197,761	\$ -	\$ -	\$ 5,197,761
Receivables, net:				
Taxes	99,013	-	-	99,013
Accounts	428,378	-	-	428,378
Due from other governments	163,167	-	-	163,167
Restricted assets - cash and cash equivalents	495,357	583,256	5,981	1,084,594
Total assets	<u>\$ 6,383,676</u>	<u>\$ 583,256</u>	<u>\$ 5,981</u>	<u>\$ 6,972,913</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ 29,799	\$ -	\$ -	\$ 29,799
Due to component unit	20,453	-	-	20,453
Accrued liabilities	204,099	-	-	204,099
Advance from grantor	-	583,256	-	583,256
Total liabilities	<u>254,351</u>	<u>583,256</u>	<u>-</u>	<u>837,607</u>
Deferred Inflows of Resources:				
Prepaid taxes	6,279	-	-	6,279
Unavailable revenues	48,640	-	-	48,640
Property taxes receivables	99,013	-	-	99,013
Total deferred inflows of resources	<u>153,932</u>	<u>-</u>	<u>-</u>	<u>153,932</u>
Fund Balances:				
Restricted:				
Stabilization by state statute	542,905	-	-	542,905
Restricted for streets	470,683	-	-	470,683
Restricted for public safety	24,674	-	5,981	30,655
Assigned	150,633	-	-	150,633
Unassigned	4,786,498	-	-	4,786,498
Total fund balance	<u>5,975,393</u>	<u>-</u>	<u>5,981</u>	<u>5,981,374</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,383,676</u>	<u>\$ 583,256</u>	<u>\$ 5,981</u>	<u>\$ 6,972,913</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2022

Total

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

Total fund balances	\$ 5,981,374
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	7,005,115
Right to use leased assets, net	45,062
Net pension liability - LGERS	(337,867)
Total pension liability - LEOSSA	(1,359,037)
Total OPEB liability	(1,548,552)
Deferred inflows of resources related to pensions are not reported in the funds.	(557,608)
Deferred inflows of resources related to OPEB are not reported in the funds.	(105,925)
Deferred outflows of resources related to pensions are not reported in the funds.	868,065
Deferred outflows of resources related to OPEB are not reported in the funds.	461,577
Other long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(672,959)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(141,026)
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	147,653
Other long-term liabilities (accrued interest) are not due and payable in the funds.	<u>(3,224)</u>
Net position of governmental activities	<u>\$ 9,782,648</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Major		Non-Major	Total
	General Fund	Coronavirus State and Local Fiscal Recovery Special Revenue Fund	Other Governmental Fund	
Revenues:				
Ad valorem taxes	\$ 2,461,487	\$ -	\$ -	\$ 2,461,487
Other taxes and licenses	960,248	-	-	960,248
Unrestricted intergovernmental revenues	1,927,486	-	-	1,927,486
Restricted intergovernmental revenues	242,692	70,871	25,000	338,563
Permits and fees	8,228	-	-	8,228
Investment earnings	7,637	-	-	7,637
Miscellaneous	106,417	-	-	106,417
Total revenues	<u>5,714,195</u>	<u>70,871</u>	<u>25,000</u>	<u>5,810,066</u>
Expenditures:				
Current:				
General government	1,150,045	-	-	1,150,045
Public safety	2,559,307	-	204,945	2,764,252
Transportation	537,642	-	-	537,642
Planning and economic development	360,385	-	-	360,385
Debt service:				
Principal	192,221	-	-	192,221
Interest	15,818	-	-	15,818
Total expenditures	<u>4,815,418</u>	<u>-</u>	<u>204,945</u>	<u>5,020,363</u>
Revenues over (under) expenditures	<u>898,777</u>	<u>70,871</u>	<u>(179,945)</u>	<u>789,703</u>
Other Financing Sources (Uses):				
Transfer in	46,759	-	-	46,759
Transfer out	-	(70,871)	-	(70,871)
Sale of capital assets	18,943	-	-	18,943
Lease liabilities issued	64,140	-	-	64,140
Long-term debt issued	-	-	185,926	185,926
Total other financing sources (uses)	<u>129,842</u>	<u>(70,871)</u>	<u>185,926</u>	<u>244,897</u>
Net change in fund balances	1,028,619	-	5,981	1,034,600
Fund Balances:				
Beginning of year - July 1	<u>4,946,774</u>	<u>-</u>	<u>-</u>	<u>4,946,774</u>
End of year - June 30	<u>\$ 5,975,393</u>	<u>\$ -</u>	<u>\$ 5,981</u>	<u>\$ 5,981,374</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

Amounts reported for governmental activities in the Statement of Activities
(Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds (Exhibit D)	\$ 1,034,600
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement.	10,639
The issuance of lease liabilities and long-term debt provides current financial resources to governmental funds. The transaction does not have an effect on net position.	(250,066)
Debt principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	192,221
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(41,888)
Pension expense - LGERS	48,137
Pension expense - LEO	(99,978)
OPEB plan expense	(46,468)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	544,412
Right to use leased asset capital expenditures which were capitalized	64,265
Other long-term liabilities (accrued interest) are not due and payable in the funds.	2,333
Amortization expense allocates the costs of right to use assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(19,203)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	<u>(361,636)</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 1,077,368</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/Under</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 2,061,527	\$ 2,061,528	\$ 2,461,487	\$ 399,959
Other taxes and licenses	874,263	874,263	960,248	85,985
Unrestricted intergovernmental revenues	1,429,500	1,429,500	1,927,486	497,986
Restricted intergovernmental revenues	193,800	224,255	242,692	18,437
Permits and fees	3,500	3,500	8,228	4,728
Investment earnings	1,000	1,000	7,637	6,637
Miscellaneous	20,632	57,502	106,417	48,915
Total revenues	<u>4,584,222</u>	<u>4,651,548</u>	<u>5,714,195</u>	<u>1,062,647</u>
Expenditures:				
General government	1,316,923	1,365,865	1,150,045	215,820
Public safety	2,664,353	2,929,046	2,559,307	369,739
Transportation	667,825	702,601	537,642	164,959
Planning and economic development	459,231	445,372	360,385	84,987
Debt service:				
Principal	174,044	192,221	192,221	-
Interest and fees	17,477	16,326	15,818	508
Contingency	20,000	20,000	-	20,000
Total expenditures	<u>5,319,853</u>	<u>5,671,431</u>	<u>4,815,418</u>	<u>856,013</u>
Revenues over (under) expenditures	<u>(735,631)</u>	<u>(1,019,883)</u>	<u>898,777</u>	<u>1,918,660</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	4,150	18,943	14,793
Long-term debt issued	-	-	64,140	64,140
Transfers in	79,500	126,259	46,759	(79,500)
Appropriated fund balance	656,131	889,474	-	(889,474)
Total other financing sources (uses)	<u>735,631</u>	<u>1,019,883</u>	<u>129,842</u>	<u>(890,041)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>1,028,619</u>	<u>\$ 1,028,619</u>
Fund Balance:				
Beginning of year - July 1			<u>4,946,774</u>	
End of year - June 30			<u>\$ 5,975,393</u>	

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2022

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 7,611,151
Accounts receivable, net	510,103
Current portion of long-term note receivable	25,456
Due from other governments	38,910
Inventory	170,640
Restricted assets - cash and cash equivalents	43,170
Total current assets	<u>8,399,430</u>
Non-current assets:	
Non-current portion of long-term note receivable	164,089
Right to use leased assets, net	<u>10,615</u>
Capital assets:	
Land	1,052,081
Other capital assets, net	<u>22,872,512</u>
Total capital assets	<u>23,924,593</u>
Total non-current assets	<u>24,099,297</u>
Total assets	<u>32,498,727</u>
Deferred Outflows of Resources:	
OPEB deferrals	228,456
Pension deferrals	<u>312,149</u>
Total deferred outflows of resources	<u>540,605</u>
Liabilities:	
Current liabilities:	
Accounts payable	23,355
Accrued liabilities	101,752
Accrued interest	12,272
Liabilities payable from restricted assets:	
Customer deposits	43,170
Current portion of notes payable	869,989
Current portion of lease liability	3,420
Current portion of compensated absences payable	<u>30,860</u>
Total current liabilities	<u>1,084,818</u>
Non-current liabilities:	
Notes payable	5,613,580
Net pension liability	198,432
Total OPEB liability	774,697
Lease liability	6,931
Compensated absences payable	<u>30,860</u>
Total non-current liabilities	<u>6,624,500</u>
Total liabilities	<u>7,709,318</u>
Deferred Inflows of Resources:	
OPEB deferrals	52,992
Pension deferrals	<u>294,302</u>
Total deferred outflows of resources	<u>347,294</u>
Net Position:	
Net investment in capital assets	17,441,288
Unrestricted	<u>7,541,432</u>
Total net position	<u>\$ 24,982,720</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 4,783,950
Operating Expenses:	
Water/sewer operations	2,774,212
Amortization	3,156
Depreciation	715,905
Total operating expenses	<u>3,493,273</u>
Operating income (loss)	<u>1,290,677</u>
Non-Operating Revenues (Expenses):	
Restricted intergovernmental revenue	7,500
Investment earnings	9,634
Interest expense	(135,660)
Macon County appropriations	42,691
Other revenues	239,394
Total non-operating revenues (expenses)	<u>163,559</u>
Income (loss) before transfers	1,454,236
Transfers from other funds	<u>24,112</u>
Change in net position	1,478,348
Net Position:	
Beginning of year - July 1	<u>23,504,372</u>
End of year - June 30	<u>\$ 24,982,720</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 4,900,723
Customer deposits received	930
Cash paid for goods and services	(1,481,216)
Cash paid to employees	(1,344,770)
Net cash provided (used) by operating activities	<u>2,075,667</u>
Cash Flows from Non-Capital Financing Activities:	
Macon County appropriations	42,691
Transfers (to) from other funds	24,112
Other revenues	57,349
Net cash provided (used) by non-capital financing activities	<u>124,152</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(216,772)
Debt principal	(860,826)
Debt interest	(137,112)
Net cash provided (used) by capital and related financing activities	<u>(1,214,710)</u>
Cash Flows from Investing Activities:	
Interest received	<u>9,634</u>
Net increase (decrease) in cash, cash equivalents, and investments	994,743
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>6,659,578</u>
End of year - June 30	<u>\$ 7,654,321</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 1,290,677
Depreciation	715,905
Amortization	3,156
Changes in assets and liabilities:	
Accounts receivables	116,773
Inventories	(57,675)
Accounts payable	(116,974)
Customer deposits	930
OPEB liability	162,125
Pension liability	(241,983)
Deferred outflows of resources for pension	(64,259)
Deferred inflows of resources for pension	277,971
Deferred outflows of resources for OPEB	(120,855)
Deferred inflows of resources for OPEB	(13,944)
Loss on capital assets	113,497
Accrued vacation	<u>10,323</u>
Net cash provided (used) by operating activities	<u>\$ 2,075,667</u>
Non-Cash Capital and Related Financing Activities:	
Right to use asset acquired in exchange for lease liability	<u>\$ 10,615</u>

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

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TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Franklin (the "Town") and its discretely presented component units conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Mayor and a six-member Town Council. As required by generally accepted accounting principles, these financial statements present the Town and its component units, legally separate entities for which the Town is financially accountable. The discretely presented component units presented below are reported in a separate column in the Town's financial statements in order to emphasize that they are legally separate from the Town.

Component Unit – Town of Franklin ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by state statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a Proprietary Fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at the Town of Franklin ABC Board, 149 Macon Plaza Drive, Franklin, North Carolina 28734.

Component Unit – Town of Franklin Tourism Development Authority

The members of the TDA's governing board are appointed by the Town. The TDA, which provides a financial benefit to the Town, was established to receive the proceeds of the room occupancy tax levied pursuant to Session Law SL 2004-105. The TDA is authorized to spend these proceeds to promote travel and tourism. The TDA, which has a June 30 year-end, and is presented as if it were a governmental fund (discrete presentation), has elected not to issue separate financial statements, but to include all relevant information required by generally accepted accounting principles as supplementary information in the County's Annual Financial Report.

B. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function.

Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include: (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Town's funds. Separate statements for each fund category, *governmental and proprietary*, are presented. The Town has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and state-shared revenues. The primary expenditures are for public safety, general government, transportation, and planning and economic development services.

Coronavirus State and Local Fiscal Recovery Special Revenue Fund. This fund is used to account for the federal funds received in response to the American Rescue Plan Act.

The Town reports the following nonmajor governmental fund:

Construction of Fire Substation Capital Project Fund. This fund is used to account for funds for the construction of a fire substation.

The Town reports the following major enterprise fund:

Water and Sewer Fund. The Water and Sewer Fund is used to account for the Town's water and sewer operations. The primary revenue source is charges to water and sewer customers on a monthly basis. The primary expenses are water treatment, sewer treatment, distribution and collection lines, and administration. The Water and Sewer Capital Project Fund is consolidated into the Water and Sewer Fund for financial reporting purposes. The budgetary comparison for the Water and Sewer Capital Project Fund has been included in the supplemental information.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. 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 Town's Enterprise Fund are charges to customers for sales and services. The Town also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. As of September 1, 2013, state law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the state at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Macon County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Water and Sewer Capital Project Fund, the Construction of Fire Substation Capital Project Fund, and the Coronavirus State and Local Fiscal Recovery Special Revenue Fund. The Enterprise Fund project is consolidated with the operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing body and the Town Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

During the year several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1, of the fiscal year or the governing body must adopt an interim budget that covers that time until the annual ordinance can be adopted.

The Town Manager and/or Finance Officer are authorized to transfer appropriations within a fund as contained herein under the following conditions:

- a) The Finance Officer may transfer amounts between objects of expenditure within a department.
- b) The Town Manager may transfer amounts between departments, as defined above, with a subsequent report to the Town Council, recorded in the minutes.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

- c) The funding for approved reclassifications may be transferred from the budgeted reserve with the approval of the Town Manager.
- d) No revenues may be increased, no funds may be transferred from the Contingency account in the General Fund or capital projects funds, and no transfers may be made between funds unless formal action is taken by the Town Council.

E. Assets, Liabilities and Deferred Outflows/Inflows of Resources, and Fund Equity

Deposits and Investments

All deposits of the Town, ABC Board, and the Tourism Development Authority are made in Board-designated official depositories and are secured as required by state law [G.S. 159-31]. The Town, ABC Board, and the Tourism Development Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town, ABC Board, and the Tourism Development Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)(8)] authorizes the Town, ABC Board, and the Tourism Development Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town and TDA's investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents. All cash and investments for the ABC Board and the Tourism Development Authority are considered cash and cash equivalents.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Restricted Cash

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Equitable sharing funds and other law enforcement funds are restricted because they can only be expended for law enforcement purposes. Unexpended debt proceeds are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued. Advances from grantors are classified as restricted assets because their use is completely restricted to the purpose for which the grant was received.

Governmental Activities:

General Fund:

Law enforcement funds	\$ 24,674
Powell Bill	470,683
Other governmental funds:	
Advance from grantors	583,256
Unexpended debt proceeds	<u>5,981</u>
Total governmental activities	<u>1,084,594</u>

Business-Type Activities:

Water and Sewer Fund:

Customer deposits	<u>43,170</u>
Total restricted cash	<u>\$ 1,127,764</u>

Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2021. There are no discounts allowed by the Town.

Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

Inventory and Prepaid Items

The Town's Enterprise Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003 consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements to facilities	15 years
Computer equipment	3-5 years
Equipment	8 years
Furniture and fixtures	10 years
Vehicles	6-10 years
Infrastructure	20-50 years

Capital assets of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

Asset Class	Estimated Useful Lives
Leasehold improvements	10 years
Equipment	3 years

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Right to Use Assets

The Town has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net assets that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet the criteria for this category, pension and OPEB related deferrals.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net assets that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criteria for this category, property taxes receivable, prepaid taxes, unavailable revenues, and pension and OPEB related deferrals.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type fund Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable is reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts as well as debt issuance costs during the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide statements, an expense and a liability for compensated absences, and the salary-related payments are recorded as the leave is earned. The Town has assumed a last-in, first-out method of using accumulated compensated time assuming that employees are taking leave time as it is earned.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave for full-time employees. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town has any obligation for the accumulated sick leave or comp time until it is actually taken, no accrual for sick leave or comp time has been made.

Reimbursements for Pandemic-Related Expenditures

In FY2020/21, the American Rescue Plan Act (ARPA) established the Coronavirus State and Local Fiscal Recovery Funds to support urgent COVID-19 response efforts and replace lost revenue for eligible state, local, territorial, and tribal governments. The Town was allocated \$1,308,254 of fiscal recovery funds to be paid in two equal installments. The first installment of \$654,127 was received in August 2021. The second installment was received subsequent to year-end. Town staff and the Town Council have elected to use all funds received under the standard allowance. The \$70,871 used in the current year was transferred to the General Fund and Water and Sewer Fund from the Coronavirus State and Local Fiscal Recovery Special Revenue Fund. Another transfer will be made in the next fiscal year to the appropriate funds for the remaining funds received to use under the standard allowance.

Net Position/Fund Balances

Net Position

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

This classification includes amounts that cannot be spent, because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance

This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Restricted for Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by state statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation of G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as “restricted by state statute”. Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stated at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is “imposed by law through constitutional provisions or enabling legislation.” RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding encumbrances are included within RSS. RSS is included as a component of restricted net position and restricted fund balance on the face of the balance sheet.

Restricted for Streets – Powell Bill - portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of total unexpended Powell Bill funds.

Restricted for Public Safety – portion of fund balance available for appropriation but legally segregated for public safety expenditures and a portion of fund balance representing loan proceeds restricted for the construction of the new fire substation.

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$5,981 as of June 30, 2022.

Committed Fund Balance

This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Franklin's governing body (highest level of decision-making authority, the Town Council). Any changes or removal of specific purpose restrictions requires majority action by the governing body. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance

Assigned fund balance is the portion of fund balance that the Town of Franklin intends to use for specific purposes. The Town's governing body has the authority to assign fund balance. The Manager and Finance Officer, as granted in the officially adopted budget ordinance, have been granted limited authority to assign fund balance.

Subsequent Year's Expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the Manager and

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Finance Officer to make certain modifications without requiring Council approval. At June 30, 2022, the Town had \$150,633 assigned for subsequent year's expenditures.

Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town of Franklin has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, federal funds, state funds, local non-Town funds, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements.

The Town has not officially adopted a fund balance policy.

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation.

Total fund balance - General Fund	\$ 5,975,393
Less:	
Stabilization by state statute	<u>542,905</u>
Total available fund balance	<u>\$ 5,432,488</u>

Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERs) and additions to/deductions from LGERs' fiduciary net position have been determined on the same basis as they are reported by LGERs. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Franklin's employer contributions are recognized when due and the Town of Franklin has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERs. Investments are reported at fair value.

Interfund Transactions

Interfund services provided are accounted for as revenues or expenses in the government-wide financial statements, since they would be treated as such if they involved organizations external to the Town. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas, where estimates are made, are allowance for doubtful accounts and depreciation lives.

2. Detail Notes on All Funds

A. Assets

Deposits

All of the deposits of the Town and TDA are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage are collateralized with securities held by the Town's and TDA's agent in the units' name. Under the Pooling Method, a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the TDA, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the TDA, or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town and TDA under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town or TDA has no policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town and TDA complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2022, the Town's deposits had a carrying amount of \$7,676,706 and a bank balance of \$7,823,163. Of the bank balance, \$339,422 was covered by federal depository insurance and \$7,483,741 was covered by collateral held under the Pooling Method. The Town also had cash on hand of \$600 at June 30, 2022. The Town of Franklin ABC Board's deposits had a carrying amount of \$529,492 and a bank balance of \$809,131. Of the bank balance, \$294,386 was covered by federal depository insurance and \$514,745 was covered by collateral held under the Pooling Method. The Town of Franklin Tourism Development Authority's deposits had a carrying amount of \$132,353 and a bank balance of \$132,353. All of the bank balances for the TDA were covered by federal depository insurance.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Investments

At June 30, 2022, the Town had \$6,259,370 and the TDA had \$152,916 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's and AAA-mf by Moody's Investor Service as of June 30, 2022. The Government Portfolio is reported at fair value. The Town has no policy regarding credit risk.

Receivables

The receivables shown in Exhibit A at June 30, 2022 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 428,378	\$ 180,418	\$ 163,167	\$ 771,963
Allowance for doubtful accounts	-	(81,405)	-	(81,405)
Total governmental activities	<u>\$ 428,378</u>	<u>\$ 99,013</u>	<u>\$ 163,167</u>	<u>\$ 690,558</u>
Business-Type Activities:				
Water and Sewer Fund	\$ 811,626	\$ -	\$ 38,910	\$ 850,536
Allowance for doubtful accounts	(301,523)	-	-	(301,523)
Total business-type activities	<u>\$ 510,103</u>	<u>\$ -</u>	<u>\$ 38,910</u>	<u>\$ 549,013</u>

Due from Other Governments

Due from other governments that is owed to the Town consists of the following:

<u>Fund</u>	<u>June 30, 2022</u>
General Fund:	
Sales tax receivable	\$ 47,164
NCDMV	15,111
Franchise tax receivable	<u>100,892</u>
	<u>163,167</u>
Water and Sewer Fund:	
Sales tax receivable	<u>38,910</u>
Total	<u>\$ 202,077</u>

The Tourism Development Authority's receivables consist of occupancy taxes from local hotels of \$20,453 due from the Town of Franklin. Management expects all accounts receivable to be collected; therefore, no allowance for doubtful accounts has been recorded.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Notes Receivable

The Town issued a note receivable in August 2021 in the amount of \$200,000 in the Water and Sewer Enterprise Fund, payable in twenty-three equal monthly payments. The first said monthly payment shall be due and payable on or before September 1, 2021 and subsequent monthly payments of a like amount shall be due and payable on or before the first day of each successive month thereafter with a final balloon payment of all outstanding principal and interest being due on or before September 1, 2023. Interest is calculated at 5% and is due monthly. The amount outstanding at June 30, 2022 is \$189,545.

Capital Assets

Governmental Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2022 was as follows:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2022</u>
Governmental Activities:					
Non-Depreciable Capital Assets:					
Land	\$ 3,244,639	\$ 9,519	\$ -	\$ 419,019	\$ 3,673,177
Construction in progress	214,074	204,945	-	(419,019)	-
Total non-depreciable capital assets	<u>3,458,713</u>	<u>214,464</u>	<u>-</u>	<u>-</u>	<u>3,673,177</u>
Depreciable Capital Assets:					
Buildings	2,812,022	-	-	-	2,812,022
Improvements to facilities	282,177	23,129	-	-	305,306
Computer equipment	252,635	17,325	-	-	269,960
Equipment	1,039,874	29,671	-	-	1,069,545
Furniture and fixtures	156,076	-	-	-	156,076
Vehicles	3,453,125	134,003	133,759	-	3,453,369
Infrastructure	2,363,554	125,820	-	-	2,489,374
Total depreciable capital assets	<u>10,359,463</u>	<u>329,948</u>	<u>133,759</u>	<u>-</u>	<u>10,555,652</u>
Less Accumulated Depreciation:					
Buildings	886,740	56,041	-	-	942,781
Improvements to facilities	248,846	7,206	-	-	256,052
Computer equipment	248,629	1,781	-	-	250,410
Equipment	704,413	73,515	-	-	777,928
Furniture and fixtures	156,075	-	-	-	156,075
Vehicles	3,033,955	175,240	133,759	-	3,075,436
Infrastructure	1,717,179	47,853	-	-	1,765,032
Total accumulated depreciation	<u>6,995,837</u>	<u>\$ 361,636</u>	<u>\$ 133,759</u>	<u>\$ -</u>	<u>7,223,714</u>
Total depreciable capital assets, net	<u>3,363,626</u>				<u>3,331,938</u>
Governmental activities capital assets, net	<u>\$ 6,822,339</u>				<u>\$ 7,005,115</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Depreciation was charged to governmental functions as follows:

General government	\$	37,872
Public safety		216,039
Transportation		107,725
Total depreciation expense	\$	361,636

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2022 was as follows:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 1,052,081	\$ -	\$ -	\$ 1,052,081
Construction in progress	113,497	-	113,497	-
Total non-depreciable capital assets	1,165,578	-	113,497	1,052,081
Depreciable Capital Assets:				
Buildings	1,336,485	-	-	1,336,485
Improvement to facilities	133,469	-	-	133,469
Equipment	1,001,021	48,480	-	1,049,501
Vehicles	597,367	33,629	-	630,996
Water and sewer distribution systems	33,710,068	134,663	-	33,844,731
Total depreciable capital assets	36,778,410	216,772	-	36,995,182
Less Accumulated Depreciation:				
Buildings	179,878	31,726	-	211,604
Improvements to facilities	116,586	2,628	-	119,214
Equipment	832,724	35,486	-	868,210
Vehicles	454,117	42,936	-	497,053
Water and sewer distribution systems	11,823,460	603,129	-	12,426,589
Total accumulated depreciation	13,406,765	\$ 715,905	\$ -	14,122,670
Total depreciable capital assets, net	23,371,645			22,872,512
Business-type activities capital assets, net	\$ 24,537,223			\$ 23,924,593

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2022 is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 7,050,177	\$ 23,935,208
Long-term debt related to capital assets	(672,959)	(6,493,920)
Unexpended debt proceeds on hand	5,981	-
Net investment in capital assets	<u>\$ 6,383,199</u>	<u>\$ 17,441,288</u>

Component Unit

Capital assets of the ABC Board as of June 30, 2022, were as follows:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Depreciable Capital Assets:				
Equipment	\$ 173,584	\$ 1,065	\$ 97,418	\$ 77,231
Leasehold improvements	210,944	-	-	210,944
Total depreciable capital assets	384,528	1,065	97,418	288,175
Less Accumulated Depreciation:				
Equipment	144,156	8,251	97,418	54,989
Leasehold improvements	197,777	1,959	-	199,736
Total accumulated depreciation	341,933	\$ 10,210	\$ 97,418	254,725
Total depreciable capital assets, net	<u>\$ 42,595</u>			<u>\$ 33,450</u>

Right to Use Leased Assets

The Town has recorded two right to use leased assets. The assets are right to use assets for leased computer and outdoor equipment. The related leases are discussed in the Leases subsection of the long-term obligations section of the footnotes. The right to use lease assets are amortized on a straight-line basis over the terms of the related leases.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Right to use asset activity for the Town for the year ended June 30, 2022 was as follows:

	Balance	Additions	Deductions	Balance
	July 1, 2021			June 30, 2022
Governmental Activities:				
Right to use assets				
Equipment	\$ -	\$ 64,265	\$ -	\$ 64,265
Lease accumulated amortization for:				
Equipment	-	19,203	-	19,203
Total governmental activities leased assets, net	\$ -	\$ 45,062	\$ -	\$ 45,062
	Balance	Additions	Deductions	Balance
	July 1, 2021			June 30, 2022
Business-Type Activities:				
Right to use assets				
Equipment	\$ -	\$ 13,771	\$ -	\$ 13,771
Lease accumulated amortization for:				
Equipment	-	3,156	-	3,156
Total business-type activities leased assets, net	\$ -	\$ 10,615	\$ -	\$ 10,615

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2022 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Component Unit</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$ 29,799	\$ 204,099	\$ 20,453	\$ 254,351
Business-Type Activities:				
Water and Sewer Fund	\$ 23,355	\$ 101,752	-	\$ 125,107

As of June 30, 2022, the Tourism Development Authority did not have any payables.

Pension Plan and Post-Employment Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town of Franklin is a participating employer in the state-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members, nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Annual Comprehensive Financial Report for the State of North Carolina. The state's Annual Comprehensive Financial Report includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age or have completed 15 years of service as a LEO and have reached age 50 or have completed five years of creditable service as a LEO and have reached age 55 or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Franklin employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Franklin's contractually required contribution rate for the year ended June 30, 2022 was 12.10% of compensation for law enforcement officers and 11.35% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Franklin were \$306,714 for the year ended June 30, 2022.

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions, or any other benefit provided by LGERS.

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

At June 30, 2022, the Town reported a liability of \$536,299 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

actuarially determined. At June 30, 2021 (measurement date), the Town's proportion was 0.03497%, which was an increase of 0.00166% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Town recognized pension expense of \$230,307. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 170,616	\$ -
Changes of assumptions	336,932	-
Net difference between projected and actual earnings on pension plan investments	-	766,209
Changes in proportion and differences between Town contributions and proportionate share of contributions	29,381	29,203
Town contributions subsequent to the measurement date	306,714	-
Total	\$ 843,643	\$ 795,412

\$306,714 reported as deferred outflows of resources related to pensions resulting from the Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Total
2023	\$ 45,161
2024	(20,298)
2025	(48,881)
2026	(234,465)
Total	\$ (258,483)

Actuarial Assumptions. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increase	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.5 percent, net of pension plan investment expense, including inflation

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuation, with the exception of the discount rate, were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

Future ad hoc COLA amounts are not considered to be substantively automatic and are, therefore, not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2021 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Opportunistic fixed income	7.0%	6.0%
Inflation sensitive	6.0%	4.0%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary as part of a study conducted in 2016, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
Town's proportionate share of the net pension liability (asset)	<u>\$ 2,081,866</u>	<u>\$ 536,299</u>	<u>\$ (735,614)</u>

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Annual Comprehensive Financial Report for the State of North Carolina.

Law Enforcement Officers’ Special Separation Allowance

Plan Description. The Town administers a public employee retirement system (the “Separation Allowance”), a single-employer, defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the plan.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

All full-time law enforcement officers of the Town are covered by the Separation Allowance.

At December 31, 2020, the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Active plan members	<u>17</u>
Total	<u><u>21</u></u>

Summary of Significant Accounting Policies

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria, which are outlined in GASB Statements 73.

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2020 valuation. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	2.25 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20-Year High Grade Rate Index as of December 31, 2020.

The actuarial assumptions used in the December 31, 2020 valuation was based on the results of an experience study completed by the Actuary for the Local Governmental Employees' Retirement System for the five-year period ending December 31, 2019.

Mortality Assumption: All mortality rates use Pub-2010 amount-weighted tables.

Mortality Projection: All mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

Deaths after Retirement (Healthy): Mortality rates are based on the Safety Mortality Table for Retirees. Rates for all members are multiplied by 97% and Set Forward by 1 year.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Deaths after Retirement (Disabled members at Retirement): Morality rates are based on the Non-Safety Mortality Table for Disabled Retirees. Rates are Set Back 3 years for all ages.

Deaths after Retirement (Survivors of Deceased Members): Mortality rates are based on the Below-median Teachers Mortality Table for Contingent Survivors. Rates for male members are Set Forward 3 years. Rates for female members are Set Forward 1 year. Because the contingent survivor tables have no rates prior to 45, the Below-median Teachers Mortality Table for Employees is used for ages less than 45.

Death Prior to Retirement: Mortality rates are based on the Safety Mortality Table for Employees.

Contributions. The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operation budget. There were no contributions made by the employees. The Town’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$59,004 as benefits came due.

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

At June 30, 2022, the Town reported a total pension liability of \$1,359,037. The total pension liability was measured as of December 31, 2021 based on a December 31, 2020 actuarial valuation. The total pension liability was rolled forward to December 31, 2021 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2022, the Town recognized pension expense of \$168,231.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 134,787	\$ 29,470
Changes of assumptions	163,417	27,028
Town benefit payments and plan administrative expense made subsequent to the measurement date	38,367	-
Total	\$ 336,571	\$ 56,498

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

\$38,367 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Total
2023	\$ 91,522
2024	90,429
2025	52,417
2026	7,338
Total	<u>\$ 241,706</u>

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following presents the Town's total pension liability calculated using the discount rate of 2.25%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.25%) or 1-percentage-point higher (3.25%) than the current rate:

	1% Decrease (1.25%)	Discount Rate (2.25%)	1% Increase (3.25%)
Total pension liability	<u>\$ 1,448,951</u>	<u>\$ 1,359,037</u>	<u>\$ 1,275,896</u>

Schedule of Changes in Total Pension Liability Law Enforcement Officers' Special Separation Allowance

	<u>2022</u>
Beginning balance	<u>\$ 1,223,886</u>
Service cost	46,317
Interest on the total pension liability	23,052
Differences between expected and actual experience in the measurement of the total pension liability	152,799
Changes of assumptions or other inputs	(28,013)
Benefit payments	<u>(59,004)</u>
Net changes	<u>135,151</u>
Ending balance of the total pension liability	<u>\$ 1,359,037</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Changes of Assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 1.93 percent at December 31, 2020 (measurement date) to 2.25 percent at December 31, 2021 (measurement date).

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy) the current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension expense	\$ 230,307	\$ 168,231	\$ 398,538
Pension liability	536,299	1,359,037	1,895,336
Proportionate share of the net pension liability	0.03497%	n/a	-

Deferred of Outflows of Resources

Differences between expected and actual experience	\$ 170,616	\$ 134,787	\$ 305,403
Changes of assumptions	336,932	163,417	500,349
Changes in proportion and differences between contributions and proportionate share of contributions	29,381	-	29,381
Benefit payments and administrative costs paid subsequent to the measurement date	306,714	38,367	345,081
	\$ 843,643	\$ 336,571	\$1,180,214

Deferred of Inflows of Resources

Differences between expected and actual experience	\$ -	\$ 29,470	\$ 29,470
Changes of assumptions	-	27,028	27,028
Net difference between projected and actual earnings on pension plan investments	766,209	-	766,209
Changes in proportion and differences between contributions and proportionate share of contributions	29,203	-	29,203
	\$ 795,412	\$ 56,498	\$ 851,910

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a board of trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The Town made contributions of \$40,237 for the reporting year. No amounts were forfeited.

Defined Contribution 401(k) Plan

The Town sponsors a defined contribution 401(k) plan, in which the Town currently contributes 5% to each eligible employee. The Town's portion of contributions for the year ended June 30, 2022 was \$132,396. The employees' elected deferrals to the Plan were \$49,769 for the year ended June 30, 2022.

Other Post-Employment Benefits

Healthcare Benefits

Plan Description. According to a Town resolution, the Town allows employees who retire on or after July 1, 1999 from the Town with at least 15 years of Town service before the age of 65 under the provisions set forth in the North Carolina Local Government Retirement System (LGERS) to participate in the Town's healthcare plan upon retirement, until they become eligible for Medicare. The plan is a single employer defined benefit plan. The Town will pay 100% of the premium if the employee has at least 30 years of service with the Town or has at least 20 years of service with the Town and has attained age 62. The Town will pay 75% of the premium if the employee has at least 15 years of service with the Town and has attained age 57. The Town will pay 100% of the premium for employees retiring due to medical disability, provided they have at least 20 years of service, or 75% if they are age 57 with 15 years of service and retire due to medical disability.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Also, retirees can purchase coverage for their dependents at the Town's group rates if the dependent was enrolled at the time of the employee's retirement. Dependent coverage terminates at the earliest of five years, upon the retiree becoming eligible for Medicare, attaining age 65, or upon retiree death. The Town Council may amend the benefit provisions. A separate report was not issued for the Plan.

Membership of the healthcare plan consisted of the following at June 30, 2021, the date of the latest actuarial valuation:

Inactive members or beneficiaries currently receiving benefits	11
Active members	<u>57</u>
Total	<u><u>68</u></u>

Total OPEB Liability

The Town's total OPEB liability of \$2,323,249 was measured as of June 30, 2021 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	0.75%
Wage inflation	3.25%
Salary increases, including wage inflation	
General employees	3.25% - 8.41%
Firefighters	3.25% - 8.15%
Law enforcement officers	3.25% - 7.90%
Municipal bond index rate	
Prior measurement date	2.21%
Measurement date	2.16%
Health care cost trend rates	
Pre-Medicare medical and Prescription Drug	7.00% for 2021 decreasing to an ultimate rate of 4.50% by 2031

The discount rate used to measure TOL was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer.

Deaths Before Retirement: RP-2010 General and Safety Employees base rates projected from 2010 using generational improvement with Scale MP-2019.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Deaths After Retirement (Healthy): Pub-2010 General-Retirees base rates are projected from 2010 using generational improvement with Scale MP-2019. Rates for males are set forward 2 years, and use 96% of rates under age 81 then blended to 100% at age 85 and beyond. Rates for females are 100% of rates under age 92 then blended to 110% at age 94 and beyond. Because the retiree tables have no rates prior to age 50, the General Mortality Table for Employees is used for ages less than 50.

Deaths After Retirement (Disabled): Pub-2010 Non-Safety Mortality Table for Disabled Retirees base rates are projected from 2010 using generational improvement with Scale MP-2019. Rates are set forward 3 years for males and set back 1 year for females for all ages.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2021	\$ 1,835,854
Changes for the year:	
Service cost	68,423
Interest	40,919
Differences between expected and actual experience	264,331
Changes of assumptions or other inputs	219,784
Benefit payments	(106,062)
Net changes	487,395
Balance at June 30, 2022	\$ 2,323,249

Changes in assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 2.21% to 2.16%.

The Town selected a Municipal Bond Index Rate equal to the Bond Buyer 20-year General Obligation Bond Index published at the last Thursday of June by the Bond Buyer, and the Municipal Bond Index Rate as of the measurement date as the discount rate used to measure the TOL.

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increase used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2015 - December 31, 2019, adopted by the LGERS board.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2021 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2021 valuation.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.16 percent) or one percentage point higher (3.16 percent) than the current discount rate:

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability	\$ <u>2,536,216</u>	\$ <u>2,323,249</u>	\$ <u>2,132,590</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
Total OPEB liability	\$ <u>2,110,418</u>	\$ <u>2,323,249</u>	\$ <u>2,569,273</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the Town recognized OPEB expense of \$175,051. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 241,325	\$ 103,748
Changes of assumptions	347,451	55,169
Benefit payments and plan administrative expense made subsequent to the measurement date	<u>101,257</u>	<u>-</u>
Total	<u>\$ 690,033</u>	<u>\$ 158,917</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

\$101,257 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending	
June 30	Total
2023	\$ 65,709
2024	65,709
2025	68,340
2026	78,743
2027	94,306
Thereafter	<u>57,052</u>
Total	<u>\$ 429,859</u>

Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the state. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources are comprised of the following:

	<u>Amount</u>
Benefit payments made and administration expenses for pension	\$ 345,081
Benefit payments made and administration expenses for OPEB	101,257
Differences between expected and actual experience - Pension	305,403
Differences between expected and actual experience - OPEB	241,325
Changes of assumptions - Pension	500,349
Changes of assumptions - OPEB	347,451
Changes in proportion and differences between employer contributions and proportionate share - Pension	29,381
	<u>\$ 1,870,247</u>

Deferred inflows of resources at year-end are comprised of the following:

	<u>Amount</u>
Taxes receivable (General Fund)	\$ 99,013
Unavailable revenue (General Fund)	48,640
Prepaid taxes	6,279
Changes in assumptions - Pension	27,028
Changes in assumptions - OPEB	55,169
Differences between expected and actual experience - Pension	29,470
Differences between expected and actual experience - OPEB	103,748
Net difference between projected and actual earnings on pension plan investments	766,209
Changes in proportion and differences between employer contributions and proportionate share - Pension	29,203
	<u>\$ 1,164,759</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, destruction of assets, errors, omissions, injuries to employees, and natural disasters. The Town participates in risk-financing through Tokio Marine/HCC Insurance and obtains workers' compensation coverage up to statutory limits. Specific information on the limits and of the insurance purchased can be obtained by contacting the Wayah Insurance Agency, 295 East Palmer Street, Franklin, North Carolina.

Commercial flood insurance is available within the Town limits since the Town participates in the National Flood Insurance Program. The Town has Commercial Property Insurance coverage on the utility property that is subject to flooding and also carried flood insurance on the police department property.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Finance Officer is bonded for \$50,000, and the Tax Collector is bonded for \$25,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

The Finance Officer of the Town of Franklin Tourism Development Authority, who is also the Finance Officer of the Town, is bonded under a separate bond for the Authority's operations for \$100,000.

The Town of Franklin ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has commercial property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three fiscal years.

Claims, Judgments, and Contingent Liabilities

At June 30, 2022, the Town periodically is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits, if any, will not have a material adverse effect on the financial position of the Town.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Long-Term Obligations

Leases

The Town has entered into agreements to lease certain equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

On August 1, 2021, the Town entered into a 48-month lease as Lessee for the use of Toshiba Multifunction Color Printer. An initial lease liability was recorded in the amount of \$34,428. As of June 30, 2022, the value of the lease liability is \$25,877. The Town is required to make quarterly fixed payments of \$2,188. The lease has an interest rate of 0.8850%. The Equipment estimated useful life was 0 months as of the contract commencement. The value of the right to use asset as of June 30, 2022 of \$34,428 with accumulated amortization of \$7,890 is included with Equipment on the Lease Class activities table found below.

On December 6, 2021, the Town entered into a 36-month lease as Lessee for the use of Leaf Equipment - Police Department. An initial lease liability was recorded in the amount of \$43,483. As of June 30, 2022, the value of the lease liability is \$28,873. Town of Franklin is required to make annual fixed payments of \$14,652. The lease has an interest rate of 0.9950%. The Equipment estimated useful life was 0 months as of the contract commencement. The value of the right to use asset as of June 30, 2022 of \$43,608 with accumulated amortization of \$14,469 is included with Equipment on the Lease Class activities table found below.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2022 were as follows:

Governmental Activities:

Year Ending June 30	Principal Payments	Interest Payments
2023	\$ 19,495	\$ 408
2024	19,684	219
2025	5,220	29
	\$ 44,399	\$ 656

Business-Type Activities:

Year Ending June 30	Principal Payments	Interest Payments
2023	\$ 3,420	\$ 80
2024	3,450	50
2025	3,481	19
	\$ 10,351	\$ 149

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Installment Purchases and Note Payable

Governmental Activities:

Municipal buildings, executed \$1,533,872 in September 2012, under an installment purchase contract, due in annual installments of varying amounts, including interest of 2.32%, through June 2024 \$ 268,560

Construction of Fire Substation, executed \$400,000 in February 2021, under an installment purchase contract, due in annual installments of varying amounts, including interest of 1.990% through November 2030 360,000

Total Governmental Activities \$ 628,560

The Town's outstanding notes from direct placements related to governmental activities of \$268,560 are secured with the building. The Town's outstanding notes from direct borrowings related to governmental activities of \$268,560 contain provisions that an event of default would result in repayment of balance to become at once due and payable, regardless of the maturity date or other due date thereof.

The Town's outstanding notes from direct placements related to governmental activities of \$360,000 are secured with the mortgaged property and equipment. The Town's outstanding notes from direct borrowings related to governmental activities of \$360,000 contain provisions that an event of default would result in (1) declare the unpaid principal balance of Installment Payments immediately due and payable; 2) proceed by appropriate court action to enforce the Town's performance of the applicable covenants of this Agreement or to recover for the breach thereof; 3) pay over any balance remaining in the Project Fund to be applied against outstanding Required Payments in any manner UCB may reasonably deem appropriate; 4) avail itself of all available remedies under this Agreement, including execution and foreclosure as provided in Section 8.03 and 8.04, and recovery of attorney's fees and other expenses.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Business-Type Activities:

Water and Sewer Department, executed \$2,743,128 in September 2012, under an installment purchase contract, due in annual installments of varying amounts, including interest of 2.32%, through June 2024	\$ 477,440
Water and Sewer Department, executed \$2,619,500 in June 2010, under an installment purchase contract, due in annual installments of \$254,695, including interest of 5.11%, through June 2025	692,169
Water and Sewer Department, executed \$3,073,993 in October 2018, under a Drinking Water State Revolving Fund loan, due in annual installments of \$153,700, 0% interest, through May 2038	2,459,194
Water and Sewer Department, executed \$5,190,484 in June 2013, under a Clean Water State Revolving Fund loan, due in annual installments of \$259,524, plus interest of 2.445%, through May 2033	<u>2,854,766</u>
Total business-type activities	<u>\$ 6,483,569</u>

The Town's outstanding notes from direct placements related to business-type activities of \$477,440 are secured with the building. The Town's outstanding notes from direct borrowings related to business-type activities of \$477,440 contain provisions that an event of default would result in repayment of balance to become at once due and payable, regardless of the maturity date or other due date thereof.

The Town's outstanding notes from direct placements related to business-type activities of \$692,169 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$692,169 contain provisions that an event of default would result in (1) declare the whole unpaid principal balance of Installment Payments due and thereafter to become at once due and payable; 2) exercise its rights as a secured party under the Uniform Commercial Code of the state and pursuant to the grant made in Section 3.2 of Agreement, including, but not limited to, taking possession of any part on all of the Equipment pursuant to this Agreement, with or without terminating this Agreement, excluding the Town from possession, and selling or leasing the Equipment for the account of the Town; or 3) proceed by appropriate court action to enforce performance by the Town of the applicable covenants of this Agreement or to recover for the breach thereof; provided, however, that nothing contained in the Agreement shall be deemed to allow any judgment for a deficiency or waive any provision of N.C.G.S. Section 160A-20 or any defense the Town may otherwise have.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

The Town's outstanding notes from direct borrowings related to business-type activities of \$2,459,194 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$2,459,194 contain provisions that an event of default would result in immediate repayment of note in whole and any further commitment of funds may be withdrawn.

The Town's outstanding notes from direct borrowings related to business-type activities of \$2,854,766 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$2,854,766 contain provisions that an event of default would result in immediate repayment of note in whole and any further commitment of funds may be withdrawn.

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 173,560	\$ 13,489	\$ 869,989	\$ 116,236
2024	175,000	9,586	883,756	93,179
2025	40,000	5,665	655,537	69,490
2026	40,000	4,842	413,224	50,763
2027	40,000	4,035	413,224	44,418
2028-2032	160,000	8,077	2,066,120	126,907
2033-2037	-	-	1,028,020	6,345
2038-2039	-	-	153,699	-
Total	\$ 628,560	\$ 45,694	\$ 6,483,569	\$ 507,338

At June 30, 2022, the Town had a legal debt margin of \$58,383,490.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

Changes in Long-Term Liabilities

	Balance			Balance	Current
	July 1, 2021	Increases	Decreases	June 30, 2022	Portion
Governmental Activities:					
Notes from direct placements	\$ 615,114	\$ 185,926	\$ 172,480	\$ 628,560	\$ 173,560
Lease liabilities	-	64,140	19,741	44,399	19,495
Compensated absences	99,138	70,501	28,613	141,026	70,513
Total OPEB liability	1,223,282	325,270	-	1,548,552	-
Net pension liability (LGERS)	749,893	-	412,026	337,867	-
Total pension liability (LEOSSA)	<u>1,223,886</u>	<u>135,151</u>	<u>-</u>	<u>1,359,037</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 3,911,313</u>	<u>\$ 780,988</u>	<u>\$ 632,860</u>	<u>\$ 4,059,441</u>	<u>\$ 263,568</u>
Business-Type Activities:					
Notes from direct borrowings and direct placements	\$ 7,340,975	\$ -	\$ 857,406	\$ 6,483,569	\$ 869,989
Lease liabilities	-	13,771	3,420	10,351	3,420
Total OPEB liability	612,572	162,125	-	774,697	-
Net pension liability (LGERS)	440,415	-	241,983	198,432	-
Compensated absences	<u>51,397</u>	<u>34,721</u>	<u>24,398</u>	<u>61,720</u>	<u>30,860</u>
Business-type activities long-term liabilities	<u>\$ 8,445,359</u>	<u>\$ 210,617</u>	<u>\$ 1,127,207</u>	<u>\$ 7,528,769</u>	<u>\$ 904,269</u>

Compensated absences for governmental activities have typically been liquidated in the General Fund.

C. Interfund Activity

Transfers in (out) for the year ended June 30, 2022 are summarized as follows:

From the Coronavirus State & Local Fiscal Recovery SRF to the General Fund to cover eligible expenditures under the American Rescue Plan Act grant	\$ 46,759
From the Coronavirus State & Local Fiscal Recovery SRF to the Water & Sewer Fund to cover eligible expenditures under the American Rescue Plan Act grant	<u>24,112</u>
Total	<u>\$ 70,871</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

3. Jointly Governed Organization

Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the state. The state passes these monies to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2022. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

Related Party Transactions

During fiscal year ended June 30, 2022, the Town of Franklin remitted \$181,307 to the Town of Franklin TDA, which is the collection fee of 3% of gross receipts derived from the rental of any room, lodging, or accommodation furnished by a hotel, motel, inn, tourist camp, or similar place within the Town. The Town of Franklin TDA also had an accounts receivable amount of \$20,453 owed from the Town of Franklin at year-end.

During fiscal year ended June 30, 2022, the Town of Franklin received \$75,043 from the ABC Board, \$70,000 was for Profit Distributions while \$6,099 was for law enforcement for public safety.

4. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

The Town has received proceeds from several federal and state grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

5. Change in Accounting Principle

For the year ended June 30, 2022, the financial statements include the adoption of GASB Statement No. 87, *Leases*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

6. Subsequent Events

The Town is in the planning phases of the Phase II of the Water Treatment Plant Expansion project, set to commence in FY2023, and has been approved for a Drinking Water State Revolving Fund (DWSRF) loan of \$8,889,000, with twenty-five percent of the loan (up to a maximum of \$500,000) to be forgiven. However, due to projected cost increases, the Town is currently negotiating for an increase in loan proceeds, contingent upon the Local Government Commission's approval.

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TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST SIX FISCAL YEARS ***

Law Enforcement Officers' Special Separation Allowance			
	2022	2021	2020
Beginning balance	\$ 1,223,886	\$ 995,982	\$ 896,132
Service cost	46,317	26,191	27,875
Interest on the total pension liability	23,052	31,598	32,040
Differences between expected and actual experience in the measurement of the total pension liability	152,799	(51,442)	46,528
Changes of assumptions or other inputs	(28,013)	274,989	25,228
Benefit payments	(59,004)	(53,432)	(31,821)
Ending balance of the total pension liability	<u>\$ 1,359,037</u>	<u>\$ 1,223,886</u>	<u>\$ 995,982</u>

The amounts presented for each fiscal year were determined as of the prior December 31.

* This schedule is intended to show information for ten years.
Additional years' information will be displayed as it becomes available.

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST SIX FISCAL YEARS ***

Law Enforcement Officers' Special Separation Allowance			
	2019	2018	2017
Beginning balance	\$ 908,912	\$ 818,775	\$ 827,883
Service cost	27,316	24,311	24,957
Interest on the total pension liability	28,219	30,991	28,761
Differences between expected and actual experience in the measurement of the total pension liability	(5,964)	18,597	-
Changes of assumptions or other inputs	(30,530)	48,059	(18,311)
Benefit payments	(31,821)	(31,821)	(44,515)
Ending balance of the total pension liability	<u>\$ 896,132</u>	<u>\$ 908,912</u>	<u>\$ 818,775</u>

TOWN OF FRANKLIN, NORTH CAROLINA**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL - LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST SIX FISCAL YEARS ***

Law Enforcement Officers' Special Separation Allowance			
	2022	2021	2020
Total pension liability	\$ 1,359,037	\$ 1,223,886	\$ 995,982
Covered employee payroll	922,638	849,120	918,185
Total pension liability as a percentage of covered employee payroll	147.30%	144.14%	108.47%

Notes to the Schedules:

The Town of Franklin has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

* This schedule is intended to show information for ten years.
Additional years' information will be displayed as it becomes available.

TOWN OF FRANKLIN, NORTH CAROLINA**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE
PAYROLL - LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST SIX FISCAL YEARS ***

Law Enforcement Officers' Special Separation Allowance			
	2019	2018	2017
Total pension liability	\$ 896,132	\$ 908,912	\$ 818,775
Covered employee payroll	852,645	843,148	818,843
Total pension liability as a percentage of covered employee payroll	105.10%	107.80%	99.99%

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF CHANGES IN THE TOTAL OPEB
LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION
LAST FIVE FISCAL YEARS ***

Schedule of Changes in Total OPEB Liability and Related Ratios					
	2022	2021	2020	2019	2018
Total OPEB Liability:					
Service cost at end of year	\$ 68,423	\$ 49,929	\$ 58,829	\$ 60,931	\$ 66,072
Interest	40,919	56,482	64,131	58,376	50,421
Changes of benefit terms	-	15,302	(171,334)	-	-
Differences between expected and actual experience	264,331	-	-	11,533	(6,572)
Changes of assumptions or other inputs	219,784	189,050	39,045	(50,071)	(86,317)
Benefit payments and implicit subsidy credit	<u>(106,062)</u>	<u>(76,844)</u>	<u>(73,980)</u>	<u>(70,015)</u>	<u>(48,113)</u>
Net change in total OPEB liability	487,395	233,919	(83,309)	10,754	(24,509)
Total OPEB liability - beginning	<u>1,835,854</u>	<u>1,601,935</u>	<u>1,685,244</u>	<u>1,674,490</u>	<u>1,698,999</u>
Total OPEB liability - ending	<u>\$ 2,323,249</u>	<u>\$ 1,835,854</u>	<u>\$ 1,601,935</u>	<u>\$ 1,685,244</u>	<u>\$ 1,674,490</u>
Covered employee payroll	\$ 2,254,018	\$ 2,368,885	\$ 2,368,885	\$ 2,355,213	\$ 2,355,213
Total OPEB liability as a percentage of covered employee payroll	103.07%	77.50%	67.62%	71.55%	71.10%

Notes to the Required Schedules:

Changes of Assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

Fiscal Year	Rate
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

* This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

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TOWN OF FRANKLIN, NORTH CAROLINA

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
LAST NINE FISCAL YEARS***

	Local Governmental Employees' Retirement System			
	2022	2021	2020	2019
Proportion of the net pension liability (asset) (%)	0.03497%	0.03331%	0.03789%	0.03844%
Proportion of the net pension liability (asset) (\$)	\$ 536,299	\$ 1,190,308	\$ 1,034,746	\$ 911,928
Covered payroll	\$ 2,486,839	\$ 2,516,102	\$ 2,642,187	\$ 2,654,694
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	21.57%	47.31%	39.16%	34.35%
Plan fiduciary net position as a percentage of the total pension liability**	95.51%	88.61%	90.86%	91.63%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

This schedule is intended to show information for ten years.
Additional years' information will be displayed as it becomes available.

TOWN OF FRANKLIN, NORTH CAROLINA

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
LAST NINE FISCAL YEARS***

	Local Governmental Employees' Retirement System				
	2018	2017	2016	2015	2014
Proportion of the net pension liability (asset) (%)	0.04066%	0.03954%	0.03950%	0.04056%	0.04030%
Proportion of the net pension liability (asset) (\$)	\$ 621,172	\$ 839,171	\$ 177,274	\$ (239,201)	\$ 485,770
Covered payroll	\$ 2,504,775	\$ 2,396,096	\$ 2,239,266	\$ 2,267,471	\$ 2,186,680
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	24.80%	35.02%	7.92%	-10.55%	22.21%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%	98.09%	102.64%	94.35%

TOWN OF FRANKLIN, NORTH CAROLINA

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 TOWN OF FRANKLIN'S CONTRIBUTIONS
 LAST NINE FISCAL YEARS**

Local Governmental Employees' Retirement System				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 306,714	\$ 259,245	\$ 232,644	\$ 212,390
Contributions in relation to the contractually required contribution	<u>306,714</u>	<u>259,245</u>	<u>232,644</u>	<u>212,390</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,639,335	\$ 2,486,839	\$ 2,516,102	\$ 2,642,187
Contributions as a percentage of covered payroll	11.62%	10.42%	9.25%	8.04%

This schedule is intended to show information for ten years.
 Additional years' information will be displayed as it becomes available.

TOWN OF FRANKLIN, NORTH CAROLINA

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 TOWN OF FRANKLIN'S CONTRIBUTIONS
 LAST NINE FISCAL YEARS**

Local Governmental Employees' Retirement System					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 206,822	\$ 189,300	\$ 165,174	\$ 161,032	\$ 163,874
Contributions in relation to the contractually required contribution	<u>206,822</u>	<u>189,300</u>	<u>165,174</u>	<u>161,032</u>	<u>163,874</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,654,694	\$ 2,504,775	\$ 2,396,096	\$ 2,239,266	\$ 2,267,471
Contributions as a percentage of covered payroll	7.79%	7.56%	6.89%	7.19%	7.23%

TOWN OF FRANKLIN, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ 2,056,528	\$ 2,430,771	\$ 374,243
Penalties and interest	5,000	30,716	(5,000)
Total	<u>2,061,528</u>	<u>2,461,487</u>	<u>369,243</u>
Other Taxes and Licenses:			
Fire tax	854,263	919,883	65,620
Vehicle rental tax	20,000	40,365	20,365
Total	<u>874,263</u>	<u>960,248</u>	<u>85,985</u>
Unrestricted Intergovernmental Revenues:			
Local option sales tax	750,000	1,226,747	476,747
Utility franchise tax	450,000	427,780	(22,220)
Beer and wine tax	17,500	16,609	(891)
ABC profit distribution	70,000	75,043	5,043
Occupancy tax	142,000	181,307	39,307
Total	<u>1,429,500</u>	<u>1,927,486</u>	<u>497,986</u>
Restricted Intergovernmental Revenues:			
Powell Bill allocation	116,000	138,244	22,244
Federal grant	72,800	66,436	(6,364)
Miscellaneous grants	35,455	38,012	2,557
Total	<u>224,255</u>	<u>242,692</u>	<u>18,437</u>
Permits and Fees:			
Zoning permits	3,000	6,462	3,462
Sign permits	500	1,766	1,266
Total	<u>3,500</u>	<u>8,228</u>	<u>4,728</u>
Investment Earnings	<u>1,000</u>	<u>7,637</u>	<u>6,637</u>
Miscellaneous	<u>57,502</u>	<u>106,417</u>	<u>48,915</u>
Total revenues	<u>4,651,548</u>	<u>5,714,195</u>	<u>1,031,931</u>

TOWN OF FRANKLIN, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	34,500	31,326	3,174
Operating expenses	63,269	45,735	17,534
Professional services	93,039	93,051	(12)
Total	<u>190,808</u>	<u>170,112</u>	<u>20,696</u>
Administration:			
Salaries and employee benefits	305,132	209,866	95,266
Operating expenses	17,225	10,811	6,414
Professional services	15,000	14,157	843
Total	<u>337,357</u>	<u>234,834</u>	<u>102,523</u>
Finance:			
Salaries and employee benefits	170,652	131,028	39,624
Operating expenses	14,200	11,489	2,711
Professional services	9,000	5,255	3,745
Total	<u>193,852</u>	<u>147,772</u>	<u>46,080</u>
Billing:			
Salaries and employee benefits	67,915	52,086	15,829
Operating expenses	8,500	2,721	5,779
Total	<u>76,415</u>	<u>54,807</u>	<u>21,608</u>
Legal and Election:			
Operating expenses	16,500	12,607	3,893
Professional services	71,100	58,214	12,886
Total	<u>87,600</u>	<u>70,821</u>	<u>16,779</u>
Facilities:			
Salaries and employee benefits	120,800	107,085	13,715
Operating expenses	224,774	181,810	42,964
Professional services	6,000	4,696	1,304
Capital outlay	37,490	95,088	(57,598)
Total	<u>389,064</u>	<u>388,679</u>	<u>385</u>

TOWN OF FRANKLIN, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2022

	Final Budget	Actual	Variance Over/Under
Information Technology:			
Operating expenses	33,450	28,023	5,427
Professional services	21,390	19,808	1,582
Capital outlay	35,929	35,189	740
Total	<u>90,769</u>	<u>83,020</u>	<u>7,749</u>
Total general government	<u>1,365,865</u>	<u>1,150,045</u>	<u>215,820</u>
Public Safety:			
Police:			
Salaries and employee benefits	1,499,628	1,330,132	169,496
Operating expenses	280,719	223,912	56,807
Capital outlay	78,712	72,797	5,915
Total	<u>1,859,059</u>	<u>1,626,841</u>	<u>232,218</u>
Fire:			
Salaries and employee benefits	608,604	592,728	15,876
Operating expenses	342,724	266,304	76,420
Capital outlay	118,659	73,434	45,225
Total	<u>1,069,987</u>	<u>932,466</u>	<u>137,521</u>
Total public safety	<u>2,929,046</u>	<u>2,559,307</u>	<u>369,739</u>
Transportation:			
Streets and Highways:			
Salaries and employee benefits	280,871	237,052	43,819
Operating expenses	277,551	170,330	107,221
Capital outlay	144,179	130,260	13,919
Total	<u>702,601</u>	<u>537,642</u>	<u>164,959</u>
Total transportation	<u>702,601</u>	<u>537,642</u>	<u>164,959</u>
Planning and Economic Development:			
Salaries and employee benefits	187,372	102,541	84,831
Operating expenses	7,500	2,042	5,458
Organization contributions	140,000	175,907	(35,907)
Total	<u>334,872</u>	<u>280,490</u>	<u>54,382</u>

TOWN OF FRANKLIN, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Festivals and Events:			
Operating expenses	110,000	79,895	30,105
Traffic:			
Salaries and employee benefits	500	-	500
Total planning and economic development	445,372	360,385	84,987
Debt Service:			
Principal retirement	192,221	192,221	-
Interest and fees	16,326	15,818	508
Total debt service	208,547	208,039	508
Contingency	20,000	-	20,000
Total expenditures	5,671,431	4,815,418	856,013
Revenues over (under) expenditures	(1,019,883)	898,777	175,918
Other Financing Sources (Uses):			
Appropriated fund balance	889,474	-	889,474
Transfer in	126,259	46,759	79,500
Lease liabilities issued	-	64,140	(64,140)
Sale of capital assets	4,150	18,943	(14,793)
Total other financing sources (uses)	1,019,883	129,842	890,041
Net change in fund balance	<u>\$ -</u>	1,028,619	<u>\$ 1,028,619</u>
Fund Balance:			
Beginning of year - July 1		4,946,774	
End of year - June 30		<u>\$ 5,975,393</u>	

TOWN OF FRANKLIN, NORTH CAROLINA

CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2022

	<u>Project</u> <u>Authorization</u>	<u>Actual</u>			<u>Variance</u> <u>Over/Under</u>
		<u>Prior</u> <u>Years</u>	<u>Current</u> <u>Year</u>	<u>Total</u> <u>to Date</u>	
Revenues:					
Restricted intergovernmental revenues:					
CSLRF grant	\$ 1,308,253	\$ -	\$ 70,871	\$ 70,871	\$ (1,237,382)
Revenues over (under) expenditures	1,308,253	-	70,871	70,871	(1,237,382)
Other Financing Sources (Uses):					
Transfers from (to) other funds:					
Operating transfers (to) other funds	(1,308,253)	-	(70,871)	(70,871)	1,237,382
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FRANKLIN, NORTH CAROLINA

CONSTRUCTION OF FIRE SUBSTATION CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES-
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2022

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual</u>		<u>Variance Over/Under</u>
			<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
Restricted intergovernmental revenues:					
NCDOT grant	\$ -	\$ -	\$ 25,000	\$ 25,000	\$ 25,000
Expenditures:					
Construction	420,951	214,074	204,945	419,019	(1,932)
Revenues over (under) expenditures	(420,951)	(214,074)	(179,945)	(394,019)	26,932
Other Financing Sources (Uses):					
Transfers from General Fund	19,019	-	-	-	(19,019)
Proceeds from Debt	401,932	214,074	185,926	400,000	(1,932)
Total other financing sources (uses)	420,951	214,074	185,926	400,000	(20,951)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,981</u>	<u>\$ 5,981</u>	<u>\$ 5,981</u>

TOWN OF FRANKLIN, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 3,532,700	\$ 4,210,284	\$ 677,584
Water and sewer taps	26,200	147,240	121,040
Availability fees	12,000	296,750	284,750
Dumping fees	65,000	115,004	50,004
Reconnections	15,000	14,672	(328)
Total operating revenues	<u>3,650,900</u>	<u>4,783,950</u>	<u>1,133,050</u>
Non-Operating Revenues:			
Investment earnings	500	9,634	9,134
Macon County appropriations	43,000	42,691	(309)
Other revenues	1,000	239,394	238,394
Total non-operating revenues	<u>44,500</u>	<u>291,719</u>	<u>247,219</u>
Total revenues	<u>3,695,400</u>	<u>5,075,669</u>	<u>1,380,269</u>
Expenditures:			
Water and Sewer Operations:			
Salaries and employee benefits	1,456,347	1,354,148	102,199
Utilities	259,599	219,124	40,475
Supplies	329,352	240,162	89,190
Insurance and bonds	80,738	58,426	22,312
Professional services	496,394	354,100	142,294
Repairs and maintenance	370,067	315,327	54,740
Miscellaneous	147,504	102,550	44,954
Total water and sewer operations	<u>3,140,001</u>	<u>2,643,837</u>	<u>496,164</u>
Capital Outlay:			
Water extensions	1,350,520	122,977	1,227,543
Equipment	62,215	60,166	2,049
Vehicles	33,629	33,629	-
Other capital improvements	-	13,771	(13,771)
Total capital outlay	<u>1,446,364</u>	<u>230,543</u>	<u>1,215,821</u>
Debt Service:			
Principal retirement	859,264	860,826	(1,562)
Interest	138,675	137,112	1,563
Total debt service	<u>997,939</u>	<u>997,938</u>	<u>1</u>
Total expenditures	<u>5,584,304</u>	<u>3,872,318</u>	<u>1,711,986</u>

TOWN OF FRANKLIN, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	(1,888,904)	1,203,351	3,092,255
Other Financing Sources (Uses):			
Transfer to the General Fund	(87,003)	-	87,003
Transfers in	24,112	24,112	-
Lease liabilities issued	-	13,771	13,771
Appropriated fund balance	1,951,795	-	(1,951,795)
Total other financing sources (uses)	<u>1,888,904</u>	<u>37,883</u>	<u>(1,851,021)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,241,234</u>	<u>\$ 1,241,234</u>
Reconciliation from Modified Accrual Basis to Full Accrual Basis:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 1,241,234	
Reconciling items:			
Change in accrued vacation		(10,323)	
Capital outlay		230,543	
Payment of debt principal		860,826	
Capital project revenues		7,500	
Change in net pension liability		241,983	
Deferred outflows of resources - pensions		64,259	
Deferred inflows of resources - pensions		(277,971)	
Capital outlay expenditures not capitalized		(120,997)	
Change in accrued interest		1,452	
Change in deferred outflows of resources - OPEB		120,855	
Change in OPEB liability		(162,125)	
Change in deferred inflows of resources - OPEB		13,944	
Amortization		(3,156)	
Depreciation		(715,905)	
Lease liabilities issued		<u>(13,771)</u>	
Change in net position		<u>\$ 1,478,348</u>	

TOWN OF FRANKLIN, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2022

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	
Revenues:					
Restricted intergovernmental	\$ -	\$ 26,249	\$ 7,500	\$ 33,749	\$ 33,749
Expenditures:					
NCDOT - ROW Utility Re-location	121,000	113,497	7,500	120,997	3
Revenues over (under) expenditures	(121,000)	(87,248)	-	(87,248)	33,752
Other Financing Sources (Uses):					
Transfer from other funds	121,000	121,000	-	121,000	-
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 33,752	\$ -	\$ 33,752	\$ 33,752

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2022

Fiscal Year	Uncollected Balance July 1, 2021	Additions	Collections and Credits	Uncollected Balance June 30, 2022
2021-2022	\$ -	\$ 2,360,482	\$ 2,299,469	\$ 61,013
2020-2021	73,748	46,440	46,440	27,308
2019-2020	49,212	22,850	22,850	26,362
2018-2019	52,916	28,028	28,028	24,888
2017-2018	25,354	11,060	11,060	14,294
2016-2017	11,317	2,542	2,542	8,775
2015-2016	6,527	1,620	1,620	4,907
2014-2015	6,636	1,540	1,540	5,096
2013-2014	5,121	838	838	4,283
2012-2013	4,010	518	518	3,492
2011-2012	3,185	3,185	3,185	-
Total	\$ 238,026	\$ 2,479,103	\$ 2,418,090	180,418
Less: Allowance for uncollectible ad valorem taxes receivable				(81,405)
Ad valorem taxes receivable - net				\$ 99,013
Reconciliation with Revenues:				
Taxes - ad valorem			\$ 2,461,487	
Releases, refunds, and other adjustments			(16,853)	
Amounts written off for tax years per statute of limitations			3,185	
Interest collected			(29,729)	
Total collections and credits			\$ 2,418,090	

TOWN OF FRANKLIN, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2022

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 730,000,938	\$ 0.32	\$ 2,336,003	\$ 2,186,042	\$ 149,961
Discoveries	12,213,125	0.32	39,082	39,082	-
Releases	<u>(4,563,438)</u>	0.32	<u>(14,603)</u>	<u>(14,603)</u>	<u>-</u>
Total property valuation	<u>\$ 737,650,626</u>				
Net Levy			2,360,482	2,210,521	149,961
Uncollected taxes as of June 30, 2022			<u>61,013</u>	<u>61,013</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 2,299,469</u>	<u>\$ 2,149,508</u>	<u>\$ 149,961</u>
Current Levy Collection Percentage			<u>97.42%</u>	<u>97.24%</u>	<u>100.00%</u>

TOWN OF FRANKLIN, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
 FRANKLIN TOURISM DEVELOPMENT AUTHORITY
 BALANCE SHEET
 JUNE 30, 2022

	<u>Authority</u>
Assets:	
Cash and cash equivalents	\$ 285,269
Accounts receivable	<u>20,453</u>
Total assets	<u>\$ 305,722</u>
Fund Balance:	
Restricted for:	
Stabilization by state statute	\$ 20,453
Tourism	<u>285,269</u>
Total fund balance	<u>\$ 305,722</u>

TOWN OF FRANKLIN, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
FRANKLIN TOURISM DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Occupancy tax revenues	\$ 130,000	\$ 181,307	\$ 51,307
Interest	-	245	245
Refunds	-	3,625	3,625
Total revenues	<u>130,000</u>	<u>185,177</u>	<u>55,177</u>
Expenditures:			
Operating:			
Professional services	<u>165,000</u>	<u>121,670</u>	<u>43,330</u>
Revenues over (under) expenditures	(35,000)	63,507	98,507
Other Financing Sources (Uses):			
Fund balance appropriated	<u>35,000</u>	-	<u>(35,000)</u>
Net change in fund balance	<u>\$ -</u>	63,507	<u>\$ 63,507</u>
Fund Balance:			
Beginning of year - July 1		<u>242,215</u>	
End of year - June 30		<u>\$ 305,722</u>	

MARTIN STARNES

& ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

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*

Independent Auditor's Report

To the Honorable Mayor and
Town Council
Town of Franklin, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Franklin, North Carolina, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 11, 2022. Our report includes a reference to other auditors who audited the financial statements of the Town of Franklin ABC Board, as described in our report on the Town of Franklin's financial statements. The financial statements of the Town of Franklin ABC Board were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable non-compliance associated with the Town of Franklin ABC Board.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Franklin's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 11, 2022

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022**

1. Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance to GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes _____ X No
- Significant deficiency(ies) identified? _____ Yes _____ X None reported

Non-compliance material to financial statements noted? _____ Yes _____ X No

2. Findings Related to the Audit of the Basic Financial Statements

None reported.

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

None reported.