

**TOWN OF FRANKLIN
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

TOWN OF FRANKLIN, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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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
Board of Aldermen
Franklin, North Carolina

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Town of Franklin, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Franklin's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Franklin ABC Board, which represents 73% of the assets, 73% of net position, and 95% of revenues of the discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for the Town of Franklin ABC Board, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Franklin ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in

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the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Town of Franklin, North Carolina, as of June 30, 2017, 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.

Change in Accounting Principle

As discussed in Note G to the financial statements, for fiscal year ended June 30, 2017, the Town adopted new accounting guidance, Governmental Accounting Standards Board (GASB) No. 73, Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB 68 and Amendments to certain Provisions of GASB Statements 67 and 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Other Post-Employment Benefits Schedules of Funding Progress and Employer Contributions, the Local Government 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 Payroll be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 and Other 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 budgetary schedules, Tourism Development Authority schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules, Tourism Development Authority schedules, and other schedules are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed above, and the report of other auditors, the budgetary schedules, Tourism Development Authority schedules, and other 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 13, 2017 on our consideration of the Town of Franklin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 13, 2017

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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, 2017. 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

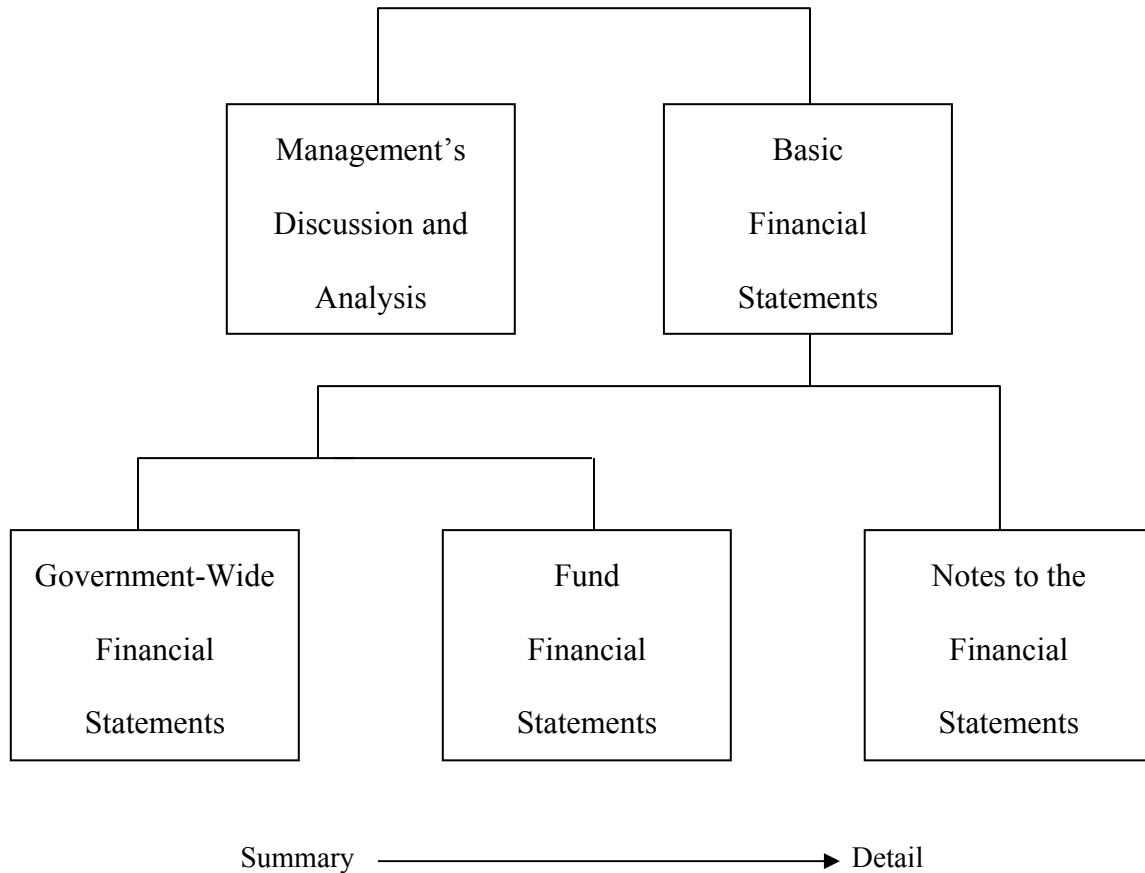
- The assets and deferred outflows of the Town of Franklin exceeded its liabilities and deferred inflows at the close of the fiscal year by \$26,842,518 (*net position*).
- The government's total net position increased by \$809,040, due to an increase in governmental net position and an increase in business-type activities net position.
- As of the close of the current fiscal year, the Town of Franklin's General Fund reported total ending fund balance of \$2,834,445, an increase of \$122,576, in comparison with the prior year. Approximately 37.4 percent of this total amount, or \$1,059,286, is restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$2,453,718, or 51 percent, of total General Fund expenditures.
- The Town of Franklin's total debt decreased by \$832,821 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is 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 Board 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 Board; 2) the final budget as amended by the Board; 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 59 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	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	\$2,993,720	\$2,877,073	\$ 4,458,722	\$ 3,938,974	\$ 7,452,442	\$ 6,816,047
Capital assets	6,735,692	6,276,643	23,517,575	23,675,100	30,253,267	29,951,743
Total assets	<u>9,729,412</u>	<u>9,153,716</u>	<u>27,976,297</u>	<u>27,614,074</u>	<u>37,705,709</u>	<u>36,767,790</u>
Deferred Outflows of Resources	<u>475,523</u>	<u>106,664</u>	<u>269,823</u>	<u>62,644</u>	<u>745,346</u>	<u>169,308</u>
Liabilities:						
Long-term liabilities outstanding	3,241,115	2,342,205	8,067,552	8,435,083	11,308,667	10,777,288
Other liabilities	106,195	106,369	140,282	116,409	246,477	222,778
Total liabilities	<u>3,347,310</u>	<u>2,448,574</u>	<u>8,207,834</u>	<u>8,551,492</u>	<u>11,555,144</u>	<u>11,000,066</u>
Deferred Inflows of Resources	<u>40,425</u>	<u>63,361</u>	<u>12,968</u>	<u>36,874</u>	<u>53,393</u>	<u>100,235</u>
Net Position:						
Net investment in capital assets	5,473,498	4,829,711	16,090,496	15,599,938	21,563,994	20,429,649
Restricted	1,059,286	1,088,281	-	-	1,059,286	1,088,281
Unrestricted	284,416	830,453	3,934,822	3,488,414	4,219,238	4,318,867
Total net position	<u>\$6,817,200</u>	<u>\$6,748,445</u>	<u>\$20,025,318</u>	<u>\$19,088,352</u>	<u>\$26,842,518</u>	<u>\$25,836,797</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 \$26,842,518 as of June 30, 2017. The Town's net position increased by \$809,040 for the fiscal year ended June 30, 2017. However, the largest portion (80%) 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 \$1,059,286, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,219,238 is unrestricted.

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 in the current year and a decrease in operating expenditures

Town of Franklin's Changes in Net Position

Figure 3

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 99,890	\$ 122,880	\$ 3,913,897	\$ 3,555,872	\$ 4,013,787	\$ 3,678,752
Operating grants	69,385	-	36,937	38,725	106,322	38,725
Capital grants	139,845	291,111	-	-	139,845	291,111
General revenues:						
Property taxes	1,954,034	1,964,206	-	-	1,954,034	1,964,206
Other taxes	1,294,339	1,293,043	-	-	1,294,339	1,293,043
Miscellaneous	736,443	752,466	-	-	736,443	752,466
Investment earnings	6,740	4,272	7,783	4,040	14,523	8,312
Total revenues	<u>4,300,676</u>	<u>4,427,978</u>	<u>3,958,617</u>	<u>3,598,637</u>	<u>8,259,293</u>	<u>8,026,615</u>
Expenses:						
General government	1,173,433	1,034,297	-	-	1,173,433	1,034,297
Public safety	2,396,634	2,161,764	-	-	2,396,634	2,161,764
Transportation	422,905	343,498	-	-	422,905	343,498
Planning and economic	175,605	166,193	-	-	175,605	166,193
Interest on long-term debt	75,525	66,943	-	-	75,525	66,943
Water and sewer	-	-	3,206,151	3,052,912	3,206,151	3,052,912
Total expenses	<u>4,244,102</u>	<u>3,772,695</u>	<u>3,206,151</u>	<u>3,052,912</u>	<u>7,450,253</u>	<u>6,825,607</u>
Change in net position	<u>56,574</u>	<u>655,283</u>	<u>752,466</u>	<u>545,725</u>	<u>809,040</u>	<u>1,201,008</u>
Net Position:						
Beginning of year - July 1	6,748,445	6,093,162	19,088,352	18,542,627	25,836,797	24,635,789
Restatement	12,181	-	184,500	-	196,681	-
Beginning of year - July 1, as restated	<u>6,760,626</u>	<u>6,093,162</u>	<u>19,272,852</u>	<u>18,542,627</u>	<u>26,033,478</u>	<u>24,635,789</u>
End of year - June 30	<u>\$ 6,817,200</u>	<u>\$ 6,748,445</u>	<u>\$ 20,025,318</u>	<u>\$ 19,088,352</u>	<u>\$ 26,842,518</u>	<u>\$ 25,836,797</u>

Governmental Activities. Governmental activities increased the Town's net position by \$56,574.

Key elements of this increase are as follows:

- Decreases in the current fiscal year in operating expenses in general government, public safety, transportation, and planning & economic

Business-Type Activities. Business-type activities increased the Town of Franklin's net position by \$752,466. Key elements of this increase are as follows:

- Decreased operating costs in the current fiscal year

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, unreserved 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 \$2,453,718, while total fund balance reached \$2,834,445. The Town currently has an available fund balance of 53% of General Fund expenditures, while total fund balance represents 59% of General Fund expenditures.

At June 30, 2017, the General Fund of the Town of Franklin reported an increase in fund balance of 4.5 percent over last year, primarily due to decreased expenditures.

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 \$3,934,822. The total increase in net position for the Fund was \$752,466. 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 net investment in capital assets for its governmental and business-type activities as of June 30, 2017 totals \$30,253,267 (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 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 3,155,326	\$ 2,745,138	\$ 1,025,550	\$ 841,050	\$ 4,180,876	\$ 3,586,188
Construction in progress	-	-	293,870	254,970	293,870	254,970
Infrastructure	387,589	308,469	-	-	387,589	308,469
Buildings	2,176,342	2,234,680	1,253,423	1,258,116	3,429,765	3,492,796
Improvements to facilities	54,541	60,128	27,395	30,023	81,936	90,151
Vehicles	590,792	720,242	77,390	71,697	668,182	791,939
Equipment and furniture	371,102	207,986	117,352	65,167	488,454	273,153
Water and sewer distribution systems	-	-	20,722,595	21,154,077	20,722,595	21,154,077
Total	<u>\$ 6,735,692</u>	<u>\$ 6,276,643</u>	<u>\$ 23,517,575</u>	<u>\$ 23,675,100</u>	<u>\$ 30,253,267</u>	<u>\$ 29,951,743</u>

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, 2017, the Town of Franklin had no bonded debt outstanding.

Capital Leases and Other Long-Term Liabilities

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Capital leases	\$ 125,146	\$ 399,692	\$ -	\$ -	\$ 125,146	\$ 399,692
Installment purchases and notes payable	1,137,048	1,047,240	7,427,079	8,075,162	8,564,127	9,122,402
OPEB	399,079	359,925	247,937	225,677	647,016	585,602
Net pension liability (LGERS)	528,677	111,682	310,494	65,592	839,171	177,274
Total pension liability (LEOSSA)	<u>818,775</u>	<u>316,329</u>	<u>-</u>	<u>-</u>	<u>818,775</u>	<u>316,329</u>
Total	<u>\$ 3,008,725</u>	<u>\$ 2,234,868</u>	<u>\$ 7,985,510</u>	<u>\$ 8,366,431</u>	<u>\$ 10,994,235</u>	<u>\$ 10,601,299</u>

Town of Franklin's Outstanding Debt

The Town of Franklin's total debt decreased by \$832,821 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 \$54,837,463.

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 remain stable and water and sewer revenues continue a steady increase due to commercial development in the area. Tourism and related business remains a primary driver of the Town economy.

Budget Highlights for the Year Ending June 30, 2018

Governmental Activities. The General Fund budget was increased by \$255,719. There was no tax increase this fiscal year.

Budgeted expenditures have been maintained at levels consistent with the fiscal year 2016-2017 through item-specific savings while continuing to provide necessary services. Employee benefits remained unchanged with the exception of a 2% cost-of-living adjustment and a one-time, 1%, payment based on salary for full-time employees. Employee benefit contributions remain the same with the exception of the employee contribution percentage for family health coverage.

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 2014-2015. The Town is continuing to work on Phase I of the Water Plant Upgrade and Expansion project with construction scheduled to begin September 2017.

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: Summer Woodard, 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, 2017

	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	\$ 1,867,967	\$ 3,873,502	\$ 5,741,469	\$ 165,682	\$ 175,320
Certificate of deposit	-	-	-	42,558	-
Receivables, net:					
Taxes	66,467	-	66,467	-	-
Accounts	242,897	436,197	679,094	-	12,131
Due from other governments	137,830	-	137,830	-	-
Inventories	-	112,536	112,536	287,446	-
Prepaid expenses	-	-	-	5,943	-
Restricted assets -					
cash and cash equivalents	678,559	36,487	715,046	-	-
Total current assets	2,993,720	4,458,722	7,452,442	501,629	187,451
Capital assets:					
Land and construction in progress	3,155,326	1,319,420	4,474,746	-	-
Other capital assets, net of depreciation	3,580,366	22,198,155	25,778,521	13,737	-
Total other assets	6,735,692	23,517,575	30,253,267	13,737	-
Total assets	9,729,412	27,976,297	37,705,709	515,366	187,451
Deferred Outflows of Resources:					
Contributions to pension plan in					
current fiscal year	135,355	70,041	205,396	-	-
Pension deferrals	340,168	199,782	539,950	-	-
Total deferred outflows of resources	475,523	269,823	745,346	-	-
Liabilities:					
Current liabilities:					
Accounts payable	12,253	23,652	35,905	27,388	7,710
Accrued liabilities	77,135	38,574	115,709	-	-
Accrued interest	16,807	41,569	58,376	-	-
Liabilities payable from restricted assets:					
Customer deposits	-	36,487	36,487	-	-
Total current liabilities	106,195	140,282	246,477	27,388	7,710
Long-term liabilities:					
Net pension liability - LGERS	528,677	310,494	839,171	-	-
Total pension liability - LEOSSA	818,775	-	818,775	-	-
Due within one year	360,917	699,335	1,060,252	-	-
Due in more than one year	1,532,746	7,057,723	8,590,469	-	-
Total long-term liabilities	3,241,115	8,067,552	11,308,667	-	-
Total liabilities	3,347,310	8,207,834	11,555,144	27,388	7,710
Deferred Inflows of Resources:					
Prepaid taxes	3,420	-	3,420	-	-
Pension deferrals	37,005	12,968	49,973	-	-
Total deferred inflows of resources	40,425	12,968	53,393	-	-
Net Position:					
Net investment in capital assets	5,473,498	16,090,496	21,563,994	13,737	-
Restricted for:					
Stabilization by State statute	380,727	-	380,727	-	12,131
Streets	662,392	-	662,392	-	-
Public safety	16,167	-	16,167	-	-
Other purposes	-	-	-	79,401	167,610
Unrestricted	284,416	3,934,822	4,219,238	394,840	-
Total net position	\$ 6,817,200	\$ 20,025,318	\$ 26,842,518	\$ 487,978	\$ 179,741

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, 2017

	<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	\$ 1,173,433	\$ 95,036	\$ 69,385	\$ 9,378
Public safety	2,396,634	4,854	-	329
Transportation	422,905	-	-	130,138
Planning and economic	175,605	-	-	-
Interest on long-term debt	75,525	-	-	-
Total governmental activities	<u>4,244,102</u>	<u>99,890</u>	<u>69,385</u>	<u>139,845</u>
Business-Type Activities:				
Water and sewer	<u>3,206,151</u>	<u>3,913,897</u>	<u>36,937</u>	-
Total business-type activities	<u>3,206,151</u>	<u>3,913,897</u>	<u>36,937</u>	-
Total primary government	<u>\$ 7,450,253</u>	<u>\$ 4,013,787</u>	<u>\$ 106,322</u>	<u>\$ 139,845</u>
Component Units:				
ABC Board	\$ 2,715,636	\$ 2,702,122	\$ -	\$ -
Tourism Development Authority	133,548	133,876	-	-
Total component units	<u>\$ 2,849,184</u>	<u>\$ 2,835,998</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, 2017

	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	\$ (999,634)	\$ -	\$ (999,634)	\$ -	\$ -
Public safety	(2,391,451)	-	(2,391,451)	-	-
Transportation	(292,767)	-	(292,767)	-	-
Planning and economic	(175,605)	-	(175,605)	-	-
Interest on long-term debt	(75,525)	-	(75,525)	-	-
Total governmental activities	<u>(3,934,982)</u>	<u>-</u>	<u>(3,934,982)</u>	<u>-</u>	<u>-</u>
Business-Type Activities:					
Water and sewer	-	744,683	744,683	-	-
Total business-type activities	<u>-</u>	<u>744,683</u>	<u>744,683</u>	<u>-</u>	<u>-</u>
Total primary government	<u>(3,934,982)</u>	<u>744,683</u>	<u>(3,190,299)</u>	<u>-</u>	<u>-</u>
Component Units:					
ABC Board	-	-	-	(13,514)	-
Tourism Development Authority	-	-	-	-	328
Total component units	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,514)</u>	<u>328</u>
General Revenues:					
Taxes:					
Property taxes, levied for general purposes	1,954,034	-	1,954,034	-	-
Other taxes and licenses	1,294,339	-	1,294,339	-	-
Local option sales tax	736,443	-	736,443	-	-
Investment earnings, unrestricted	6,740	7,783	14,523	1,748	658
Total general revenues	<u>3,991,556</u>	<u>7,783</u>	<u>3,999,339</u>	<u>1,748</u>	<u>658</u>
Change in net position	<u>56,574</u>	<u>752,466</u>	<u>809,040</u>	<u>(11,766)</u>	<u>986</u>
Net Position:					
Beginning of year - July 1	6,748,445	19,088,352	25,836,797	499,744	178,755
Restatement	<u>12,181</u>	<u>184,500</u>	<u>196,681</u>	<u>-</u>	<u>-</u>
Beginning of year - July 1, as restated	<u>6,760,626</u>	<u>19,272,852</u>	<u>26,033,478</u>	<u>499,744</u>	<u>178,755</u>
End of year - June 30	<u>\$ 6,817,200</u>	<u>\$ 20,025,318</u>	<u>\$ 26,842,518</u>	<u>\$ 487,978</u>	<u>\$ 179,741</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2017

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 1,867,967
Receivables, net:	
Taxes	66,467
Accounts	242,897
Due from other governments	137,830
Restricted assets - cash and cash equivalents	<u>678,559</u>
Total assets	<u>\$ 2,993,720</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:	
Liabilities:	
Accounts payable	\$ 12,253
Accrued liabilities	<u>77,135</u>
Total liabilities	<u>89,388</u>
Deferred Inflows of Resources:	
Prepaid taxes	3,420
Property taxes receivable	<u>66,467</u>
Total deferred inflows of resources	<u>69,887</u>
Fund Balance:	
Restricted:	
Stabilization by State statute	380,727
Restricted for streets	662,392
Restricted for public safety	16,167
Assigned	587,522
Unassigned	<u>1,187,637</u>
Total fund balance	<u>2,834,445</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,993,720</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2017

	<u>General Fund</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balance	\$ 2,834,445
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	6,735,692
Net pension liability	(528,677)
Pension related deferrals	(37,005)
Deferred outflows of resources related to pensions are not reported in the funds.	475,523
Other long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,262,194)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(232,390)
Other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.	(399,079)
Liabilities for earned revenues considered deferred inflows of resources in fund statements	66,467
Other long-term liabilities (accrued interest) are not due and payable in the funds.	(16,807)
Total pension liability	<u>(818,775)</u>
Net position of governmental activities	<u>\$ 6,817,200</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 FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund
	<u> </u>
Revenues:	
Ad valorem taxes	\$ 1,945,826
Other taxes and licenses	710,170
Unrestricted intergovernmental revenues	1,320,612
Restricted intergovernmental revenues	139,845
Permits and fees	4,854
Investment earnings	6,740
Miscellaneous	<u>95,036</u>
Total revenues	<u>4,223,083</u>
Expenditures:	
Current:	
General government	1,218,642
Public safety	2,098,209
Transportation	503,012
Planning and economic development	175,605
Debt service:	
Principal	744,765
Interest	<u>58,718</u>
Total expenditures	<u>4,798,951</u>
Revenues over (under) expenditures	<u>(575,868)</u>
Other Financing Sources (Uses):	
Sale of capital assets	138,417
Long-term debt issued	<u>560,027</u>
Total other financing sources (uses)	<u>698,444</u>
Net change in fund balance	122,576
Fund Balance:	
Beginning of year - July 1	<u>2,711,869</u>
End of year - June 30	<u>\$ 2,834,445</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, 2017

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)	\$ 122,576
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement.	8,208
Benefit payments and pension administration costs for LEOSSA are deferred outflows of resources on the Statement of Net Position.	16,096
Change in deferred outflow - pension	352,763
Change in deferred inflows - pension	40,706
Change in net pension liability	(416,995)
The issuance of long-term debt provides current financial resources to governmental funds. The transaction does not have an effect on net position.	(560,027)
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.	744,765
Compensated absences expense, pension expense, and OPEB expense reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(214,540)
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.	400,084
The sale/disposal of capital assets is reported as a revenue in the governmental funds statement without subtracting the net book value of the capital assets sold.	(69,032)
Other long-term liabilities (accrued interest) are not due and payable in the funds.	(16,807)
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>(351,223)</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 56,574</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, 2017

	Budgeted Amounts		Actual	Variance Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 1,982,000	\$ 1,982,000	\$ 1,945,826	\$ (36,174)
Other taxes and licenses	643,454	643,454	710,170	66,716
Unrestricted intergovernmental revenues	1,153,100	1,167,881	1,320,612	152,731
Restricted intergovernmental revenues	130,000	139,378	139,845	467
Permits and fees	7,200	7,200	4,854	(2,346)
Investment earnings	1,000	1,000	6,740	5,740
Miscellaneous	55,032	66,232	95,036	28,804
Total revenues	<u>3,971,786</u>	<u>4,007,145</u>	<u>4,223,083</u>	<u>215,938</u>
Expenditures:				
General government	1,357,139	1,357,139	1,218,642	138,497
Public safety	2,162,393	2,218,628	2,098,209	120,419
Transportation	794,001	831,685	503,012	328,673
Planning and economic development	180,154	182,489	175,605	6,884
Debt service:				
Principal	357,122	744,918	744,765	153
Interest and fees	55,289	58,567	58,718	(151)
Contingency	79,500	73,500	-	73,500
Total expenditures	<u>4,985,598</u>	<u>5,466,926</u>	<u>4,798,951</u>	<u>667,975</u>
Revenues over (under) expenditures	<u>(1,013,812)</u>	<u>(1,459,781)</u>	<u>(575,868)</u>	<u>883,913</u>
Other Financing Sources (Uses)				
Sale of capital assets	5,000	16,347	138,417	122,070
Long-term debt issued	161,445	552,519	560,027	7,508
Transfers in	79,500	84,500	-	(84,500)
Appropriated fund balance	767,867	806,415	-	(806,415)
Total other financing sources (uses)	<u>1,013,812</u>	<u>1,459,781</u>	<u>698,444</u>	<u>(761,337)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>122,576</u>	<u>\$ 122,576</u>
Fund Balance:				
Beginning of year - July 1			<u>2,711,869</u>	
End of year - June 30			<u>\$ 2,834,445</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, 2017

	Water and Sewer Fund
Assets:	
Current assets:	
Cash and cash equivalents	\$ 3,873,502
Accounts receivable, net	436,197
Inventory	112,536
Restricted assets - cash and cash equivalents	<u>36,487</u>
Total current assets	<u>4,458,722</u>
Capital assets:	
Land	1,025,550
Construction in progress	293,870
Other capital assets, net	<u>22,198,155</u>
Total capital assets	<u>23,517,575</u>
Total assets	<u>27,976,297</u>
Deferred Outflows of Resources:	
Contributions to pension plan in current fiscal year	70,041
Pension deferrals	<u>199,782</u>
Total deferred outflows of resources	<u>269,823</u>
Liabilities:	
Current liabilities:	
Accounts payable	23,652
Accrued liabilities	38,574
Accrued interest	41,569
Liabilities payable from restricted assets:	
Customer deposits	36,487
Current portion of notes payable	658,314
Current portion of compensated absences payable	<u>41,021</u>
Total current liabilities	<u>839,617</u>
Non-current liabilities:	
Notes payable	6,768,765
Net pension liability	310,494
OPEB liability	247,937
Compensated absences payable	<u>41,021</u>
Total non-current liabilities	<u>7,368,217</u>
Total liabilities	<u>8,207,834</u>
Deferred Inflows of Resources:	
Pension deferrals	<u>12,968</u>
Net Position:	
Net investment in capital assets	16,090,496
Unrestricted	<u>3,934,822</u>
Total net position	<u>\$ 20,025,318</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, 2017**

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 3,893,605
Total operating revenues	<u>3,893,605</u>
Operating Expenses:	
Water/sewer operations	2,330,445
Depreciation	<u>620,150</u>
Total operating expenses	<u>2,950,595</u>
Operating income (loss)	<u>943,010</u>
Non-Operating Revenues (Expenses):	
Investment earnings	7,783
Interest expense	(255,556)
Macon County appropriations	36,937
Other revenues	<u>20,292</u>
Total non-operating revenues (expenses)	<u>(190,544)</u>
Change in net position	<u>752,466</u>
Net Position:	
Beginning of year - July 1	19,088,352
Restatement	<u>184,500</u>
Beginning of year - July 1, as restated	<u>19,272,852</u>
End of year - June 30	<u>\$ 20,025,318</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, 2017

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 3,940,261
Customer deposits received	55
Cash paid for goods and services	(1,022,896)
Cash paid to employees	<u>(1,242,523)</u>
Net cash provided (used) by operating activities	<u>1,674,897</u>
Cash Flows from Non-Capital Financing Activities:	
Macon County appropriations	36,937
Other revenues	<u>20,292</u>
Net cash provided (used) by non-capital financing activities	<u>57,229</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(278,125)
Debt principal	(648,083)
Debt interest	<u>(243,083)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,169,291)</u>
Cash Flows from Investing Activities:	
Interest received	<u>7,783</u>
Net increase (decrease) in cash, cash equivalents, and investments	570,618
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>3,339,371</u>
End of year - June 30	<u>\$ 3,909,989</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 943,010
Depreciation	620,150
Changes in assets and liabilities:	
Accounts receivables	46,656
Inventories	4,214
Accounts payable	11,345
Customer deposits	55
OPEB	22,260
Pension liability	244,902
Deferred outflows of resources for pension	(207,179)
Deferred inflows of resources for pension	(23,906)
Accrued vacation	<u>13,390</u>
Net cash provided (used) by operating activities	<u>\$ 1,674,897</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, 2017

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 Board of Aldermen. 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 columns 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 Board, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). The Authority does not issue separate financial statements.

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, 2017

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 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, street maintenance and construction, sanitation service, and general governmental services.

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, 2017

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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 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 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 board and the Board 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 board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 Board of Aldermen, recorded in the minutes.
- 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 Board of Aldermen.

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)] 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's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, an SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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, 2017

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.

Restricted cash at June 30, 2017 consists of the following:

Governmental Activities:

General Fund:

Law enforcement funds	\$ 16,167
Powell Bill	<u>662,392</u>
Total governmental activities	<u>678,559</u>

Business-Type Activities:

Water and Sewer Fund:

Customer deposits	<u>36,487</u>
Total business-type activities	<u>36,487</u>

Total restricted cash	<u><u>\$ 715,046</u></u>
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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, 2016. 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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.

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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	10 years
Equipment	3 years

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 position 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 criterion for this category, contributions made to the pension plan in the current fiscal year and pension 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 position that applies to a future period and so will not be recognized as revenue until then. The Town has three items that meet the criteria for this category – property taxes receivable, prepaid taxes, and pension 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 are 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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.

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.

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 represent 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Restricted Fund Balance

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

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

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.

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 Board of Aldermen). 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 Finance officer to make certain modifications without requiring Board approval. At June 30, 2017, the Town had \$587,522 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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	\$ 2,834,445
Less:	
Stabilization by State statute	<u>380,727</u>
Total available fund balance	<u>\$ 2,453,718</u>

Defined Benefit Pension 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, 2017

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 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 agent in the Town's 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, these deposits are considered to be held by the Town's agent in the Town'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 or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, 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 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 complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board and Tourism Development Authority have no formal policy regarding custodial credit risk for deposits.

At June 30, 2017, the Town's deposits had a carrying amount of \$2,876,944 and a bank balance of \$3,058,580. Of the bank balance, \$481,300 was covered by federal depository insurance and \$2,577,280 was covered by collateral held under the Pooling Method. The Town also had cash on hand of \$584 at June 30, 2017. The Town of Franklin ABC Board's deposits had a carrying amount of \$208,240 and a bank balance of \$406,177. The Town of Franklin Tourism Development Authority's deposits had a carrying amount of \$175,320 and a bank balance of \$175,320. All of the bank balances were covered by federal depository insurance.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Investments

At June 30, 2017, the Town had \$3,578,987 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>June 30, 2017</u>
General Fund:	
Taxes receivable	\$ <u>52,000</u>
Water and Sewer Fund:	
Accounts receivable	\$ <u>292,647</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, 2017</u>
General Fund:	
Sales tax receivable	\$ 22,830
Franchise tax receivable	<u>115,000</u>
Total	\$ <u>137,830</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Capital Assets

Governmental Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 3,224,358	\$ -	\$ 69,032	\$ 3,155,326
Total non-depreciable capital assets	<u>3,224,358</u>	<u>-</u>	<u>69,032</u>	<u>3,155,326</u>
Depreciable Capital Assets:				
Buildings	2,978,151	-	-	2,978,151
Improvements to facilities	282,177	-	-	282,177
Computer equipment	49,279	186,271	-	235,550
Equipment	678,450	69,837	-	748,287
Furniture and fixtures	156,076	-	-	156,076
Vehicles	3,237,556	35,176	108,857	3,163,875
Infrastructure	1,972,895	108,800	-	2,081,695
Total depreciable capital assets	<u>9,354,584</u>	<u>400,084</u>	<u>108,857</u>	<u>9,645,811</u>
Less Accumulated Depreciation:				
Buildings	743,471	58,338	-	801,809
Improvements to facilities	222,049	5,587	-	227,636
Computer equipment	49,279	45,745	-	95,024
Equipment	510,575	32,636	-	543,211
Furniture and fixtures	115,965	14,611	-	130,576
Vehicles	2,517,314	164,626	108,857	2,573,083
Infrastructure	1,664,426	29,680	-	1,694,106
Total accumulated depreciation	<u>5,823,079</u>	<u>\$ 351,223</u>	<u>\$ 108,857</u>	<u>6,065,445</u>
Total depreciable capital assets, net	<u>3,531,505</u>			<u>3,580,366</u>
Governmental activities capital assets, net	<u>\$ 6,755,863</u>			<u>\$ 6,735,692</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 84,067
Public safety	227,051
Transportation	<u>40,105</u>
Total depreciation expense	<u>\$ 351,223</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2017 was as follows:

	Balance	Increases	Decreases	Balance
	July 1, 2016			June 30, 2017
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 1,025,550	\$ -	\$ -	\$ 1,025,550
Construction in progress	254,970	38,900	-	293,870
Total non-depreciable capital assets	1,280,520	38,900	-	1,319,420
Depreciable Capital Assets:				
Buildings	1,310,387	-	-	1,310,387
Improvement to facilities	133,469	-	-	133,469
Equipment	807,018	64,558	18,351	853,225
Vehicles	406,161	23,184	29,212	400,133
Water and sewer distribution systems	30,022,186	151,483	-	30,173,669
Total depreciable capital assets	32,679,221	239,225	47,563	32,870,883
Less Accumulated Depreciation:				
Buildings	52,271	4,693	-	56,964
Improvements to facilities	103,446	2,628	-	106,074
Equipment	741,851	12,373	18,351	735,873
Vehicles	334,464	17,491	29,212	322,743
Water and sewer distribution systems	8,868,109	582,965	-	9,451,074
Total accumulated depreciation	10,100,141	\$ 620,150	\$ 47,563	10,672,728
Total depreciable capital assets, net	22,579,080			22,198,155
Business-type activities capital assets, net	\$ 23,859,600			\$ 23,517,575

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2017 is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 6,735,692	\$ 23,517,575
Long-term debt related to capital assets	(1,262,194)	(7,427,079)
Net investment in capital assets	\$ 5,473,498	\$ 16,090,496

Component Unit

Capital assets of the ABC Board as of June 30, 2017, were as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Depreciable Capital Assets:				
Equipment	\$ 169,845	\$ -	\$ -	\$ 169,845
Leasehold improvements	192,476	-	-	192,476
Total depreciable capital assets	362,321	-	-	362,321
Less Accumulated Depreciation:				
Equipment	147,559	10,252	-	157,811
Leasehold improvements	187,766	3,007	-	190,773
Total accumulated depreciation	335,325	\$ 13,259	\$ -	348,584
Total depreciable capital assets, net	\$ 26,996			\$ 13,737

Construction Commitments

The government has active construction projects as of June 30, 2017. At year-end, the government's commitments with contractors are as follows:

	Spent-to-Date	Remaining Commitment
Water treatment plant upgrade and expansion	\$ 293,870	\$ 3,313,780
Total	\$ 293,870	\$ 3,313,780

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

B. 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 Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR 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 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017 was 8.00% of compensation for law enforcement officers and 7.25% 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 \$189,300 for the year ended June 30, 2017.

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, 2017, the Town reported a liability of \$839,171 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, actuarially determined. At June 30, 2016, the Town's proportion was 0.03954%, which was a decrease of 0.00004% from its proportion measured as of June 30, 2015.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

For the year ended June 30, 2017, the Town recognized pension expense of \$226,641. At June 30, 2017, 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	\$ 15,767	\$ 29,406
Changes of assumptions	57,476	-
Net difference between projected and actual earnings on pension plan investments	463,957	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	2,750	5,641
Town contributions subsequent to the measurement date	189,300	-
Total	\$ 729,250	\$ 35,047

\$189,300 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 ended June 30, 2018. 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
	2018	\$ 76,480
	2019	76,530
	2020	218,616
	2021	133,277
	Total	\$ 504,903

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increase	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 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, 2017

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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 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%
Credit	7.0%	6.0%
Inflation protection	<u>6.0%</u>	4.0%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 1,991,745	\$ 839,171	\$ (123,544)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) 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.

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

At December 31, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Active plan members	<u>17</u>
Total	<u><u>20</u></u>

A separate report was not issued for the plan.

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 actuarial cost method was used in the December 31, 2015 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increase	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate used to measure the TPL is the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond index determined at the end of each month.

Deaths after Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths before Retirement: RP-2014 Employee base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

Deaths after Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 123% for males and females.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Deaths after Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 103% for males and 99% for females.

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 \$44,515 as benefits came due.

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

At June 30, 2017, the Town reported a total pension liability of \$818,775. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was rolled forward to December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$50,518.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ -	\$ 14,926
Town benefit payments and plan administrative expense made subsequent to the measurement date	<u>16,096</u>	<u>-</u>
Total	<u>\$ 16,096</u>	<u>\$ 14,926</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

\$16,096 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 pension liability in the year ending June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Total
2018	\$ 3,385
2019	3,385
2020	3,385
2021	3,385
2022	<u>1,386</u>
Total	<u>\$14,926</u>

\$15,911 paid as benefits came due and \$185 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

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 3.86%, 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 (2.86%) or 1-percentage-point higher (4.86%) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Town's proportionate share of the net pension liability (asset)	<u>\$ 883,733</u>	<u>\$ 818,755</u>	<u>\$ 758,829</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

	<u>2017</u>
Beginning balance	\$ 827,883
Service cost	24,957
Interest on the total pension liability	28,761
Changes of assumptions or other inputs	(18,311)
Benefit payments	<u>(44,515)</u>
Ending balance of the total pension liability	<u>\$ 818,775</u>

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.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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 Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR 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. Contributions for the year ended June 30, 2017 were \$50,347, which consisted of \$39,992 from the Town and \$10,355 from the law enforcement officers. No amounts were forfeited.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017 was \$85,357. The employees' elected deferrals to the Plan were \$24,164 for the year ended June 30, 2017.

Other Post-Employment Benefits

Healthcare Benefits

Plan Description. According to a Town resolution, the Town allows employees who retire under the provisions of the North Carolina Local Government Retirement System (LGRS) 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 a percentage of healthcare premiums based on certain criteria noted in the funding policy below.

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 Board of Alderman may amend the benefit provisions. A separate report was not issued for the Plan.

Membership of the healthcare plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

Retired members	5
Active members:	
General employees	32
Firefighters	6
Law enforcement	<u>17</u>
Total	<u><u>60</u></u>

Funding Policy. The Town will pay 100% of the premium if the employee has at least 30 years of service with the Town, or at least 20 years of service with the Town, and has attained the age of sixty-two. 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 fifty-seven. The Town will pay 100% of the premium for employees retiring due to medical disability, providing they have at least twenty years of service, or 75%, if they are age 57 with fifteen years of service and retire due to medical disability. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 4.75% of annual covered payroll. For the current year, the Town made contributions in the amount of \$48,113 or 2.11% of annual covered payroll. The Town

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

obtains healthcare coverage through private insurers. The Town's required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 1.51% and 0.60% of covered payroll, respectively. The Town's contributions totaled \$48,113 in fiscal year 2017. There were no contributions made by employees. The Town's obligation to contribute to HCB Plan is established and may be amended by the Board of Aldermen.

Summary of Significant Accounting Policies. Post-employment expenditures are made from the fund the employee was assigned to prior to retirement. The General Fund is maintained on the modified accrual basis of accounting and the Water and Sewer Fund is maintained on the full accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 108,481
Interest on net OPEB obligation	23,424
Adjustment to annual required contribution	<u>(22,378)</u>
Annual OPEB cost (expense)	109,527
Contributions made	<u>48,113</u>
Increase (decrease) in net OPEB obligation	61,414
Net OPEB obligation:	
Beginning of year - July 1	<u>585,602</u>
End of year - June 30	<u><u>\$ 647,016</u></u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and net OPEB obligation for 2017 were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 109,527	43.93%	\$ 647,016
2016	114,078	46.26%	585,602
2015	84,169	55.06%	524,296

Funded Status and Funding Progress. As of December 31, 2015, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$1,341,114. The covered payroll (annual payroll of active employees covered by the plan) was \$2,281,720, and the ratio of the UAAL to the covered payroll was 58.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the Plan, and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing, over time, relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the Plan at the valuation date, and an annual medical cost trend increase of 7.75 to 5.00% annually. Both rates included a 3.00% inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015 was 30 years.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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.

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>
Contributions to pension plan in current fiscal year - LGERS	\$ 189,300
Benefit payments made and administration expenses for LEOSSA	16,096
Differences between expected and actual experience	15,767
Changes of assumptions	57,476
Net difference between projected and actual experience	463,957
Changes in proportion and differences between employer contributions and proportionate share	<u>2,750</u>
	<u>\$ 745,346</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

	<u>Amount</u>
Taxes receivable (General Fund)	\$ 66,467
Prepaid taxes	3,420
Changes in assumptions	14,926
Differences between expected and actual experience	29,406
Changes in proportion and differences between employer contributions and proportionate share	<u>5,641</u>
	<u>\$ 119,860</u>

Risk Management

The Town 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 Town participates in risk-financing through Travelers 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 not available within the Town limits since the Town does not participate in the National Flood Insurance Program. However, 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 and fire department properties.

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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Claims, Judgments, and Contingent Liabilities

At June 30, 2017, it is the opinion of the Town's management and the Town attorney that there are no legal matters pending that would have a material adverse effect on the Town's financial position.

Long-Term Obligations

Capital Leases

The Town has entered into agreements to lease certain equipment. The lease agreement qualify as a capital lease for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of lease inception.

The agreement was executed on October 5, 2016 to lease computer equipment and requires five annual lease payments. The title passes to the Town at the end of the lease term.

At June 30, 2017, the Town leased software valued at:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
General government:			
Computer equipment	<u>\$ 168,953</u>	<u>\$ 42,238</u>	<u>\$ 126,715</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2017 were as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 45,382
2019	45,382
2020	<u>45,382</u>
Total minimum lease payments	136,146
Less: amount representing interest	<u>11,000</u>
Present value of the minimum lease payments	<u>\$ 125,146</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Installment Purchases and Note Payable

Serviced by the General Fund:

Municipal buildings, executed \$1,539,720 in September 2012, under an installment purchase contract, due in semi-annual installments of \$68,400, including interest of 2.32%, through June 2024 \$ 920,160

Aerial truck and pumper tanker, executed \$391,074 in November 2016, under an installment purchase contract, due in annual installments of \$177,615 through June 2017, and \$74,567 from June 2018 through June 2020; including interest of 1.891% 216,888

Total General Fund \$ 1,137,048

Serviced by the Water and Sewer Fund:

Water and Sewer Department, executed \$2,737,280 in September 2012, under an installment purchase contract, due in semi-annual installments of \$121,600, including interest of 2.32%, through June 2024 \$ 1,635,840

Water and Sewer Department, executed \$2,619,500 in June 2010, under an installment purchase contract, due in semi-annual installments of \$254,695, including interest of 5.11%, through June 2025 1,638,852

Water and Sewer Department, executed \$5,018,104 in June 2012, under a Clean Water State Revolving Fund loan, due in annual installments of \$267,515, plus interest of 2.445%, through May 2033 4,152,387

Total Water and Sewer Fund \$ 7,427,079

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Annual debt service requirements to maturity are as follows:

Year Ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 199,340	\$ 24,716	\$ 658,314	\$ 223,191
2019	201,531	20,634	668,970	202,828
2020	203,737	16,512	680,071	181,975
2021	131,400	12,342	691,642	160,607
2022	132,480	9,296	703,706	138,703
2023-2027	268,560	9,354	2,467,231	374,446
2028-2032	-	-	1,297,621	126,907
2033	-	-	259,524	6,345
Total	<u>\$ 1,137,048</u>	<u>\$ 92,854</u>	<u>\$ 7,427,079</u>	<u>\$ 1,415,002</u>

At June 30, 2017, the Town had a legal debt margin of \$54,837,463.

Changes in Long-Term Liabilities

	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>
Governmental Activities:					
Installment purchase	\$ 1,047,240	\$ 391,074	\$ 301,266	\$ 1,137,048	\$ 199,340
Capital leases	399,692	168,953	443,499	125,146	45,382
Compensated absences	107,337	282,260	157,207	232,390	116,195
OPEB	359,925	69,828	30,674	399,079	-
Net pension liability (LGERS)	111,682	416,995	-	528,677	-
Total pension liability (LEOSSA)	<u>316,329</u>	<u>502,446</u>	<u>-</u>	<u>818,775</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 2,342,205</u>	<u>\$ 1,831,556</u>	<u>\$ 932,646</u>	<u>\$ 3,241,115</u>	<u>\$ 360,917</u>
Business-Type Activities:					
Installment purchase and note payable	\$ 8,075,162	\$ -	\$ 648,083	\$ 7,427,079	\$ 658,314
OPEB	225,677	39,699	17,439	247,937	-
Net pension liability (LGERS)	65,592	244,902	-	310,494	-
Compensated absences	<u>68,652</u>	<u>84,943</u>	<u>71,553</u>	<u>82,042</u>	<u>41,021</u>
Business-type activities long-term liabilities	<u>\$ 8,435,083</u>	<u>\$ 369,544</u>	<u>\$ 737,075</u>	<u>\$ 8,067,552</u>	<u>\$ 699,335</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

C. Revenues, Expenditures, and Expenses

On-Behalf Payments for Fringe Benefits and Salaries

The Town has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$14,781 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2017. Under State law the local board of trustees for the fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

D. 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, 2017. 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.

E. 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.

F. Restatement

During the fiscal year ended June 30, 2017, the Town determined that certain capital assets were not properly added in the year of acquisition. Beginning capital asset balances and related net position balances have been adjusted for that reporting error in the amount of \$479,220 for governmental activities and \$184,500 for business-type activities.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

G. Change In Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ended June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period. As a result, net position for governmental activities decreased \$467,039.

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TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPERATION ALLOWANCE
FOR THE YEAR ENDED JUNE 30, 2017**

Law Enforcement Officers' Special Seperation Allowance

	2017
Beginning balance	\$ 827,883
Service cost	24,957
Interest on the total pension liability	28,761
Changes of assumptions or other inputs	(18,311)
Benefit payments	(44,515)
Ending balance of the total pension liability	\$ 818,775

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

TOWN OF FRANKLIN, NORTH CAROLINA**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPERATION ALLOWANCE
FOR THE YEAR ENDED JUNE 30, 2017****Law Enforcement Officers' Special Seperation Allowance**

	<u>2017</u>
Total pension liability	\$ 818,775
Covered payroll	818,843
Total pension liability as a percentage of covered payroll	99.99%

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.

TOWN OF FRANKLIN, NORTH CAROLINA

**OTHER POST-EMPLOYMENT BENEFITS -
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2017**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
		Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (b-a)			
12/31/2010	\$ -	\$ 896,944	\$ 896,944	0.00%	\$ 2,189,609	40.9%
12/31/2013	-	1,344,390	1,344,390	0.00%	2,257,116	59.6%
12/31/2015	-	1,341,114	1,341,114	0.00%	2,281,720	58.8%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Amount Contributed By Employer	Percentage of ARC Contributed
2017	\$ 108,481	\$ 48,113	44.35%
2016	113,141	52,772	46.64%
2015	83,299	46,345	55.64%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2015
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	7.75%-5.00%
Year of ultimate trend rate	2022

* Includes inflation at 3.00%

TOWN OF FRANKLIN, NORTH CAROLINA**LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
LAST FOUR FISCAL YEARS***

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM				
	2017	2016	2015	2014
Proportion of the net pension liability (asset) (%)	0.03954%	0.03950%	0.04056%	0.04030%
Proportion of the net pension liability (asset) (\$)	\$ 839,171	\$ 177,274	\$ (239,201)	\$ 485,770
Covered-employee payroll	\$ 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-employee payroll	35.02%	7.92%	-10.55%	22.21%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

* 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.

TOWN OF FRANKLIN, NORTH CAROLINA

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 TOWN OF FRANKLIN'S CONTRIBUTIONS
 LAST FOUR FISCAL YEARS

 LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 189,300	\$ 165,174	\$ 161,032	\$ 163,874
Contributions in relation to the contractually required contribution	<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>
Covered-employee payroll	\$ 2,504,775	\$ 2,396,096	\$ 2,239,266	\$ 2,267,471
Contributions as a percentage of covered-employee payroll	7.56%	6.89%	7.19%	7.23%

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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ 1,976,000	\$ 1,932,808	\$ (43,192)
Penalties and interest	6,000	13,018	7,018
Total	<u>1,982,000</u>	<u>1,945,826</u>	<u>(36,174)</u>
Other Taxes and Licenses:			
Fire tax	643,454	684,223	40,769
Vehicle rental tax	-	25,947	25,947
Total	<u>643,454</u>	<u>710,170</u>	<u>66,716</u>
Unrestricted Intergovernmental Revenues:			
Local option sales tax	640,000	736,443	96,443
Utility franchise tax	440,600	477,002	36,402
Beer and wine tax	-	18,372	18,372
ABC profit distribution	70,000	70,000	-
On-behalf of payments - Fire and Rescue	14,781	14,781	-
Occupancy tax	2,500	4,014	1,514
Total	<u>1,167,881</u>	<u>1,320,612</u>	<u>152,731</u>
Restricted Intergovernmental Revenues:			
Powell Bill allocation	125,000	130,138	5,138
Miscellaneous grants	14,378	9,707	(4,671)
Total	<u>139,378</u>	<u>139,845</u>	<u>467</u>
Permits and Fees:			
Zoning permits	4,000	2,475	(1,525)
Cable franchise fees	2,200	426	(1,774)
Sign permits	1,000	1,953	953
Total	<u>7,200</u>	<u>4,854</u>	<u>(2,346)</u>
Investment Earnings	<u>1,000</u>	<u>6,740</u>	<u>5,740</u>
Miscellaneous	<u>66,232</u>	<u>95,036</u>	<u>28,804</u>
Total revenues	<u>4,007,145</u>	<u>4,223,083</u>	<u>215,938</u>

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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	32,500	32,295	205
Operating expenses	108,050	98,931	9,119
Professional services	40,050	37,080	2,970
Total	<u>180,600</u>	<u>168,306</u>	<u>12,294</u>
Administration:			
Salaries and employee benefits	233,328	203,439	29,889
Operating expenses	23,750	22,883	867
Professional services	10,500	7,850	2,650
Total	<u>267,578</u>	<u>234,172</u>	<u>33,406</u>
Finance:			
Salaries and employee benefits	186,784	144,999	41,785
Operating expenses	12,300	8,133	4,167
Professional services	10,200	7,580	2,620
Total	<u>209,284</u>	<u>160,712</u>	<u>48,572</u>
Billing:			
Salaries and employee benefits	58,007	41,506	16,501
Operating expenses	9,044	6,727	2,317
Total	<u>67,051</u>	<u>48,233</u>	<u>18,818</u>
Legal and Election:			
Operating expenses	7,700	7,418	282
Professional services	63,500	52,790	10,710
Total	<u>71,200</u>	<u>60,208</u>	<u>10,992</u>
Facilities:			
Salaries and employee benefits	102,031	99,533	2,498
Operating expenses	225,600	211,451	14,149
Professional services	2,850	2,541	309
Total	<u>330,481</u>	<u>313,525</u>	<u>16,956</u>

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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Information Technology:			
Operating expenses	33,676	29,263	4,413
Professional services	18,500	17,953	547
Capital outlay	178,769	186,270	(7,501)
Total	<u>230,945</u>	<u>233,486</u>	<u>(2,541)</u>
Total general government	<u>1,357,139</u>	<u>1,218,642</u>	<u>138,497</u>
Public Safety:			
Police:			
Salaries and employee benefits	1,256,878	1,220,842	36,036
Operating expenses	215,218	150,261	64,957
Capital outlay	61,245	60,676	569
Total	<u>1,533,341</u>	<u>1,431,779</u>	<u>101,562</u>
Fire:			
Salaries and employee benefits	482,939	474,097	8,842
Operating expenses	177,726	167,726	10,000
Capital outlay	24,622	24,607	15
Total	<u>685,287</u>	<u>666,430</u>	<u>18,857</u>
Total public safety	<u>2,218,628</u>	<u>2,098,209</u>	<u>120,419</u>
Transportation:			
Streets and Highways:			
Salaries and employee benefits	108,751	99,467	9,284
Operating expenses	351,100	257,820	93,280
Capital outlay	340,150	128,529	211,621
Total	<u>800,001</u>	<u>485,816</u>	<u>314,185</u>
Memorial Park			
Operating expenses	18,884	4,396	14,488
Total	<u>18,884</u>	<u>4,396</u>	<u>14,488</u>

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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
NC Bike & Pedestrian Planning			
Operating expenses	12,800	12,800	-
Total	<u>12,800</u>	<u>12,800</u>	<u>-</u>
 Total transportation	 <u>831,685</u>	 <u>503,012</u>	 <u>328,673</u>
Planning and Economic Development:			
Salaries and employee benefits	87,283	86,407	876
Operating expenses	14,571	11,605	2,966
Total	<u>101,854</u>	<u>98,012</u>	<u>3,842</u>
Festivals and Events:			
Operating expenses	60,635	60,427	208
Total	<u>60,635</u>	<u>60,427</u>	<u>208</u>
Traffic:			
Salaries and employee benefits	16,000	14,638	1,362
Operating expenses	4,000	2,528	1,472
Total	<u>20,000</u>	<u>17,166</u>	<u>2,834</u>
 Total planning and economic development	 <u>182,489</u>	 <u>175,605</u>	 <u>6,884</u>
Debt Service:			
Principal retirement	744,918	744,765	153
Interest and fees	58,567	58,718	(151)
Total debt service	<u>803,485</u>	<u>803,483</u>	<u>2</u>
 Contingency	 <u>73,500</u>	 <u>-</u>	 <u>73,500</u>
 Total expenditures	 <u>5,466,926</u>	 <u>4,798,951</u>	 <u>667,975</u>

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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	(1,459,781)	(575,868)	(452,037)
Other Financing Sources (Uses):			
Appropriated fund balance	806,415	-	806,415
Transfer in	84,500	-	84,500
Long-term debt issued	552,519	560,027	(7,508)
Sale of capital assets	16,347	138,417	(122,070)
Total other financing sources (uses)	<u>1,459,781</u>	<u>698,444</u>	<u>761,337</u>
Net change in fund balance	<u>\$ -</u>	122,576	<u>\$ 122,576</u>
Fund Balance:			
Beginning of year - July 1		<u>2,711,869</u>	
End of year - June 30		<u>\$ 2,834,445</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, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 3,295,500	\$ 3,486,969	\$ 191,469
Water and sewer taps	50,550	81,420	30,870
Availability fees	12,000	85,200	73,200
Capacity fees	-	98,280	98,280
Dumping fees	60,000	122,711	62,711
Reconnections	15,000	19,025	4,025
Total operating revenues	<u>3,433,050</u>	<u>3,893,605</u>	<u>460,555</u>
Non-Operating Revenues:			
Investment earnings	1,000	7,783	6,783
Macon County appropriations	36,171	36,937	766
Other revenues	18,310	20,292	1,982
Total non-operating revenues	<u>55,481</u>	<u>65,012</u>	<u>9,531</u>
Total revenues	<u>3,488,531</u>	<u>3,958,617</u>	<u>470,086</u>
Expenditures:			
Water and Sewer Operations:			
Salaries and employee benefits	1,493,907	1,291,990	201,917
Utilities	204,000	204,000	-
Supplies	289,489	265,743	23,746
Insurance and bonds	60,000	55,507	4,493
Professional services	206,373	149,584	56,789
Administrative fee	-	40,022	(40,022)
Repairs and maintenance	204,417	176,241	28,176
Miscellaneous	156,185	97,891	58,294
Total water and sewer operations	<u>2,614,371</u>	<u>2,280,978</u>	<u>333,393</u>
Capital Outlay:			
Water extensions	175,000	151,483	23,517
Equipment	65,016	64,558	458
Vehicles	23,506	23,184	322
Total capital outlay	<u>263,522</u>	<u>239,225</u>	<u>24,297</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, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Debt Service:			
Principal retirement	648,083	648,083	-
Interest	243,084	243,083	1
Total debt service	<u>891,167</u>	<u>891,166</u>	<u>1</u>
Total expenditures	<u>3,769,060</u>	<u>3,411,369</u>	<u>357,691</u>
Revenues over (under) expenditures	<u>(280,529)</u>	<u>547,248</u>	<u>827,777</u>
Other Financing Sources (Uses):			
Transfers out	(28,900)	-	28,900
Appropriated fund balance	<u>309,429</u>	<u>-</u>	<u>(309,429)</u>
Total other financing sources (uses)	<u>280,529</u>	<u>-</u>	<u>(280,529)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 547,248</u>	<u>\$ 547,248</u>
Reconciliation from Modified Accrual Basis to Full Accrual Basis:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 547,248	
Reconciling items:			
Change in accrued vacation		(13,390)	
Capital outlay		239,225	
Payment of debt principal		648,083	
Net pension liability		(244,902)	
Deferred outflows of resources - pensions		207,179	
Deferred inflows of resources - pensions		23,906	
Change in accrued interest		(12,473)	
Change in OPEB liability		(22,260)	
Depreciation		<u>(620,150)</u>	
Change in net position		<u>\$ 752,466</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, 2017

	<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>	
Expenditures:					
Water Treatment Plant Upgrade and Expansion	\$ 3,607,650	\$ 254,970	\$ 38,900	\$ 293,870	\$ 3,313,780
Total expenditures	<u>3,607,650</u>	<u>254,970</u>	<u>38,900</u>	<u>293,870</u>	<u>3,313,780</u>
Revenues over (under) expenditures	<u>(3,607,650)</u>	<u>(254,970)</u>	<u>(38,900)</u>	<u>(293,870)</u>	<u>3,313,780</u>
Other Financing Sources (Uses):					
Transfer from other funds	28,900	-	-	-	(28,900)
Clean Water State Revolving Fund loan	3,578,750	-	-	-	(3,578,750)
Total other financing sources (uses)	<u>3,607,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,607,650)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (254,970)</u>	<u>\$ (38,900)</u>	<u>\$ (293,870)</u>	<u>\$ (293,870)</u>

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2017

Fiscal Year	Uncollected Balance July 1, 2016	Additions	Collections and Credits	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 1,963,488	\$ 1,901,217	\$ 62,271
2015-2016	47,175	-	31,204	15,971
2014-2015	16,620	-	5,469	11,151
2013-2014	12,389	-	4,561	7,828
2012-2013	8,879	-	2,478	6,401
2011-2012	6,776	-	2,258	4,518
2010-2011	5,447	-	877	4,570
2009-2010	2,826	-	698	2,128
2008-2009	2,317	-	152	2,165
2007-2008	1,487	-	23	1,464
2006-2007	1,343	-	1,343	-
Total	<u>\$ 105,259</u>	<u>\$ 1,963,488</u>	<u>\$ 1,950,280</u>	118,467
Less: Allowance for uncollectible ad valorem taxes receivable				<u>52,000</u>
Ad valorem taxes receivable - net				<u>\$ 66,467</u>
Reconciliation with Revenues:				
Taxes - ad valorem				\$ 1,932,808
Releases, refunds, and other adjustments				3,111
Amounts written off for tax years per Statute of Limitations				1,343
Interest collected				<u>13,018</u>
Total collections and credits				<u>\$ 1,950,280</u>

TOWN OF FRANKLIN, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2017

	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	\$ 705,795,357	\$ 0.28	\$ 1,976,227	\$ 1,856,045	\$ 120,182
Discoveries	17,648,571	0.28	49,416	49,416	-
Releases	(22,198,214)	0.28	(62,155)	(62,155)	-
Total property valuation	<u>\$ 701,245,714</u>				
Net Levy			1,963,488	1,843,306	120,182
Uncollected taxes as of June 30, 2017			62,271	62,271	-
Current Year's Taxes Collected			<u>\$ 1,901,217</u>	<u>\$ 1,781,035</u>	<u>\$ 120,182</u>
Current Levy Collection Percentage			<u>96.83%</u>	<u>96.62%</u>	<u>100.00%</u>

TOWN OF FRANKLIN, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
FRANKLIN TOURISM DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2017

	<u>Authority</u>
Assets:	
Cash and cash equivalents	\$ 175,320
Accounts receivable	<u>12,131</u>
Total assets	<u>\$ 187,451</u>
Liabilities:	
Liabilities:	
Accounts payable and accrued liabilities	<u>\$ 7,710</u>
Fund Balance:	
Restricted for:	
Stabilization by State statute	12,131
Tourism	<u>167,610</u>
Total fund balance	<u>179,741</u>
Total liabilities and fund balance	<u>\$ 187,451</u>
Reconciliation of total fund balance shown above to Statement of Net Position (Exhibit A):	
Fund balance, modified accrual basis (above)	<u>\$ 179,741</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Occupancy tax revenues	\$ 105,264	\$ 133,823	\$ 28,559
Interest	-	658	658
Refunds	-	53	53
Total revenues	<u>105,264</u>	<u>134,534</u>	<u>29,270</u>
Expenditures:			
Operating:			
Professional services	<u>133,548</u>	<u>133,548</u>	-
Total expenditures	<u>133,548</u>	<u>133,548</u>	-
Revenues over (under) expenditures	<u>(28,284)</u>	<u>986</u>	<u>29,270</u>
Other Financing Sources (Uses):			
Fund balance appropriated	<u>28,284</u>	-	<u>(28,284)</u>
Total other financing sources (uses)	<u>28,284</u>	-	<u>(28,284)</u>
Net change in fund balance	<u>\$ -</u>	<u>986</u>	<u>\$ 986</u>
Fund Balance:			
Beginning of year - July 1		<u>178,755</u>	
End of year - June 30		<u>\$ 179,741</u>	

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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
Board of Aldermen
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, and each major fund of the Town of Franklin, North Carolina, as of and for the year ended June 30, 2017, 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 13, 2017. 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. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Franklin ABC Board were not audited in accordance with *Government Auditing Standards*.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-002 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Franklin's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Franklin's Responses to Findings

The Town of Franklin's responses to the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Town's responses were not subject to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

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 result 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 13, 2017

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

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

Non-compliance material to financial statements noted?

_____ Yes X No

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

Findings Related to the Audit of the Basic Financial Statements

Significant Deficiency

Finding 2017-001

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules. Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board requires a level of technical expertise not possessed by Town personnel with regards to drafting full accrual, full disclosure year-end financial statements.

Effect: Errors in financial reporting could occur.

Cause: There are limited resources as it relates to the preparation of full accrual, full disclosure year-end financial statements.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2016-001.

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears cost prohibitive. Therefore, the Town should exercise due care in overseeing drafting services and reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

Corrective Action/Management Response: The Town agrees with this finding and will adhere to the Corrective Action Plan on page 81 of this report.

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

Findings Related to the Audit of the Basic Financial Statements

Material Weakness

Finding 2017-002

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: During the fiscal year ended June 30, 2017, the Town determined that certain capital assets were not properly added in the year of acquisition. Beginning capital asset balances and related net position balances have been adjusted for that reporting error for governmental activities and business-type activities.

Effect: For the statements affected, the prior year financial statements were misstated.

Cause: Incomplete capital asset listings for prior year.

Recommendation: Additional review of capital asset listing should be completed annually by department heads, finance officer, and town manager for accuracy and completeness to prevent prior period adjustments in the future.

Corrective Action/Management Response: The Town agrees with this finding and will adhere to the Corrective Action Plan on page 81 of this report.

TOWN OF FRANKLIN



Post Office Box 1479
Franklin, North Carolina 28744
(828) 524-2516

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2017

Significant Deficiency

Finding 2017-001:

Name of Contact Person: Summer Woodard

Corrective Action: Management has evaluated the cost benefit and has chosen to engage the external auditor to perform this function. The Town exercises due care in reviewing the financial statements drafted by the external auditor and reconciles the statements to the Town's financial records. The Town is responsible for the accuracy of the audited financial statements.

Proposed Completion Date: Immediately.

Material Weakness

Finding 2017-002:

Name of Contact Person: Summer Woodard

Corrective Action: Management is aware of the prior year adjustment and will continue to work with staff implementing procedures to prevent future adjustments.

Proposed Completion Date: Immediately.

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

Finding 2016-001

Status: Repeated as Finding 2017-001. Management has evaluated the cost benefit and has chosen to engage the external auditor to perform this function.

Corrective Action: Management is aware of the weakness but, due to the cost benefit analysis, they will continue to rely on the external auditor to draft the year-end financial statements. The Town will exercise due care in reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

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