

**TOWN OF FRANKLIN
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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TOWN OF FRANKLIN, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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MARTIN STARNES & ASSOCIATES, CPAs, P.A.

“A Professional Association of Certified Public Accountants and Management Consultants”

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Town Council
Franklin, North Carolina

Report On the 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, 2018, 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, 72% 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, 2018, 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 F to the financial statements, for fiscal year ended June 30, 2018, the Town adopted new accounting guidance, Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. 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' Schedule of Changes in the Total OPEB Liability and Related Ratios, 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 31, 2018 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 31, 2018

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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, 2018. 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

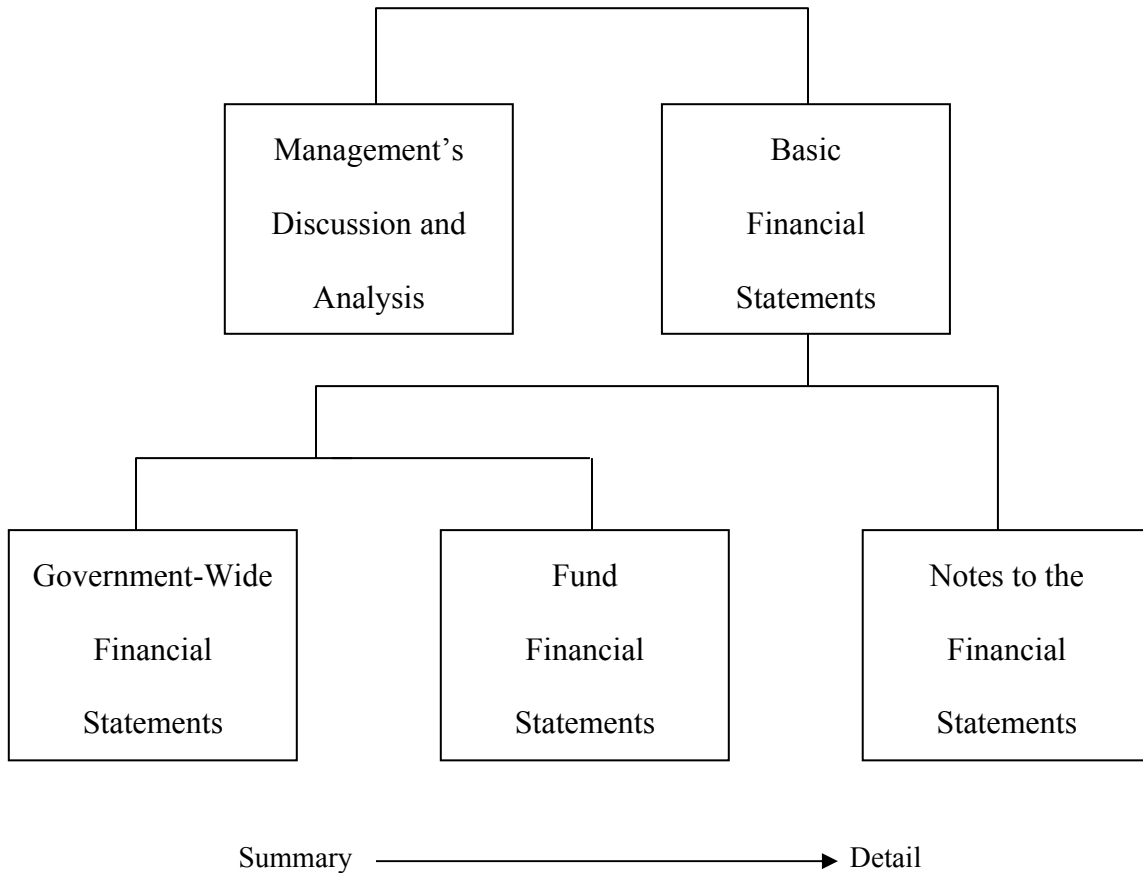
- The assets and deferred outflows of the Town of Franklin exceeded its liabilities and deferred inflows at the close of the fiscal year by \$26,761,203 (*net position*).
- The government's total net position increased by \$922,555, due to an increase in governmental net position and an increase in business-type 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 \$3,023,892, an increase of \$189,447, in comparison with the prior year. Approximately 33.7 percent of this total amount, or \$1,019,792, is restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$2,645,548, or 63.1 percent, of total General Fund expenditures.
- The Town of Franklin's total debt decreased by \$292,300 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 Town Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Town Council; 2) the final budget as amended by the Town Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 24 of this report.

Other Information

In addition to the basic financial statements and the accompanying notes, this report includes certain required supplementary information concerning the Town of Franklin's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 61 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	
	2018	2017	2018	2017	2018	2017
Assets:						
Current and other assets	\$ 3,265,999	\$ 2,993,720	\$ 5,074,471	\$ 4,458,722	\$ 8,340,470	\$ 7,452,442
Capital assets	6,485,933	6,735,692	23,652,153	23,517,575	30,138,086	30,253,267
Total assets	<u>9,751,932</u>	<u>9,729,412</u>	<u>28,726,624</u>	<u>27,976,297</u>	<u>38,478,556</u>	<u>37,705,709</u>
Deferred Outflows of Resources	<u>409,485</u>	<u>475,523</u>	<u>185,465</u>	<u>269,823</u>	<u>594,950</u>	<u>745,346</u>
Liabilities:						
Long-term liabilities						
outstanding	3,496,092	3,241,115	8,287,014	8,067,552	11,783,106	11,308,667
Other liabilities	143,930	106,195	265,231	140,282	409,161	246,477
Total liabilities	<u>3,640,022</u>	<u>3,347,310</u>	<u>8,552,245</u>	<u>8,207,834</u>	<u>12,192,267</u>	<u>11,555,144</u>
Deferred Inflows of Resources	<u>82,666</u>	<u>40,425</u>	<u>37,370</u>	<u>12,968</u>	<u>120,036</u>	<u>53,393</u>
Net Position:						
Net investment in capital assets	5,463,107	5,473,498	16,278,006	16,090,496	21,741,113	21,563,994
Restricted	1,019,792	1,059,286	-	-	1,019,792	1,059,286
Unrestricted	(44,170)	284,416	4,044,468	3,934,822	4,000,298	4,219,238
Total net position	<u>\$ 6,438,729</u>	<u>\$ 6,817,200</u>	<u>\$ 20,322,474</u>	<u>\$ 20,025,318</u>	<u>\$ 26,761,203</u>	<u>\$ 26,842,518</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 \$26,761,203 as of June 30, 2018. The Town's net position increased by \$922,555 for the fiscal year ended June 30, 2018. However, the largest portion (81%) 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 \$1,019,792, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,000,298 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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 100,280	\$ 99,890	\$ 3,897,216	\$ 3,913,897	\$ 3,997,496	\$ 4,013,787
Operating grants	-	69,385	38,175	36,937	38,175	106,322
Capital grants	134,490	139,845	-	-	134,490	139,845
General revenues:						
Property taxes	1,957,359	1,954,034	-	-	1,957,359	1,954,034
Other taxes	1,437,850	1,294,339	-	-	1,437,850	1,294,339
Miscellaneous	759,179	736,443	-	-	759,179	736,443
Investment earnings	22,672	6,740	21,753	7,783	44,425	14,523
Total revenues	<u>4,411,830</u>	<u>4,300,676</u>	<u>3,957,144</u>	<u>3,958,617</u>	<u>8,368,974</u>	<u>8,259,293</u>
Expenses:						
General government	1,180,323	1,173,433	-	-	1,180,323	1,173,433
Public safety	2,332,539	2,396,634	-	-	2,332,539	2,396,634
Transportation	435,355	422,905	-	-	435,355	422,905
Planning and economic	187,649	175,605	-	-	187,649	175,605
Interest on long-term debt	16,576	75,525	-	-	16,576	75,525
Water and sewer	-	-	3,293,977	3,206,151	3,293,977	3,206,151
Total expenses	<u>4,152,442</u>	<u>4,244,102</u>	<u>3,293,977</u>	<u>3,206,151</u>	<u>7,446,419</u>	<u>7,450,253</u>
Change in net position	<u>259,388</u>	<u>56,574</u>	<u>663,167</u>	<u>752,466</u>	<u>922,555</u>	<u>809,040</u>
Net Position:						
Beginning of year - July 1	6,817,200	6,748,445	20,025,318	19,088,352	26,842,518	25,836,797
Restatement	(637,859)	12,181	(366,011)	184,500	(1,003,870)	196,681
Beginning of year - July 1, as restated	<u>6,179,341</u>	<u>6,760,626</u>	<u>19,659,307</u>	<u>19,272,852</u>	<u>25,838,648</u>	<u>26,033,478</u>
End of year - June 30	<u>\$ 6,438,729</u>	<u>\$ 6,817,200</u>	<u>\$ 20,322,474</u>	<u>\$ 20,025,318</u>	<u>\$ 26,761,203</u>	<u>\$ 26,842,518</u>

Governmental Activities. Governmental activities increased the Town's net position by \$259,388.

Key elements of this increase are as follows:

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

Business-Type Activities. Business-type activities increased the Town of Franklin's net position by \$663,167. Key elements of this increase are as follows:

- Water rate increase of four percent during the current 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 \$2,645,548, while total fund balance reached \$3,023,892. The Town currently has an available fund balance of 63% of General Fund expenditures, while total fund balance represents 72% of General Fund expenditures.

At June 30, 2018, the General Fund of the Town of Franklin reported an increase in fund balance of 6.68 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 \$4,044,468. The total increase in net position for the Fund was \$663,167. 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, 2018 totals \$30,138,086 (net of accumulated depreciation). These assets include land, construction in progress, buildings, improvements, equipment, furnishings and fixtures, vehicles, infrastructure, and water and sewer distribution systems.

**Town of Franklin's Capital Assets
(net of depreciation)**

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 3,155,326	\$ 3,155,326	\$ 1,025,550	\$ 1,025,550	\$ 4,180,876	\$ 4,180,876
Construction in progress	-	-	865,428	293,870	865,428	293,870
Infrastructure	394,160	387,589	-	-	394,160	387,589
Buildings	2,118,554	2,176,342	1,223,065	1,253,423	3,341,619	3,429,765
Improvements to facilities	48,946	54,541	24,767	27,395	73,713	81,936
Vehicles	466,272	590,792	80,133	77,390	546,405	668,182
Equipment and furniture	302,675	371,102	149,368	117,352	452,043	488,454
Water and sewer distribution systems	-	-	20,283,842	20,722,595	20,283,842	20,722,595
Total	<u>\$ 6,485,933</u>	<u>\$ 6,735,692</u>	<u>\$ 23,652,153</u>	<u>\$ 23,517,575</u>	<u>\$ 30,138,086</u>	<u>\$ 30,253,267</u>

Additional information on the Town's capital assets can be found in Note 3A of the basic financial statements.

Long-Term Debt. As of June 30, 2018, the Town of Franklin had no bonded debt outstanding.

Capital Leases and Other Long-Term Liabilities

Figure 5

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Capital leases	\$ 85,118	\$ 125,146	-	-	\$ 85,118	\$ 125,146
Installment purchases and notes payable	937,708	1,137,048	7,374,147	7,427,079	8,311,855	8,564,127
Total OPEB Liability	1,051,936	1,036,938	622,554	613,948	1,674,490	1,650,886
Net pension liability (LGERS)	391,338	528,677	229,834	310,494	621,172	839,171
Total pension liability (LEOSSA)	908,912	818,775	-	-	908,912	818,775
Compensated absences	121,080	232,390	60,479	82,042	181,559	314,432
Total	<u>\$ 3,496,092</u>	<u>\$ 3,878,974</u>	<u>\$ 8,287,014</u>	<u>\$ 8,433,563</u>	<u>\$ 11,783,106</u>	<u>\$ 12,312,537</u>

Town of Franklin's Outstanding Debt

The Town of Franklin's total debt decreased by \$292,300 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 \$55,274,031.

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 for the Town economy.

Budget Highlights for the Year Ending June 30, 2019

Governmental Activities. The General Fund budget was increased by \$113,517. There was a 4 cent tax increase this fiscal year.

Budgeted expenditures have been maintained at levels consistent with the fiscal year 2017-2018 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.

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 be completed by January 2019.

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, 2018

	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	\$ 2,151,030	\$ 4,400,214	\$ 6,551,244	\$ 171,964	\$ 174,363
Certificate of deposit	-	-	-	42,720	-
Receivables, net:					
Taxes	95,177	-	95,177	-	-
Accounts	245,644	525,310	770,954	-	12,695
Due from other governments	132,700	-	132,700	-	-
Inventories	-	110,957	110,957	289,309	-
Prepaid expenses	-	-	-	4,736	-
Restricted assets - cash and cash equivalents	641,448	37,990	679,438	-	-
Total current assets	3,265,999	5,074,471	8,340,470	508,729	187,058
Capital assets:					
Land and construction in progress	3,155,326	1,890,978	5,046,304	-	-
Other capital assets, net of depreciation	3,330,607	21,761,175	25,091,782	8,194	-
Total other assets	6,485,933	23,652,153	30,138,086	8,194	-
Total assets	9,751,932	28,726,624	38,478,556	516,923	187,058
Deferred Outflows of Resources:					
OPEB deferrals	30,343	3,871	34,214	-	-
Pension deferrals	379,142	181,594	560,736	-	-
Total deferred outflows of resources	409,485	185,465	594,950	-	-
Liabilities:					
Current liabilities:					
Accounts payable	10,619	133,302	143,921	27,615	10
Accrued liabilities	129,997	75,834	205,831	-	-
Accrued interest	3,314	18,105	21,419	-	-
Liabilities payable from restricted assets:					
Customer deposits	-	37,990	37,990	-	-
Total current liabilities	143,930	265,231	409,161	27,615	10
Long-term liabilities:					
Net pension liability - LGRS	391,338	229,834	621,172	-	-
Total pension liability - LEOSSA	908,912	-	908,912	-	-
Total OPEB liability	1,051,936	622,554	1,674,490	-	-
Due within one year	307,453	729,478	1,036,931	-	-
Due in more than one year	836,453	6,705,148	7,541,601	-	-
Total long-term liabilities	3,496,092	8,287,014	11,783,106	-	-
Total liabilities	3,640,022	8,552,245	12,192,267	27,615	10
Deferred Inflows of Resources:					
Prepaid taxes	6,314	-	6,314	-	-
OPEB deferrals	51,435	29,514	80,949	-	-
Pension deferrals	24,917	7,856	32,773	-	-
Total deferred inflows of resources	82,666	37,370	120,036	-	-
Net Position:					
Net investment in capital assets	5,463,107	16,278,006	21,741,113	8,194	-
Restricted for:					
Stabilization by State statute	378,344	-	378,344	-	12,695
Streets	624,887	-	624,887	-	-
Public safety	16,561	-	16,561	-	-
Other purposes	-	-	-	82,750	174,353
Unrestricted	(44,170)	4,044,468	4,000,298	398,364	-
Total net position	\$ 6,438,729	\$ 20,322,474	\$ 26,761,203	\$ 489,308	\$ 187,048

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, 2018

	<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	\$ 1,180,323	\$ 94,533	\$ -	\$ 391
Public safety	2,332,539	5,747	-	4,019
Transportation	435,355	-	-	130,080
Planning and economic	187,649	-	-	-
Interest on long-term debt	16,576	-	-	-
Total governmental activities	<u>4,152,442</u>	<u>100,280</u>	<u>-</u>	<u>134,490</u>
Business-Type Activities:				
Water and sewer	<u>3,293,977</u>	<u>3,897,216</u>	<u>38,175</u>	<u>-</u>
Total business-type activities	<u>3,293,977</u>	<u>3,897,216</u>	<u>38,175</u>	<u>-</u>
Total primary government	<u>\$ 7,446,419</u>	<u>\$ 3,997,496</u>	<u>\$ 38,175</u>	<u>\$ 134,490</u>
Component Units:				
ABC Board	\$ 2,811,544	\$ 2,812,251	\$ -	\$ -
Tourism Development Authority	<u>137,413</u>	<u>142,884</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 2,948,957</u>	<u>\$ 2,955,135</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, 2018

	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	\$ (1,085,399)	\$ -	\$ (1,085,399)	\$ -	\$ -
Public safety	(2,322,773)	-	(2,322,773)	-	-
Transportation	(305,275)	-	(305,275)	-	-
Planning and economic	(187,649)	-	(187,649)	-	-
Interest on long-term debt	(16,576)	-	(16,576)	-	-
Total governmental activities	<u>(3,917,672)</u>	<u>-</u>	<u>(3,917,672)</u>	<u>-</u>	<u>-</u>
Business-Type Activities:					
Water and sewer	-	641,414	641,414	-	-
Total business-type activities	<u>-</u>	<u>641,414</u>	<u>641,414</u>	<u>-</u>	<u>-</u>
Total primary government	<u>(3,917,672)</u>	<u>641,414</u>	<u>(3,276,258)</u>	<u>-</u>	<u>-</u>
Component Units:					
ABC Board				707	-
Tourism Development Authority				-	5,471
Total component units				<u>707</u>	<u>5,471</u>
General Revenues:					
Taxes:					
Property taxes, levied for					
general purposes	1,957,359	-	1,957,359	-	-
Other taxes and licenses	1,437,850	-	1,437,850	-	-
Local option sales tax	759,179	-	759,179	-	-
Investment earnings, unrestricted	22,672	21,753	44,425	623	1,836
Total general revenues	<u>4,177,060</u>	<u>21,753</u>	<u>4,198,813</u>	<u>623</u>	<u>1,836</u>
Change in net position	<u>259,388</u>	<u>663,167</u>	<u>922,555</u>	<u>1,330</u>	<u>7,307</u>
Net Position:					
Beginning of year - July 1	6,817,200	20,025,318	26,842,518	487,978	179,741
Restatement	(637,859)	(366,011)	(1,003,870)	-	-
Beginning of year - July 1, as restated	<u>6,179,341</u>	<u>19,659,307</u>	<u>25,838,648</u>	<u>487,978</u>	<u>179,741</u>
End of year - June 30	<u>\$ 6,438,729</u>	<u>\$ 20,322,474</u>	<u>\$ 26,761,203</u>	<u>\$ 489,308</u>	<u>\$ 187,048</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2018

	General Fund
Assets:	
Cash and cash equivalents	\$ 2,151,030
Receivables, net:	
Taxes	95,177
Accounts	245,644
Due from other governments	132,700
Restricted assets - cash and cash equivalents	641,448
Total assets	<u>\$ 3,265,999</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:	
Liabilities:	
Accounts payable	\$ 10,619
Accrued liabilities	129,997
Total liabilities	<u>140,616</u>
Deferred Inflows of Resources:	
Prepaid taxes	6,314
Property taxes receivables	95,177
Total deferred inflows of resources	<u>101,491</u>
Fund Balance:	
Restricted:	
Stabilization by state statute	378,344
Restricted for streets	624,887
Restricted for public safety	16,561
Assigned	456,000
Unassigned	1,548,100
Total fund balance	<u>3,023,892</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 3,265,999</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2018

**General
Fund**

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

Total fund balance	\$	3,023,892
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.		6,485,933
Deferred inflows of resources related to pensions are not reported in the funds.		(24,917)
Deferred inflows of resources related to OPEB are not reported in the funds.		(51,435)
Deferred outflows of resources related to pensions are not reported in the funds.		379,142
Deferred outflows of resources related to OPEB are not reported in the funds.		30,343
Other long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(3,375,012)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(121,080)
Liabilities for earned revenues considered deferred inflows of resources in fund statements		95,177
Other long-term liabilities (accrued interest) are not due and payable in the funds.		<u>(3,314)</u>
Net position of governmental activities	\$	<u>6,438,729</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, 2018**

	General Fund
	<u> </u>
Revenues:	
Ad valorem taxes	\$ 1,928,649
Other taxes and licenses	861,768
Unrestricted intergovernmental revenues	1,335,261
Restricted intergovernmental revenues	134,490
Permits and fees	5,747
Investment earnings	22,672
Miscellaneous	93,761
Total revenues	<u>4,382,348</u>
Expenditures:	
Current:	
General government	1,106,957
Public safety	2,161,140
Transportation	468,107
Planning and economic development	188,032
Debt service:	
Principal	239,368
Interest	30,069
Total expenditures	<u>4,193,673</u>
Revenues over (under) expenditures	188,675
Other Financing Sources (Uses):	
Sale of capital assets	<u>772</u>
Net change in fund balance	189,447
Fund Balance:	
Beginning of year - July 1	<u>2,834,445</u>
End of year - June 30	<u>\$ 3,023,892</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, 2018

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)	\$ 189,447
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.	28,710
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.	239,368
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	111,310
Pension expense - LGERS	(4,186)
Pension expense - LEO	(32,905)
OPEB plan expense	(36,090)
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.	119,479
Other long-term liabilities (accrued interest) are not due and payable in the funds.	13,493
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>(369,238)</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 259,388</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, 2018

	Budgeted Amounts		Actual	Variance Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 1,924,476	\$ 1,924,476	\$ 1,928,649	\$ 4,173
Other taxes and licenses	838,450	838,450	861,768	23,318
Unrestricted intergovernmental revenues	1,180,000	1,194,350	1,335,261	140,911
Restricted intergovernmental revenues	130,000	134,019	134,490	471
Permits and fees	3,500	3,500	5,747	2,247
Investment earnings	1,500	1,500	22,672	21,172
Miscellaneous	41,632	71,030	93,761	22,731
Total revenues	<u>4,119,558</u>	<u>4,167,325</u>	<u>4,382,348</u>	<u>215,023</u>
Expenditures:				
General government	1,211,023	1,273,272	1,106,957	166,315
Public safety	2,281,788	2,304,899	2,161,140	143,759
Transportation	759,089	771,076	468,107	302,969
Planning and economic development	187,715	196,422	188,032	8,390
Debt service:				
Principal	239,301	239,371	239,368	3
Interest and fees	30,142	30,072	30,069	3
Contingency	64,500	20,700	-	20,700
Total expenditures	<u>4,773,558</u>	<u>4,835,812</u>	<u>4,193,673</u>	<u>642,139</u>
Revenues over (under) expenditures	<u>(654,000)</u>	<u>(668,487)</u>	<u>188,675</u>	<u>857,162</u>
Other Financing Sources (Uses)				
Sale of capital assets	500	500	772	272
Transfers in	84,500	84,500	-	(84,500)
Appropriated fund balance	569,000	583,487	-	(583,487)
Total other financing sources (uses)	<u>654,000</u>	<u>668,487</u>	<u>772</u>	<u>(667,715)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>189,447</u>	<u>\$ 189,447</u>
Fund Balance:				
Beginning of year - July 1			<u>2,834,445</u>	
End of year - June 30			<u>\$ 3,023,892</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, 2018

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 4,400,214
Accounts receivable, net	525,310
Inventory	110,957
Restricted assets - cash and cash equivalents	<u>37,990</u>
Total current assets	<u>5,074,471</u>
Non-current assets:	
Capital assets:	
Land	1,025,550
Construction in progress	865,428
Other capital assets, net	<u>21,761,175</u>
Total capital assets	<u>23,652,153</u>
Total assets	<u>28,726,624</u>
Deferred Outflows of Resources:	
OPEB deferrals	3,871
Pension deferrals	<u>181,594</u>
Total deferred outflows of resources	<u>185,465</u>
Liabilities:	
Current liabilities:	
Accounts payable	133,302
Accrued liabilities	75,834
Accrued interest	18,105
Liabilities payable from restricted assets:	
Customer deposits	37,990
Current portion of notes payable	699,238
Current portion of compensated absences payable	<u>30,240</u>
Total current liabilities	<u>994,709</u>
Non-current liabilities:	
Notes payable	6,674,909
Net pension liability	229,834
Total OPEB liability	622,554
Compensated absences payable	<u>30,239</u>
Total non-current liabilities	<u>7,557,536</u>
Total liabilities	<u>8,552,245</u>
Deferred Inflows of Resources:	
OPEB deferrals	29,514
Pension deferrals	<u>7,856</u>
Total deferred outflows of resources	<u>37,370</u>
Net Position:	
Net investment in capital assets	16,278,006
Unrestricted	<u>4,044,468</u>
Total net position	<u>\$ 20,322,474</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, 2018

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ <u>3,851,470</u>
Operating Expenses:	
Water/sewer operations	2,425,446
Depreciation	<u>668,805</u>
Total operating expenses	<u>3,094,251</u>
Operating income (loss)	<u>757,219</u>
Non-Operating Revenues (Expenses):	
Investment earnings	21,753
Interest expense	(199,726)
Macon County appropriations	38,175
Other revenues	<u>45,746</u>
Total non-operating revenues (expenses)	<u>(94,052)</u>
Change in net position	<u>663,167</u>
Net Position:	
Beginning of year - July 1	20,025,318
Restatement	<u>(366,011)</u>
Beginning of year - July 1, as restated	<u>19,659,307</u>
End of year - June 30	<u>\$ 20,322,474</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, 2018

	Water and Sewer Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 3,762,357
Customer deposits received	1,503
Cash paid for goods and services	(839,277)
Cash paid to employees	(1,422,537)
Net cash provided (used) by operating activities	<u>1,502,046</u>
Cash Flows from Non-Capital Financing Activities:	
Macon County appropriations	38,175
Other revenues	45,746
Net cash provided (used) by non-capital financing activities	<u>83,921</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(803,383)
Proceeds from installment loan	605,382
Debt principal	(658,314)
Debt interest	(223,190)
Net cash provided (used) by capital and related financing activities	<u>(1,079,505)</u>
Cash Flows from Investing Activities:	
Interest received	<u>21,753</u>
Net increase (decrease) in cash, cash equivalents, and investments	528,215
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>3,909,989</u>
End of year - June 30	<u>\$ 4,438,204</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 757,219
Depreciation	668,805
Changes in assets and liabilities:	
Accounts receivables	(89,113)
Inventories	1,579
Accounts payable	146,910
Customer deposits	1,503
OPEB liability	8,606
Pension liability	(80,660)
Deferred outflows of resources for pension	88,229
Deferred inflows of resources for pension	(5,112)
Deferred outflows of resources for OPEB	(3,871)
Deferred inflows of resources for OPEB	29,514
Accrued vacation	<u>(21,563)</u>
Net cash provided (used) by operating activities	<u>\$ 1,502,046</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, 2018

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Component Unit – Town of Franklin ABC Board

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

Component Unit – Town of Franklin Tourism Development Authority

The members of the TDA's governing board are appointed by the Town. The TDA, which provides a financial benefit to the Town, was established to receive the proceeds of the room occupancy tax levied pursuant to Session Law SL 2004-105. The TDA is authorized to spend these proceeds to promote travel and tourism. The TDA Board, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). The TDA 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, 2018

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, general government, transportation, and planning and economic 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, 2018

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, 2018

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 council and the Town Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

During the year several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1, of the fiscal year or the governing council 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, 2018

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

- a) The Finance Officer may transfer amounts between objects of expenditure within a department.
- b) The Town Manager may transfer amounts between departments, as defined above, with a subsequent report to the Town Council, recorded in the minutes.
- c) The funding for approved reclassifications may be transferred from the budgeted reserve with the approval of the Town Manager.
- d) No revenues may be increased, no funds may be transferred from the Contingency account in the General Fund or capital projects funds, and no transfers may be made between funds unless formal action is taken by the Town Council.

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

Deposits and Investments

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

State law [G.S. 159-30(c)] 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, a SEC-registered (2a-7) government money market fund, 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, 2018

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, 2018 consists of the following:

Governmental Activities:

General Fund:

Law enforcement funds	\$ 16,561
Powell Bill	<u>624,887</u>
Total governmental activities	<u>641,448</u>

Business-Type Activities:

Water and Sewer Fund:

Customer deposits	<u>37,990</u>
Total business-type activities	<u>37,990</u>

Total restricted cash	<u>\$ 679,438</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, 2017. 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, 2018

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, 2018

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 criteria for this category, pension and OPEB related deferrals.

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type fund Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable 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, 2018

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, 2018

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 Town Council). Any changes or removal of specific purpose restrictions requires majority action by the governing body. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance

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

Subsequent Year's Expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the Manager and Finance Officer to make certain modifications without requiring Council approval. At June 30, 2018, the Town had \$456,000 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, 2018

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	\$ 3,023,892
Less:	
Stabilization by state statute	<u>378,344</u>
Total available fund balance	<u>\$ 2,645,548</u>

Defined Benefit Cost-Sharing Plans

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

Interfund Transactions

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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. Stewardship, Compliance, and Accountability

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2018, the expenditures made in the Town's discretely presented component unit, the Franklin Tourism Development Authority, exceeded the authorized appropriations made by the governing board for general government activities by \$3,413.

3. 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 under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

At June 30, 2018, the Town's deposits had a carrying amount of \$3,725,401 and a bank balance of \$3,906,259. Of the bank balance, \$459,747 was covered by federal depository insurance and \$3,446,512 was covered by collateral held under the Pooling Method. The Town also had cash on hand of \$600 at June 30, 2018. The Town of Franklin ABC Board's deposits had a carrying amount of \$214,684 and a bank balance of \$397,205. The Town of Franklin Tourism Development Authority's deposits had a carrying amount of \$21,949 and a bank balance of \$21,949. All of the bank balances were covered by federal depository insurance.

Investments

At June 30, 2018, the Town had \$3,504,681 and the TDA had \$152,414 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAm by Standard and Poor's, and is measured at amortized cost. 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, 2018</u>
General Fund:	
Taxes receivable	\$ 59,483
Water and Sewer Fund:	
Accounts receivable	\$ 258,419

Due from Other Governments

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

<u>Fund</u>	<u>June 30, 2018</u>
General Fund:	
Sales tax receivable	\$ 21,292
Franchise tax receivable	111,408
Total	\$ 132,700

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Capital Assets

Governmental Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 3,155,326	\$ -	\$ -	\$ 3,155,326
Total non-depreciable capital assets	3,155,326	-	-	3,155,326
Depreciable Capital Assets:				
Buildings	2,978,151	-	-	2,978,151
Improvements to facilities	282,177	-	-	282,177
Computer equipment	235,550	11,742	-	247,292
Equipment	748,287	32,987	-	781,274
Furniture and fixtures	156,076	-	-	156,076
Vehicles	3,163,875	34,250	23,902	3,174,223
Infrastructure	2,081,695	40,500	-	2,122,195
Total depreciable capital assets	9,645,811	119,479	23,902	9,741,388
Less Accumulated Depreciation:				
Buildings	801,809	57,788	-	859,597
Improvements to facilities	227,636	5,595	-	233,231
Computer equipment	95,024	64,906	-	159,930
Equipment	543,211	33,679	-	576,890
Furniture and fixtures	130,576	14,571	-	145,147
Vehicles	2,573,083	158,770	23,902	2,707,951
Infrastructure	1,694,106	33,929	-	1,728,035
Total accumulated depreciation	6,065,445	\$ 369,238	\$ 23,902	6,410,781
Total depreciable capital assets, net	3,580,366			3,330,607
Governmental activities capital assets, net	\$ 6,735,692			\$ 6,485,933

Depreciation was charged to governmental functions as follows:

General government	\$ 100,331
Public safety	222,894
Transportation	46,013
Total depreciation expense	\$ 369,238

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2018 was as follows:

	Balance	Increases	Decreases	Transfers	Balance
	July 1, 2017				June 30, 2018
Business-Type Activities:					
Non-Depreciable Capital Assets:					
Land	\$ 1,025,550	\$ -	\$ -	\$ -	\$ 1,025,550
Construction in progress	293,870	571,558	-	-	865,428
Total non-depreciable capital assets	1,319,420	571,558	-	-	1,890,978
Depreciable Capital Assets:					
Buildings	1,310,387	-	-	-	1,310,387
Improvement to facilities	133,469	-	-	-	133,469
Equipment	853,225	56,150	-	-	909,375
Vehicles	400,133	24,869	-	-	425,002
Water and sewer distribution systems	30,173,669	150,806	-	-	30,324,475
Total depreciable capital assets	32,870,883	231,825	-	-	33,102,708
Less Accumulated Depreciation:					
Buildings	56,964	30,358	-	-	87,322
Improvements to facilities	106,074	2,628	-	-	108,702
Equipment	735,873	24,134	-	-	760,007
Vehicles	322,743	22,126	-	-	344,869
Water and sewer distribution systems	9,451,074	589,559	-	-	10,040,633
Total accumulated depreciation	10,672,728	\$ 668,805	\$ -	\$ -	11,341,533
Total depreciable capital assets, net	22,198,155				21,761,175
Business-type activities capital assets, net	\$ 23,517,575				\$ 23,652,153

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2018 is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 6,485,933	\$ 23,652,153
Long-term debt related to capital assets	(1,022,826)	(7,374,147)
Net investment in capital assets	\$ 5,463,107	\$ 16,278,006

Component Unit

Capital assets of the ABC Board as of June 30, 2018, were as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
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	157,811	4,614	-	162,425
Leasehold improvements	190,773	929	-	191,702
Total accumulated depreciation	348,584	\$ 5,543	\$ -	354,127
Total depreciable capital assets, net	\$ 13,737			\$ 8,194

Construction Commitments

The government has active construction projects as of June 30, 2018. At year-end, the government's commitments with contractors are as follows:

	Spent-to-Date	Remaining Commitment
Water treatment plant upgrade and expansion	\$ 865,428	\$ 2,431,700
Total	\$ 865,428	\$ 2,431,700

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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, 2018

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, 2018 was 8.25% of compensation for law enforcement officers and 7.50% 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 \$206,822 for the year ended June 30, 2018.

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, 2018, the Town reported a liability of \$621,172 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, the Town's proportion was 0.04066%, which was an increase of 0.00112% from its proportion measured as of June 30, 2016.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

For the year ended June 30, 2018, the Town recognized pension expense of \$213,465. At June 30, 2018, 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	\$ 35,785	\$ 17,583
Changes of assumptions	88,712	-
Net difference between projected and actual earnings on pension plan investments	150,821	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	8,653	3,649
Town contributions subsequent to the measurement date	206,822	-
Total	\$ 490,793	\$ 21,232

\$206,822 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, 2019. 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
2019	\$ 34,244
2020	180,382
2021	92,583
2022	(44,470)
2023	-
Thereafter	-
Total	\$ 262,739

Actuarial Assumptions. The total pension liability in the December 31, 2016 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	7.20 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, 2018

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, 2016 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, 2017 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 2017 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, 2018

Discount Rate. The discount rate used to measure the total pension liability was 7.20%. 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 7.20%, 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 (6.20%) or one percentage point higher (8.20%) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Town's proportionate share of the net pension liability (asset)	<u>\$ 1,864,773</u>	<u>\$ 621,172</u>	<u>\$ (416,842)</u>

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. A separate report was not issued for the plan.

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, 2018

At December 31, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>17</u>
Total	<u><u>19</u></u>

Summary of Significant Accounting Policies

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

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

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increase	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20 Year High Grade Rate Index.

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, 2018

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 \$31,821 as benefits came due.

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

At June 30, 2018, the Town reported a total pension liability of \$908,912. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was rolled forward to December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$64,911.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,075	\$ -
Changes of assumptions	38,957	11,541
Town benefit payments and plan administrative expense made subsequent to the measurement date	<u>15,911</u>	<u>-</u>
Total	<u>\$ 69,943</u>	<u>\$ 11,541</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

\$15,911 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Total
2019	\$ 9,239
2020	9,239
2021	9,239
2022	11,238
2023	3,536
Thereafter	-
Total	<u>\$ 42,491</u>

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following presents the Town's total pension liability calculated using the discount rate of 3.16%, 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 (2.16%) or 1-percentage-point higher (4.16%) than the current rate:

	1% Decrease (2.16%)	Discount Rate (3.16%)	1% Increase (4.16%)
Total pension liability	<u>\$ 979,020</u>	<u>\$ 908,912</u>	<u>\$ 844,040</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

	<u>2018</u>
Beginning balance	<u>\$ 818,775</u>
Service cost	24,311
Interest on the total pension liability	30,991
Differences between expected and actual experience in the measurement of the total pension liability	18,597
Changes of assumptions or other inputs	48,059
Benefit payments	<u>(31,821)</u>
Net changes	<u>90,137</u>
Ending balance of the total pension liability	<u><u>\$ 908,912</u></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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 213,465	\$ 64,911	\$ 278,376
Pension Liability	621,172	908,912	1,530,084
Proportionate share of the net pension liability	0.04066%	n/a	-

Deferred of Outflows of Resources

Differences between expected and actual experience	\$ 35,785	\$ 15,075	\$ 50,860
Changes of assumptions	88,712	38,957	127,669
Net difference between projected and actual earnings on pension plan investments	150,821	-	150,821
Changes in proportion and differences between contributions and proportionate share of contributions	8,653	-	8,653
Benefit payments and administrative costs paid subsequent to the measurement date	206,822	15,911	222,733
	\$ 490,793	\$ 69,943	\$ 560,736

Deferred of Inflows of Resources

Differences between expected and actual experience	\$ 17,583	\$ -	\$ 17,583
Changes of assumptions	-	11,541	11,541
Changes in proportion and differences between contributions and proportionate share of contributions	3,649	-	3,649
	\$ 21,232	\$ 11,541	\$ 32,773

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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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. The Town made contributions of \$41,761 for the reporting year. No amounts were forfeited.

Defined Contribution 401(k) Plan

The Town sponsors a defined contribution 401(k) plan, in which the Town currently contributes 5% to each eligible employee. The Town's portion of contributions for the year ended June 30, 2018 was \$91,337. The employees' elected deferrals to the Plan were \$27,078 for the year ended June 30, 2018.

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 Town Council may amend the benefit provisions. A separate report was not issued for the Plan.

Membership of the healthcare plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Inactive members or beneficiaries currently receiving benefits	5
Active members	56
Total	<u>61</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Total OPEB Liability

The Town's total OPEB liability of \$1,674,490 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date. Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.50 to 7.75 percent, including wage inflation
Discount rate	3.56 percent
Health Care Cost Trends Pre-Medicare	7.50 percent for 2017 decreasing to an ultimate rate of 5.00% by 2023

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	<u>\$ 1,698,999</u>
Changes for the year:	
Service Cost	66,072
Interest	50,421
Differences between expected and actual experience	(6,572)
Changes of assumptions or other inputs	(86,317)
Benefit payments	<u>(48,113)</u>
Net changes	<u>(24,509)</u>
Balance at June 30, 2018	<u>\$ 1,674,490</u>

Changes in assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 3.01% to 3.56%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 - December 31, 2014, adopted by the LGERS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56 percent) or one percentage point higher (4.56 percent) than the current discount rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	\$ 1,835,109	\$ 1,674,490	\$ 1,529,655

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

	1% Decrease	Current	1% Increase
Total OPEB liability	\$ 1,499,857	\$ 1,674,490	\$ 1,878,422

TOWN OF FRANKLIN, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

For the year ended June 30, 2018, the Town recognized OPEB expense of \$104,553. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 5,727
Changes of assumptions		75,222
Benefit payments and plan administrative expense made subsequent to the measurement date	34,214	-
Total	\$ 34,214	\$ 80,949

\$34,214 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	Total
2019	\$ (11,940)
2020	(11,940)
2021	(11,940)
2022	(11,940)
2023	(11,940)
Thereafter	(21,249)
Total	\$ (80,949)

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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>
Benefit payments made and administration expenses for pension	\$ 222,733
Benefit payments made and administration expenses for OPEB	34,214
Differences between expected and actual experience - Pension	50,860
Changes of assumptions - Pension	127,669
Net difference between projected and actual experience - Pension	150,821
Changes in proportion and differences between employer contributions and proportionate share - Pension	8,653
	<u>\$ 594,950</u>

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

	<u>Amount</u>
Taxes receivable (General Fund)	\$ 95,177
Prepaid taxes	6,314
Changes in assumptions - Pension	11,541
Changes in assumptions - OPEB	75,222
Differences between expected and actual experience - Pension	17,583
Differences between expected and actual experience - OPEB	5,727
Changes in proportion and differences between employer contributions and proportionate share - Pension	3,649
	<u>\$ 215,213</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, destruction of assets, errors, omissions, injuries to employees, and natural disasters. The Town participates in risk-financing through 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 available within the Town limits since the Town participates in the National Flood Insurance Program. The Town has Commercial Property Insurance coverage on the utility property that is subject to flooding and also carried flood insurance on the police department 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.

Claims, Judgments, and Contingent Liabilities

At June 30, 2018, 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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, 2018, 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	\$ 168,953	\$ 98,555	\$ 70,398

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2018 were as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ 45,382
2020	45,382
Total minimum lease payments	90,764
Less: amount representing interest	5,646
Present value of the minimum lease payments	<u>\$ 85,118</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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 \$ 792,000

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% 145,708

Total General Fund \$ 937,708

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 \$ 1,408,000

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 1,467,902

\$605,382 note payable in annual installments of \$30,269, through May 2038; this loan was approved for \$3,297,128 in June 2012 and will increase based upon drawdowns during project finalization in fiscal year 2019 as the drinking water project is complete. 605,382

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 3,892,863

Total Water and Sewer Fund \$ 7,374,147

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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>
2019	\$ 201,531	\$ 20,634	\$ 699,238	\$ 202,828
2020	203,737	16,512	710,340	181,975
2021	131,400	12,342	721,911	160,607
2022	132,480	9,296	733,976	138,703
2023	133,560	6,225	746,558	116,596
2024-2028	135,000	3,129	2,161,811	-
2029-2033	-	-	1,448,965	-
2034-2038	-	-	151,347	-
Total	<u>\$ 937,708</u>	<u>\$ 68,138</u>	<u>\$ 7,374,147</u>	<u>\$ 800,709</u>

At June 30, 2018, the Town had a legal debt margin of \$55,274,031.

Changes in Long-Term Liabilities

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Current</u> <u>Portion</u>
Governmental Activities:					
Installment purchase	\$ 1,137,048	\$ -	\$ 199,340	\$ 937,708	\$ 201,531
Capital leases	125,146	-	40,028	85,118	45,382
Compensated absences	232,390	93,992	205,302	121,080	60,540
Total OPEB Liability	1,036,938	45,341	30,343	1,051,936	-
Net pension liability (LGERS)	528,677	-	137,339	391,338	-
Total pension liability (LEOSSA)	<u>818,775</u>	<u>90,137</u>	<u>-</u>	<u>908,912</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 3,878,974</u>	<u>\$ 229,470</u>	<u>\$ 612,352</u>	<u>\$ 3,496,092</u>	<u>\$ 307,453</u>
Business-Type Activities:					
Installment purchase and note payable	\$ 7,427,079	\$ 605,382	\$ 658,314	\$ 7,374,147	\$ 699,238
Total OPEB Liability	613,948	12,477	3,871	622,554	-
Net pension liability (LGERS)	310,494	-	80,660	229,834	-
Compensated absences	<u>82,042</u>	<u>48,920</u>	<u>70,483</u>	<u>60,479</u>	<u>30,240</u>
Business-type activities long-term liabilities	<u>\$ 8,433,563</u>	<u>\$ 666,779</u>	<u>\$ 813,328</u>	<u>\$ 8,287,014</u>	<u>\$ 729,478</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, 2018

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 \$14,350 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, 2018. 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, 2018. 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

F. Change In Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town related to OPEB during the measurement period (fiscal year ending June 30, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$637,859 and \$366,011 for the business-type activities.

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TOWN OF FRANKLIN, NORTH CAROLINA

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

Law Enforcement Officers' Special Separation Allowance

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 818,775	\$ 827,883
Service cost	24,311	24,957
Interest on the total pension liability	30,991	28,761
Differences between expected and actual experience in the measurement of the total pension liability	18,597	-
Changes of assumptions or other inputs	48,059	(18,311)
Benefit payments	<u>(31,821)</u>	<u>(44,515)</u>
Ending balance of the total pension liability	<u>\$ 908,912</u>	<u>\$ 818,775</u>

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST TWO FISCAL YEARS ***

Law Enforcement Officers' Special Separation Allowance

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 908,912	\$ 818,775
Covered payroll	843,148	818,843
Total pension liability as a percentage of covered payroll	107.80%	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.

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

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF CHANGES IN THE TOTAL OPEB
LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

Schedule of Changes in Total OPEB Liability and Related Ratios

	2018
Total OPEB Liability	
Service cost at end of year	\$ 66,072
Interest	50,421
Differences between expected and actual experience	(6,572)
Changes of assumptions or other inputs	(86,317)
Benefit payments and implicit subsidy credit	(48,113)
Net change in total OPEB liability	(24,509)
Total OPEB liability - beginning	1,698,999
Total OPEB liability - ending	\$ 1,674,490
Covered payroll	\$ 2,355,213
Total OPEB liability as a percentage of covered payroll	71.10%

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

Fiscal Year	Rate
2018	3.56%

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

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

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

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

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

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

 LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ 1,918,476	\$ 1,919,532	\$ 1,056
Penalties and interest	6,000	9,117	3,117
Total	<u>1,924,476</u>	<u>1,928,649</u>	<u>4,173</u>
Other Taxes and Licenses:			
Fire tax	818,450	835,834	17,384
Vehicle rental tax	20,000	25,934	5,934
Total	<u>838,450</u>	<u>861,768</u>	<u>23,318</u>
Unrestricted Intergovernmental Revenues:			
Local option sales tax	640,000	759,179	119,179
Utility franchise tax	450,000	469,712	19,712
Beer and wine tax	17,500	17,745	245
ABC profit distribution	70,000	70,000	-
On behalf of payments - Fire and Rescue	14,350	14,350	-
Occupancy tax	2,500	4,275	1,775
Total	<u>1,194,350</u>	<u>1,335,261</u>	<u>140,911</u>
Restricted Intergovernmental Revenues:			
Powell Bill allocation	125,000	130,080	5,080
Federal grant	4,019	4,019	-
Miscellaneous grants	5,000	391	(4,609)
Total	<u>134,019</u>	<u>134,490</u>	<u>471</u>
Permits and Fees:			
Zoning permits	2,500	4,339	1,839
Sign permits	1,000	1,408	408
Total	<u>3,500</u>	<u>5,747</u>	<u>2,247</u>
Investment Earnings	<u>1,500</u>	<u>22,672</u>	<u>21,172</u>
Miscellaneous	<u>71,030</u>	<u>93,761</u>	<u>22,731</u>
Total revenues	<u>4,167,325</u>	<u>4,382,348</u>	<u>215,023</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	32,500	32,403	97
Operating expenses	113,800	108,707	5,093
Professional services	<u>53,925</u>	<u>48,095</u>	<u>5,830</u>
Total	<u>200,225</u>	<u>189,205</u>	<u>11,020</u>
Administration:			
Salaries and employee benefits	282,810	237,113	45,697
Operating expenses	21,000	18,751	2,249
Professional services	<u>11,800</u>	<u>11,398</u>	<u>402</u>
Total	<u>315,610</u>	<u>267,262</u>	<u>48,348</u>
Finance:			
Salaries and employee benefits	162,580	121,477	41,103
Operating expenses	10,400	7,885	2,515
Professional services	<u>11,700</u>	<u>5,670</u>	<u>6,030</u>
Total	<u>184,680</u>	<u>135,032</u>	<u>49,648</u>
Billing:			
Salaries and employee benefits	59,866	39,366	20,500
Operating expenses	<u>11,165</u>	<u>4,954</u>	<u>6,211</u>
Total	<u>71,031</u>	<u>44,320</u>	<u>26,711</u>
Legal and Election:			
Operating expenses	12,460	12,355	105
Professional services	<u>90,340</u>	<u>75,942</u>	<u>14,398</u>
Total	<u>102,800</u>	<u>88,297</u>	<u>14,503</u>
Facilities:			
Salaries and employee benefits	108,586	106,765	1,821
Operating expenses	226,040	215,528	10,512
Professional services	<u>4,000</u>	<u>3,020</u>	<u>980</u>
Total	<u>338,626</u>	<u>325,313</u>	<u>13,313</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Information Technology:			
Operating expenses	28,380	26,029	2,351
Professional services	20,200	19,757	443
Capital outlay	<u>11,720</u>	<u>11,742</u>	<u>(22)</u>
Total	<u>60,300</u>	<u>57,528</u>	<u>2,772</u>
Total general government	<u>1,273,272</u>	<u>1,106,957</u>	<u>166,315</u>
Public Safety:			
Police:			
Salaries and employee benefits	1,304,063	1,258,239	45,824
Operating expenses	202,040	186,382	15,658
Capital outlay	<u>34,700</u>	<u>34,675</u>	<u>25</u>
Total	<u>1,540,803</u>	<u>1,479,296</u>	<u>61,507</u>
Fire:			
Salaries and employee benefits	530,038	511,120	18,918
Operating expenses	178,351	170,724	7,627
Capital outlay	<u>55,707</u>	<u>-</u>	<u>55,707</u>
Total	<u>764,096</u>	<u>681,844</u>	<u>82,252</u>
Total public safety	<u>2,304,899</u>	<u>2,161,140</u>	<u>143,759</u>
Transportation:			
Streets and Highways:			
Salaries and employee benefits	103,687	100,132	3,555
Operating expenses	342,205	280,019	62,186
Capital outlay	<u>310,697</u>	<u>73,487</u>	<u>237,210</u>
Total	<u>756,589</u>	<u>453,638</u>	<u>302,951</u>
Memorial Park			
Operating expenses	<u>14,487</u>	<u>14,469</u>	<u>18</u>
Total	<u>14,487</u>	<u>14,469</u>	<u>18</u>
Total transportation	<u>771,076</u>	<u>468,107</u>	<u>302,969</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Planning and Economic Development:			
Salaries and employee benefits	90,815	86,180	4,635
Operating expenses	6,000	5,587	413
Total	<u>96,815</u>	<u>91,767</u>	<u>5,048</u>
Festivals and Events:			
Operating expenses	81,007	80,777	230
Total	<u>81,007</u>	<u>80,777</u>	<u>230</u>
Traffic:			
Salaries and employee benefits	15,600	13,272	2,328
Operating expenses	3,000	2,216	784
Total	<u>18,600</u>	<u>15,488</u>	<u>3,112</u>
Total planning and economic development	<u>196,422</u>	<u>188,032</u>	<u>8,390</u>
Debt Service:			
Principal retirement	239,371	239,368	3
Interest and fees	30,072	30,069	3
Total debt service	<u>269,443</u>	<u>269,437</u>	<u>6</u>
Contingency	<u>20,700</u>	<u>-</u>	<u>20,700</u>
Total expenditures	<u>4,835,812</u>	<u>4,193,673</u>	<u>642,139</u>
Revenues over (under) expenditures	<u>(668,487)</u>	<u>188,675</u>	<u>(427,116)</u>
Other Financing Sources (Uses):			
Appropriated fund balance	583,487	-	583,487
Transfer in	84,500	-	84,500
Sale of capital assets	500	772	(272)
Total other financing sources (uses)	<u>668,487</u>	<u>772</u>	<u>667,715</u>
Net change in fund balance	<u>\$ -</u>	<u>189,447</u>	<u>\$ 189,447</u>
Fund Balance:			
Beginning of year - July 1		<u>2,834,445</u>	
End of year - June 30		<u>\$ 3,023,892</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 3,328,455	\$ 3,688,466	\$ 360,011
Water and sewer taps	25,000	32,088	7,088
Availability fees	12,000	8,600	(3,400)
Dumping fees	60,000	92,216	32,216
Reconnections	15,000	30,100	15,100
Total operating revenues	<u>3,440,455</u>	<u>3,851,470</u>	<u>411,015</u>
Non-Operating Revenues:			
Investment earnings	1,500	21,753	20,253
Macon County appropriations	38,000	38,175	175
Other revenues	9,511	45,746	36,235
Total non-operating revenues	<u>49,011</u>	<u>105,674</u>	<u>56,663</u>
Total revenues	<u>3,489,466</u>	<u>3,957,144</u>	<u>467,678</u>
Expenditures:			
Water and Sewer Operations:			
Salaries and employee benefits	1,567,921	1,437,680	130,241
Utilities	220,925	213,350	7,575
Supplies	320,200	279,412	40,788
Insurance and bonds	57,500	56,924	576
Professional services	134,256	108,036	26,220
Repairs and maintenance	228,261	199,246	29,015
Miscellaneous	163,104	115,655	47,449
Total water and sewer operations	<u>2,692,167</u>	<u>2,410,303</u>	<u>281,864</u>
Capital Outlay:			
Water extensions	171,300	163,046	8,254
Equipment	43,950	43,910	40
Vehicles	25,000	24,869	131
Total capital outlay	<u>240,250</u>	<u>231,825</u>	<u>8,425</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Debt Service:			
Principal retirement	658,315	658,314	1
Interest	223,190	223,190	-
Total debt service	<u>881,505</u>	<u>881,504</u>	<u>1</u>
Total expenditures	<u>3,813,922</u>	<u>3,523,632</u>	<u>290,290</u>
Revenues over (under) expenditures	<u>(324,456)</u>	<u>433,512</u>	<u>757,968</u>
Other Financing Sources (Uses):			
Appropriated fund balance	<u>324,456</u>	-	<u>(324,456)</u>
Total other financing sources (uses)	<u>324,456</u>	-	<u>(324,456)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 433,512</u>	<u>\$ 433,512</u>
Reconciliation from Modified Accrual Basis to Full Accrual Basis:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 433,512	
Reconciling items:			
Change in accrued vacation		21,563	
Capital outlay		231,825	
Payment of debt principal		658,314	
Net pension liability		80,660	
Deferred outflows of resources - pensions		(88,229)	
Deferred inflows of resources - pensions		5,112	
Change in accrued interest		23,464	
Increase in deferred outflows of resources - OPEB		3,871	
Change in OPEB liability		(8,606)	
(Increase) in deferred inflows of resources - OPEB		(29,514)	
Depreciation		<u>(668,805)</u>	
Change in net position		<u>\$ 663,167</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, 2018

	<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	\$ 3,297,128	\$ 293,870	\$ 571,558	\$ 865,428	\$ 2,431,700
Revenues over (under) expenditures	<u>(3,297,128)</u>	<u>(293,870)</u>	<u>(571,558)</u>	<u>(865,428)</u>	<u>2,431,700</u>
Other Financing Sources (Uses):					
Drinking Water State Revolving Fund loan	<u>3,297,128</u>	<u>-</u>	<u>605,382</u>	<u>605,382</u>	<u>(2,691,746)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (293,870)</u>	<u>\$ 33,824</u>	<u>\$ (260,046)</u>	<u>\$ (260,046)</u>

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2018

Fiscal Year	Uncollected Balance July 1, 2017	Additions	Collections and Credits	Uncollected Balance June 30, 2018
2017-2018	\$ -	\$ 1,970,390	\$ 1,888,230	\$ 82,160
2016-2017	62,271	-	35,977	26,294
2015-2016	15,971	-	4,393	11,578
2014-2015	11,151	-	1,859	9,292
2013-2014	7,828	-	1,026	6,802
2012-2013	6,401	-	1,021	5,380
2011-2012	4,518	-	38	4,480
2010-2011	4,570	-	36	4,534
2009-2010	2,128	-	29	2,099
2008-2009	2,165	-	124	2,041
2007-2008	1,464	-	1,464	-
Total	\$ 118,467	\$ 1,970,390	\$ 1,934,197	154,660
Less: Allowance for uncollectible ad valorem taxes receivable				59,483
Ad valorem taxes receivable - net				\$ 95,177
Reconciliation with Revenues:				
Taxes - ad valorem				\$ 1,928,649
Releases, refunds, and other adjustments				13,201
Amounts written off for tax years per statute of limitations				1,464
Interest collected				(9,117)
Total collections and credits				\$ 1,934,197

TOWN OF FRANKLIN, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2018

	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	\$690,005,714	\$ 0.28	\$ 1,932,016	\$ 1,808,203	\$ 123,813
Discoveries	<u>12,882,143</u>	0.28	<u>36,070</u>	<u>36,070</u>	<u>-</u>
Releases	<u>822,857</u>	0.28	<u>2,304</u>	<u>2,304</u>	<u>-</u>
Total property valuation	<u>\$703,710,714</u>				
Net Levy			1,970,390	1,846,577	123,813
Uncollected taxes as of June 30, 2018			<u>82,160</u>	<u>82,160</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 1,888,230</u>	<u>\$ 1,764,417</u>	<u>\$ 123,813</u>
Current Levy Collection Percentage			<u>95.83%</u>	<u>95.55%</u>	<u>100.00%</u>

TOWN OF FRANKLIN, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
FRANKLIN TOURISM DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2018

	<u>Authority</u>
Assets:	
Cash and cash equivalents	\$ 174,363
Accounts receivable	<u>12,695</u>
Total assets	<u>\$ 187,058</u>
Liabilities:	
Liabilities:	
Accounts payable and accrued liabilities	<u>\$ 10</u>
Fund Balance:	
Restricted for:	
Stabilization by state statute	12,695
Tourism	<u>174,353</u>
Total fund balance	<u>187,048</u>
Total liabilities and fund balance	<u>\$ 187,058</u>
Reconciliation of total fund balance shown above to Statement of Net Position (Exhibit A):	
Fund balance, modified accrual basis (above)	<u>\$ 187,048</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, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Occupancy tax revenues	\$ 110,478	\$ 142,884	\$ 32,406
Interest	-	1,836	1,836
Total revenues	<u>110,478</u>	<u>144,720</u>	<u>34,242</u>
Expenditures:			
Operating:			
Professional services	<u>134,000</u>	<u>137,413</u>	<u>(3,413)</u>
Revenues over (under) expenditures	(23,522)	7,307	30,829
Other Financing Sources (Uses):			
Fund balance appropriated	<u>23,522</u>	<u>-</u>	<u>(23,522)</u>
Net change in fund balance	<u>\$ -</u>	<u>7,307</u>	<u>\$ 7,307</u>
Fund Balance:			
Beginning of year - July 1		<u>179,741</u>	
End of year - June 30		<u>\$ 187,048</u>	

MARTIN STARNES & ASSOCIATES, CPAs, P.A.

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

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Town of Franklin, North Carolina, as of and for the year ended June 30, 2018, 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 31, 2018. Our report includes a reference to other auditors who audited the financial statements of the Town of Franklin ABC Board, as described in our report on the Town of Franklin's financial statements. The financial statements of the Town of Franklin ABC Board were not audited in accordance with *Government Auditing Standards*.

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.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2018-001 that we consider 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 Response to Finding

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

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 31, 2018

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2018

Findings Related to the Audit of the Basic Financial Statements

Significant Deficiency

Finding 2018-001

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. Although management of the town does not possess expertise to draft full accrual, full disclosure financial statements, they do accept responsibility for the preparation and fair presentation of the financial statements and they possess the skills and knowledge to adequately oversee and perform a detail review of the drafted full accrual, full disclosure financial statements and reconcile the financial statements to the records of the Town.

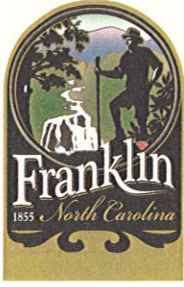
Effect: Errors in financial reporting could occur.

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, 2017-001.

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, reconciling, 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

Post Office Box 1479
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CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2018

Significant Deficiency

Finding 2018-001:

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.

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Finding 2017-001

Status: Repeated as Finding 2018-001. 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.

Finding 2017-002

Status: Resolved