

**TOWN OF FRANKLIN  
NORTH CAROLINA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2019**



# TOWN OF FRANKLIN, NORTH CAROLINA

## AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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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, 2019, 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 from 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 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, 2019, 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.

### ***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, as well as the Schedule of Expenditures of Federal and State Awards as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act, 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, other schedules, and the Schedule of Expenditures of Federal and State Awards 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 as described above, and the report of the other auditors, the budgetary schedules, Tourism Development Authority schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards 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 14, 2019 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 14, 2019

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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, 2019. 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

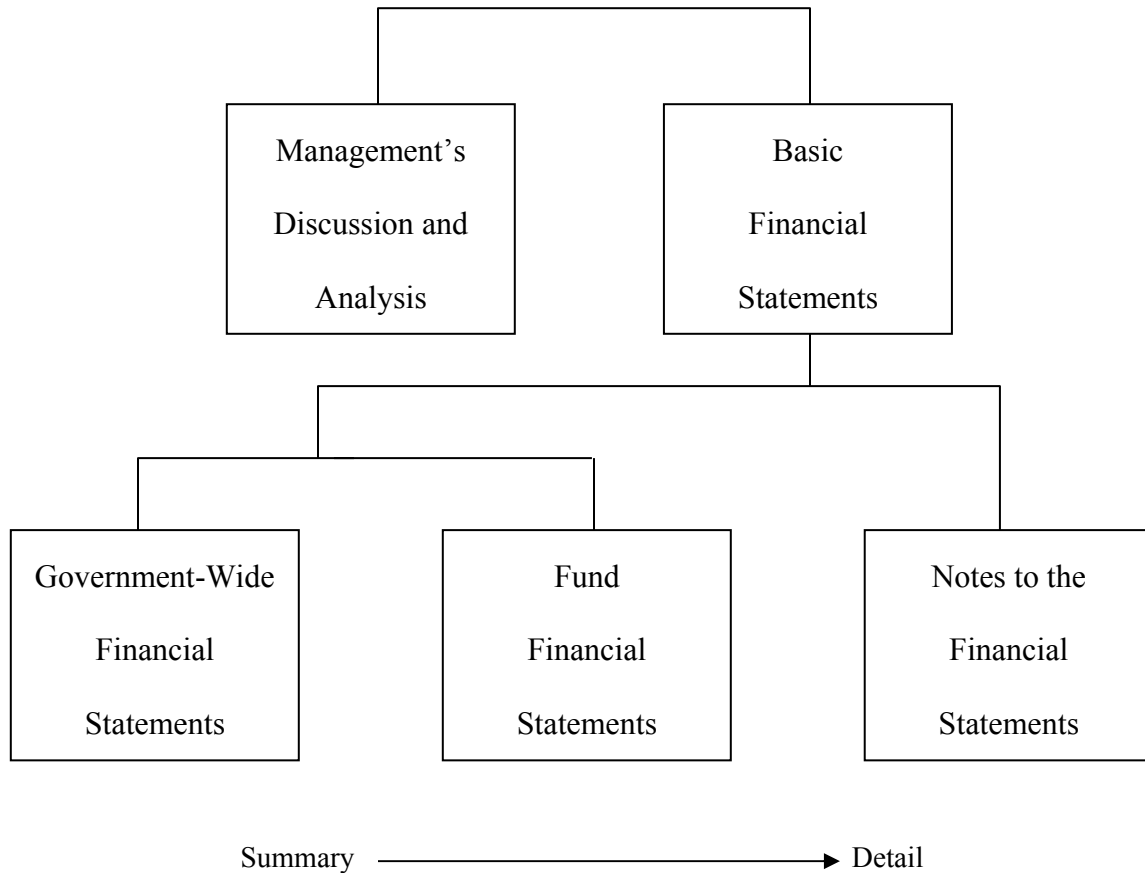
- The assets and deferred outflows of the Town of Franklin exceeded its liabilities and deferred inflows at the close of the fiscal year by \$28,252,579 (*net position*).
- The government's total net position increased by \$1,491,376, due to an increase in governmental net position and an increase in 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 \$3,819,464, an increase of \$795,572, in comparison with the prior year. Approximately 28.5 percent of this total amount, or \$1,089,462, is restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$3,394,179, or 78 percent, of total General Fund expenditures.
- The Town of Franklin's total debt increased by \$1,391,632 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 63 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	
	2019	2018	2019	2018	2019	2018
<b>Assets:</b>						
Current and other assets	\$ 4,222,806	\$ 3,265,999	\$ 5,713,899	\$ 5,074,471	\$ 9,936,705	\$ 8,340,470
Capital assets	6,111,744	6,485,933	25,349,343	23,652,153	31,461,087	30,138,086
Total assets	<u>10,334,550</u>	<u>9,751,932</u>	<u>31,063,242</u>	<u>28,726,624</u>	<u>41,397,792</u>	<u>38,478,556</u>
<b>Deferred Outflows of Resources</b>	<u>569,023</u>	<u>409,485</u>	<u>298,043</u>	<u>185,465</u>	<u>867,066</u>	<u>594,950</u>
<b>Liabilities:</b>						
Long-term liabilities outstanding	3,455,307	3,496,092	9,989,872	8,287,014	13,445,179	11,783,106
Other liabilities	238,471	143,930	167,148	265,231	405,619	409,161
Total liabilities	<u>3,693,778</u>	<u>3,640,022</u>	<u>10,157,020</u>	<u>8,552,245</u>	<u>13,850,798</u>	<u>12,192,267</u>
<b>Deferred Inflows of Resources</b>	<u>118,550</u>	<u>82,666</u>	<u>42,931</u>	<u>37,370</u>	<u>161,481</u>	<u>120,036</u>
<b>Net Position:</b>						
Net investment in capital assets	5,332,070	5,463,107	16,340,412	16,278,006	21,672,482	21,741,113
Restricted	1,089,462	1,019,792	-	-	1,089,462	1,019,792
Unrestricted	669,713	(44,170)	4,820,922	4,044,468	5,490,635	4,000,298
Total net position	<u>\$ 7,091,245</u>	<u>\$ 6,438,729</u>	<u>\$ 21,161,334</u>	<u>\$ 20,322,474</u>	<u>\$ 28,252,579</u>	<u>\$ 26,761,203</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 \$28,252,579 as of June 30, 2019. The Town's net position increased by \$1,491,376 for the fiscal year ended June 30, 2019. However, the largest portion (77%) 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 \$1,089,462, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$5,490,635 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, and a slight increase in other taxes, charges for services, and investment earnings in the current year

**Town of Franklin's Changes in Net Position**

**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 148,887	\$ 100,280	\$ 4,196,597	\$ 3,897,216	\$ 4,345,484	\$ 3,997,496
Operating grants	1,971	-	40,309	38,175	42,280	38,175
Capital grants	136,741	134,490	-	-	136,741	134,490
General revenues:						
Property taxes	2,252,589	1,957,359	-	-	2,252,589	1,957,359
Other taxes	1,594,448	1,437,850	-	-	1,594,448	1,437,850
Miscellaneous	793,045	759,179	-	-	793,045	759,179
Investment earnings	47,644	22,672	39,512	21,753	87,156	44,425
Total revenues	<u>4,975,325</u>	<u>4,411,830</u>	<u>4,276,418</u>	<u>3,957,144</u>	<u>9,251,743</u>	<u>8,368,974</u>
<b>Expenses:</b>						
General government	1,081,780	1,180,323	-	-	1,081,780	1,180,323
Public safety	2,474,377	2,332,539	-	-	2,474,377	2,332,539
Transportation	377,784	435,355	-	-	377,784	435,355
Planning and economic	365,622	187,649	-	-	365,622	187,649
Interest on long-term debt	23,246	16,576	-	-	23,246	16,576
Water and sewer	-	-	3,437,558	3,293,977	3,437,558	3,293,977
Total expenses	<u>4,322,809</u>	<u>4,152,442</u>	<u>3,437,558</u>	<u>3,293,977</u>	<u>7,760,367</u>	<u>7,446,419</u>
Change in net position	<u>652,516</u>	<u>259,388</u>	<u>838,860</u>	<u>663,167</u>	<u>1,491,376</u>	<u>922,555</u>
<b>Net Position:</b>						
Beginning of year - July 1	6,438,729	6,817,200	20,322,474	20,025,318	26,761,203	26,842,518
Restatement	<u>-</u>	<u>(637,859)</u>	<u>-</u>	<u>(366,011)</u>	<u>-</u>	<u>(1,003,870)</u>
Beginning of year - July 1, as restated	<u>6,438,729</u>	<u>6,179,341</u>	<u>20,322,474</u>	<u>19,659,307</u>	<u>26,761,203</u>	<u>25,838,648</u>
End of year - June 30	<u>\$ 7,091,245</u>	<u>\$ 6,438,729</u>	<u>\$ 21,161,334</u>	<u>\$ 20,322,474</u>	<u>\$ 28,252,579</u>	<u>\$ 26,761,203</u>

**Governmental Activities.** Governmental activities increased the Town's net position by \$652,516.

Key elements of this increase are as follows:

- Decreases in the current fiscal year in operating expenses in general government and transportation

**Business-Type Activities.** Business-type activities increased the Town of Franklin's net position by \$838,860. Key elements of this increase are as follows:

- Water rate increase of four percent during the current year and an increase in investment earnings



## 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 \$3,394,179 while total fund balance reached \$3,819,464. The Town currently has an available fund balance of 78% of General Fund expenditures, while total fund balance represents 88% of General Fund expenditures.

At June 30, 2019, the General Fund of the Town of Franklin reported an increase in fund balance of 26.3 percent over last year, primarily due to increased revenues in the areas of charges for services, property and other taxes, and investment earnings.

**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 \$4,820,922. The total increase in net position for the Fund was \$838,860. 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, 2019 totals \$31,461,087 (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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land	\$ 2,954,808	\$ 3,155,326	\$ 1,025,550	\$ 1,025,550	\$ 3,980,358	\$ 4,180,876
Construction in progress	-	-	-	865,428	-	865,428
Infrastructure	462,284	394,160	-	-	462,284	394,160
Buildings	2,025,229	2,118,554	1,183,993	1,223,065	3,209,222	3,341,619
Improvements to facilities	43,351	48,946	22,139	24,767	65,490	73,713
Vehicles	417,471	466,272	115,838	80,133	533,309	546,405
Equipment and furniture	208,601	302,675	121,861	149,368	330,462	452,043
Water and sewer distribution systems	-	-	22,879,962	20,283,842	22,879,962	20,283,842
<b>Total</b>	<u>\$ 6,111,744</u>	<u>\$ 6,485,933</u>	<u>\$ 25,349,343</u>	<u>\$ 23,652,153</u>	<u>\$ 31,461,087</u>	<u>\$ 30,138,086</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, 2019, 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Capital leases	\$ 43,497	\$ 85,118	\$ -	\$ -	\$ 43,497	\$ 85,118
Notes from direct borrowings and direct placements	736,177	937,708	9,008,931	7,374,147	9,745,108	8,311,855
Total OPEB liability	1,093,049	1,051,936	592,195	622,554	1,685,244	1,674,490
Net pension liability (LGERS)	574,514	391,338	337,414	229,834	911,928	621,172
Total pension liability (LEOSSA)	896,132	908,912	-	-	896,132	908,912
Compensated absences	111,938	121,080	51,332	60,479	163,270	181,559
<b>Total</b>	<u>\$ 3,455,307</u>	<u>\$ 3,496,092</u>	<u>\$ 9,989,872</u>	<u>\$ 8,287,014</u>	<u>\$ 13,445,179</u>	<u>\$ 11,783,106</u>

**Town of Franklin's Outstanding Debt**

The Town of Franklin's total debt increased by \$1,391,632 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 \$56,147,901.

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, 2020**

**Governmental Activities.** The General Fund budget was increased by \$84,127. There was no tax increase this fiscal year.

Budgeted expenditures have been maintained at levels consistent with the fiscal year 2018-2019 through item-specific savings while continuing to provide necessary services. Employee benefits remained unchanged with the exception of 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 has completed work on Phase I of the Water Plant Upgrade and Expansion Project. The Town is looking into options to secure funding for Phase II of the Water Plant Upgrade and Expansion Project.

### **Requests for Information**

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

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## TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF NET POSITION  
JUNE 30, 2019

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Town of Franklin ABC Board	Town of Franklin Tourism Development Authority
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	\$ 2,968,894	\$ 3,041,566	\$ 6,010,460	\$ 171,707	\$ 184,679
Receivables, net:					
Taxes	164,450	-	164,450	-	-
Accounts	259,398	562,484	821,882	-	15,377
Due from other governments	165,887	1,955,010	2,120,897	-	-
Inventories	-	115,674	115,674	307,827	-
Prepaid expenses	-	-	-	5,724	-
Restricted assets -					
cash and cash equivalents	664,177	39,165	703,342	-	-
Total current assets	4,222,806	5,713,899	9,936,705	485,258	200,056
Capital assets:					
Land and construction in progress	2,954,808	1,025,550	3,980,358	-	-
Other capital assets, net of depreciation	3,156,936	24,323,793	27,480,729	46,570	-
Total other assets	6,111,744	25,349,343	31,461,087	46,570	-
Total assets	10,334,550	31,063,242	41,397,792	531,828	200,056
<b>Deferred Outflows of Resources:</b>					
OPEB deferrals	54,503	29,528	84,031	-	-
Pension deferrals	514,520	268,515	783,035	-	-
Total deferred outflows of resources	569,023	298,043	867,066	-	-
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	63,813	20,421	84,234	28,965	461
Accrued liabilities	172,492	90,914	263,406	-	-
Accrued interest	2,166	16,648	18,814	-	-
Liabilities payable from restricted assets:					
Customer deposits	-	39,165	39,165	-	-
Total current liabilities	238,471	167,148	405,619	28,965	461
Long-term liabilities:					
Net pension liability - LGERS	574,514	337,414	911,928	-	-
Total pension liability - LEOSSA	896,132	-	896,132	-	-
Total OPEB liability	1,093,049	592,195	1,685,244	-	-
Due within one year	303,203	852,854	1,156,057	-	-
Due in more than one year	588,409	8,207,409	8,795,818	-	-
Total long-term liabilities	3,455,307	9,989,872	13,445,179	-	-
Total liabilities	3,693,778	10,157,020	13,850,798	28,965	461
<b>Deferred Inflows of Resources:</b>					
Prepaid taxes	2,587	-	2,587	-	-
OPEB deferrals	73,061	39,583	112,644	-	-
Pension deferrals	42,902	3,348	46,250	-	-
Total deferred inflows of resources	118,550	42,931	161,481	-	-
<b>Net Position:</b>					
Net investment in capital assets	5,332,070	16,340,412	21,672,482	46,570	-
Restricted for:					
Stabilization by state statute	425,285	-	425,285	-	15,377
Streets	645,637	-	645,637	-	-
Public safety	18,540	-	18,540	-	-
Other purposes	-	-	-	87,096	184,218
Unrestricted	669,713	4,820,922	5,490,635	369,197	-
Total net position	\$ 7,091,245	\$ 21,161,334	\$ 28,252,579	\$ 502,863	\$ 199,595

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, 2019

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 1,081,780	\$ 133,181	\$ -	\$ -
Public safety	2,474,377	15,706	1,971	8,773
Transportation	377,784	-	-	127,968
Planning and economic	365,622	-	-	-
Interest on long-term debt	23,246	-	-	-
Total governmental activities	<u>4,322,809</u>	<u>148,887</u>	<u>1,971</u>	<u>136,741</u>
<b>Business-Type Activities:</b>				
Water and sewer	3,437,558	4,196,597	40,309	-
Total business-type activities	<u>3,437,558</u>	<u>4,196,597</u>	<u>40,309</u>	<u>-</u>
Total primary government	<u>\$ 7,760,367</u>	<u>\$ 4,345,484</u>	<u>\$ 42,280</u>	<u>\$ 136,741</u>
<b>Component Units:</b>				
ABC Board	\$ 2,947,615	\$ 2,959,470	\$ -	\$ -
Tourism Development Authority	138,496	147,793	-	-
Total component units	<u>\$ 3,086,111</u>	<u>\$ 3,107,263</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, 2019

	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
<b>Functions/Programs:</b>					
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
General government	\$ (948,599)	\$ -	\$ (948,599)	\$ -	\$ -
Public safety	(2,447,927)	-	(2,447,927)	-	-
Transportation	(249,816)	-	(249,816)	-	-
Planning and economic	(365,622)	-	(365,622)	-	-
Interest on long-term debt	(23,246)	-	(23,246)	-	-
Total governmental activities	<u>(4,035,210)</u>	<u>-</u>	<u>(4,035,210)</u>	<u>-</u>	<u>-</u>
<b>Business-Type Activities:</b>					
Water and sewer	-	799,348	799,348	-	-
Total business-type activities	<u>-</u>	<u>799,348</u>	<u>799,348</u>	<u>-</u>	<u>-</u>
Total primary government	<u>(4,035,210)</u>	<u>799,348</u>	<u>(3,235,862)</u>	<u>-</u>	<u>-</u>
<b>Component Units:</b>					
ABC Board				11,855	-
Tourism Development Authority				-	9,297
Total component units				<u>11,855</u>	<u>9,297</u>
<b>General Revenues:</b>					
Taxes:					
Property taxes, levied for general purposes	2,252,589	-	2,252,589	-	-
Other taxes and licenses	1,594,448	-	1,594,448	-	-
Local option sales tax	793,045	-	793,045	-	-
Investment earnings, unrestricted	47,644	39,512	87,156	1,700	3,250
Total general revenues	<u>4,687,726</u>	<u>39,512</u>	<u>4,727,238</u>	<u>1,700</u>	<u>3,250</u>
Change in net position	652,516	838,860	1,491,376	13,555	12,547
<b>Net Position:</b>					
Beginning of year - July 1	<u>6,438,729</u>	<u>20,322,474</u>	<u>26,761,203</u>	<u>489,308</u>	<u>187,048</u>
End of year - June 30	<u>\$ 7,091,245</u>	<u>\$ 21,161,334</u>	<u>\$ 28,252,579</u>	<u>\$ 502,863</u>	<u>\$ 199,595</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2019

	<u>General Fund</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 2,968,894
Receivables, net:	
Taxes	164,450
Accounts	259,398
Due from other governments	165,887
Restricted assets - cash and cash equivalents	664,177
Total assets	<u>\$ 4,222,806</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance:</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 63,813
Accrued liabilities	172,492
Total liabilities	<u>236,305</u>
<b>Deferred Inflows of Resources:</b>	
Prepaid taxes	2,587
Property taxes receivables	164,450
Total deferred inflows of resources	<u>167,037</u>
<b>Fund Balance:</b>	
Restricted:	
Stabilization by state statute	425,285
Restricted for streets	645,637
Restricted for public safety	18,540
Assigned	214,539
Unassigned	2,515,463
Total fund balance	<u>3,819,464</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 4,222,806</u>

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



TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2019

	<u>General Fund</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balance	\$ 3,819,464
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	6,111,744
Deferred inflows of resources related to pensions are not reported in the funds.	(42,902)
Deferred inflows of resources related to OPEB are not reported in the funds.	(73,061)
Deferred outflows of resources related to pensions are not reported in the funds.	514,520
Deferred outflows of resources related to OPEB are not reported in the funds.	54,503
Other long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,343,369)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(111,938)
Liabilities for earned revenues considered deferred inflows of resources in fund statements	164,450
Other long-term liabilities (accrued interest) are not due and payable in the funds.	<u>(2,166)</u>
Net position of governmental activities	<u>\$ 7,091,245</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, 2019

	<b>General Fund</b>
	<u>                    </u>
<b>Revenues:</b>	
Ad valorem taxes	\$ 2,183,316
Other taxes and licenses	872,628
Unrestricted intergovernmental revenues	1,514,865
Restricted intergovernmental revenues	138,712
Permits and fees	15,706
Investment earnings	47,644
Miscellaneous	136,280
Total revenues	<u>4,909,151</u>
<b>Expenditures:</b>	
Current:	
General government	985,939
Public safety	2,262,641
Transportation	467,148
Planning and economic development	365,305
Debt service:	
Principal	243,152
Interest	24,394
Total expenditures	<u>4,348,579</u>
Revenues over (under) expenditures	560,572
<b>Other Financing Sources (Uses):</b>	
Sale of capital assets	<u>235,000</u>
Net change in fund balance	795,572
<b>Fund Balance:</b>	
Beginning of year - July 1	<u>3,023,892</u>
End of year - June 30	<u><u>\$ 3,819,464</u></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, 2019

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)	\$ 795,572
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.	69,273
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.	243,152
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	9,142
Pension expense - LGERS	(27,498)
Pension expense - LEO	(25,505)
OPEB plan expense	(38,579)
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.	230,462
The sale/disposal of capital assets is reported as a revenue in the governmental funds statement without subtracting the net book value of the capital assets sold.	(238,099)
Other long-term liabilities (accrued interest) are not due and payable in the funds.	1,148
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>(366,552)</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 652,516</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, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/Under</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,164,476	\$ 2,164,476	\$ 2,183,316	\$ 18,840
Other taxes and licenses	841,467	841,467	872,628	31,161
Unrestricted intergovernmental revenues	1,170,000	1,320,414	1,514,865	194,451
Restricted intergovernmental revenues	130,000	143,773	138,712	(5,061)
Permits and fees	3,500	3,500	15,706	12,206
Investment earnings	2,000	2,000	47,644	45,644
Miscellaneous	46,132	123,843	136,280	12,437
Total revenues	<u>4,357,575</u>	<u>4,599,473</u>	<u>4,909,151</u>	<u>309,678</u>
<b>Expenditures:</b>				
General government	1,200,655	1,209,395	985,939	223,456
Public safety	2,302,617	2,381,736	2,262,641	119,095
Transportation	870,749	890,214	467,148	423,066
Planning and economic development	194,715	376,289	365,305	10,984
Debt service:				
Principal	243,223	243,154	243,152	2
Interest and fees	24,327	24,396	24,394	2
Contingency	<u>50,789</u>	<u>5,789</u>	-	<u>5,789</u>
Total expenditures	<u>4,887,075</u>	<u>5,130,973</u>	<u>4,348,579</u>	<u>782,394</u>
Revenues over (under) expenditures	<u>(529,500)</u>	<u>(531,500)</u>	<u>560,572</u>	<u>1,092,072</u>
<b>Other Financing Sources (Uses)</b>				
Sale of capital assets	-	-	235,000	235,000
Transfers in	79,500	79,500	-	(79,500)
Appropriated fund balance	<u>450,000</u>	<u>452,000</u>	-	<u>(452,000)</u>
Total other financing sources (uses)	<u>529,500</u>	<u>531,500</u>	<u>235,000</u>	<u>(296,500)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>795,572</u>	<u>\$ 795,572</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>3,023,892</u>	
End of year - June 30			<u>\$ 3,819,464</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, 2019

	<u>Water and Sewer Fund</u>
<b>Assets:</b>	
Current assets:	
Cash and cash equivalents	\$ 3,041,566
Accounts receivable, net	562,484
Due from other governments	1,955,010
Inventory	115,674
Restricted assets - cash and cash equivalents	<u>39,165</u>
Total current assets	<u>5,713,899</u>
Non-current assets:	
Capital assets:	
Land	1,025,550
Other capital assets, net	<u>24,323,793</u>
Total capital assets	<u>25,349,343</u>
Total assets	<u>31,063,242</u>
<b>Deferred Outflows of Resources:</b>	
OPEB deferrals	29,528
Pension deferrals	<u>268,515</u>
Total deferred outflows of resources	<u>298,043</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable	20,421
Accrued liabilities	90,914
Accrued interest	16,648
Liabilities payable from restricted assets:	
Customer deposits	39,165
Current portion of notes payable	822,614
Current portion of compensated absences payable	<u>30,240</u>
Total current liabilities	<u>1,020,002</u>
Non-current liabilities:	
Notes payable	8,186,317
Net pension liability	337,414
Total OPEB liability	592,195
Compensated absences payable	<u>21,092</u>
Total non-current liabilities	<u>9,137,018</u>
Total liabilities	<u>10,157,020</u>
<b>Deferred Inflows of Resources:</b>	
OPEB deferrals	39,583
Pension deferrals	<u>3,348</u>
Total deferred outflows of resources	<u>42,931</u>
<b>Net Position:</b>	
Net investment in capital assets	16,340,412
Unrestricted	<u>4,820,922</u>
Total net position	<u>\$ 21,161,334</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, 2019**

	<u>Water and Sewer Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 4,153,426
<b>Operating Expenses:</b>	
Water/sewer operations	2,553,314
Depreciation	<u>682,873</u>
Total operating expenses	<u>3,236,187</u>
Operating income (loss)	<u>917,239</u>
<b>Non-Operating Revenues (Expenses):</b>	
Investment earnings	39,512
Interest expense	(201,371)
Macon County appropriations	40,309
Other revenues	<u>43,171</u>
Total non-operating revenues (expenses)	<u>(78,379)</u>
Change in net position	838,860
<b>Net Position:</b>	
Beginning of year - July 1	<u>20,322,474</u>
End of year - June 30	<u>\$ 21,161,334</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, 2019

	<b><u>Water and Sewer Fund</u></b>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 4,025,975
Customer deposits received	1,175
Cash paid for goods and services	(1,220,302)
Cash paid to employees	<u>(1,474,473)</u>
Net cash provided (used) by operating activities	<u>1,332,375</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Macon County appropriations	40,309
Other revenues	<u>43,171</u>
Net cash provided (used) by non-capital financing activities	<u>83,480</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(2,380,063)
Proceeds from installment loan	603,877
Debt principal	(833,826)
Debt interest	<u>(202,828)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,812,840)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest received	<u>39,512</u>
Net increase (decrease) in cash, cash equivalents, and investments	(1,357,473)
<b>Cash and Cash Equivalents:</b>	
Beginning of year - July 1	<u>4,438,204</u>
End of year - June 30	<u>\$ 3,080,731</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ 917,239
Depreciation	682,873
Changes in assets and liabilities:	
Accounts receivables	(127,451)
Inventories	(4,717)
Accounts payable	(97,801)
Customer deposits	1,175
OPEB liability	(30,359)
Pension liability	107,580
Deferred outflows of resources for pension	(86,921)
Deferred inflows of resources for pension	(4,508)
Deferred outflows of resources for OPEB	(25,657)
Deferred inflows of resources for OPEB	10,069
Accrued vacation	<u>(9,147)</u>
Net cash provided (used) by operating activities	<u>\$ 1,332,375</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, 2019

### 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, 2019

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 fund:

**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, 2019

### 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, 2019

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, 2019

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, and 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, 2019

### 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, 2019 consists of the following:

#### Governmental Activities:

General Fund:

Law enforcement funds	\$ 18,540
Powell Bill	<u>645,637</u>
Total governmental activities	<u>664,177</u>

#### Business-Type Activities:

Water and Sewer Fund:

Customer deposits	<u>39,165</u>
Total restricted cash	<u>\$ 703,342</u>

### Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2018. 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, 2019

### 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, 2019

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, 2019

### **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 represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through state statute.

#### **Fund Balances**

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

The governmental fund types classify fund balances as follows:

#### **Non-Spendable Fund Balance**

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

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### **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, 2019, the Town had \$214,539 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, 2019

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	\$ 3,819,464
<b>Less:</b>	
Stabilization by state statute	<u>425,285</u>
Total available fund balance	<u>\$ 3,394,179</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, 2019

### 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, 2019, 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 \$3,496.

## 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, 2019

At June 30, 2019, the Town's deposits had a carrying amount of \$2,437,785 and a bank balance of \$2,715,708. Of the bank balance, \$454,748 was covered by federal depository insurance and \$2,260,360 was covered by collateral held under the Pooling Method. The Town also had cash on hand of \$600 at June 30, 2019. The Town of Franklin ABC Board's deposits had a carrying amount of \$169,407 and a bank balance of \$369,326. The Town of Franklin Tourism Development Authority's deposits had a carrying amount of \$29,015 and a bank balance of \$29,015. All of the bank balances were covered by federal depository insurance.

### Investments

At June 30, 2019, the Town had \$4,275,417 and the TDA had \$155,664 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 fair value. 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, 2019</u>
<b>General Fund:</b>	
Taxes receivable	\$ 88,790
<b>Water and Sewer Fund:</b>	
Accounts receivable	\$ 278,740

### Due from Other Governments

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

<u>Fund</u>	<u>June 30, 2019</u>
<b>General Fund:</b>	
Sales tax receivable	\$ 26,284
NC DMV	27,603
Franchise tax receivable	112,000
	<u>165,887</u>
<b>Water and Sewer Capital Project Fund:</b>	
Drinking Water State Revolving Loan Receivable	1,864,733
Sales tax receivable	<u>90,277</u>
Total	<u>\$ 2,120,897</u>

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### Capital Assets

#### Governmental Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2019 was as follows:

	<b>Balance July 1, 2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2019</b>
<b>Governmental Activities:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 3,155,326	\$ -	\$ 200,518	\$ 2,954,808
Total non-depreciable capital assets	<u>3,155,326</u>	<u>-</u>	<u>200,518</u>	<u>2,954,808</u>
<b>Depreciable Capital Assets:</b>				
Buildings	2,978,151	-	177,854	2,800,297
Improvements to facilities	282,177	-	-	282,177
Computer equipment	247,292	-	-	247,292
Equipment	781,274	18,764	-	800,038
Furniture and fixtures	156,076	-	-	156,076
Vehicles	3,174,223	107,354	-	3,281,577
Infrastructure	2,122,195	104,344	-	2,226,539
Total depreciable capital assets	<u>9,741,388</u>	<u>230,462</u>	<u>177,854</u>	<u>9,793,996</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	859,597	55,744	140,273	775,068
Improvements to facilities	233,231	5,595	-	238,826
Computer equipment	159,930	66,032	-	225,962
Equipment	576,890	35,878	-	612,768
Furniture and fixtures	145,147	10,928	-	156,075
Vehicles	2,707,951	156,155	-	2,864,106
Infrastructure	1,728,035	36,220	-	1,764,255
Total accumulated depreciation	<u>6,410,781</u>	<u>\$ 366,552</u>	<u>\$ 140,273</u>	<u>6,637,060</u>
Total depreciable capital assets, net	<u>3,330,607</u>			<u>3,156,936</u>
Governmental activities capital assets, net	<u>\$ 6,485,933</u>			<u>\$ 6,111,744</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 94,926
Public safety	216,006
Transportation	<u>55,620</u>
Total depreciation expense	<u>\$ 366,552</u>

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2019 was as follows:

	<u>Balance</u>				<u>Balance</u>
	<u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2019</u>
<b>Business-Type Activities:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 1,025,550	\$ -	\$ -	\$ -	\$ 1,025,550
Construction in progress	865,428	2,208,564	-	(3,073,992)	-
Total non-depreciable capital assets	<u>1,890,978</u>	<u>2,208,564</u>	<u>-</u>	<u>(3,073,992)</u>	<u>1,025,550</u>
<b>Depreciable Capital Assets:</b>					
Buildings	1,310,387	-	-	-	1,310,387
Improvement to facilities	133,469	-	-	-	133,469
Equipment	909,375	-	-	-	909,375
Vehicles	425,002	66,372	-	-	491,374
Water and sewer distribution systems	30,324,475	105,127	-	3,073,992	33,503,594
Total depreciable capital assets	<u>33,102,708</u>	<u>171,499</u>	<u>-</u>	<u>3,073,992</u>	<u>36,348,199</u>
<b>Less Accumulated Depreciation:</b>					
Buildings	87,322	30,358	-	-	117,680
Improvements to facilities	108,702	2,628	-	-	111,330
Equipment	760,007	27,507	-	-	787,514
Vehicles	344,869	30,667	-	-	375,536
Water and sewer distribution systems	10,040,633	591,713	-	-	10,632,346
Total accumulated depreciation	<u>11,341,533</u>	<u>\$ 682,873</u>	<u>\$ -</u>	<u>\$ -</u>	<u>12,024,406</u>
Total depreciable capital assets, net	<u>21,761,175</u>				<u>24,323,793</u>
Business-type activities capital assets, net	<u>\$ 23,652,153</u>				<u>\$ 25,349,343</u>

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2019 is composed of the following elements:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Capital assets	\$ 6,111,744	\$ 25,349,343
Long-term debt related to capital assets	(779,674)	(9,008,931)
Net investment in capital assets	\$ 5,332,070	\$ 16,340,412

### Component Unit

Capital assets of the ABC Board as of June 30, 2019, were as follows:

	<b>Balance July 1, 2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2019</b>
<b>Depreciable Capital Assets:</b>				
Equipment	\$ 169,845	\$ 25,633	\$ -	\$ 195,478
Leasehold improvements	192,476	18,469	-	210,945
Total depreciable capital assets	362,321	44,102	-	406,423
<b>Less Accumulated Depreciation:</b>				
Equipment	162,425	3,569	-	165,994
Leasehold improvements	191,702	2,157	-	193,859
Total accumulated depreciation	354,127	\$ 5,726	\$ -	359,853
Total depreciable capital assets, net	\$ 8,194			\$ 46,570



# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### 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](http://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, 2019

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, 2019 was 8.50% of compensation for law enforcement officers and 7.75% 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 \$212,390 for the year ended June 30, 2019.

*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, 2019, the Town reported a liability of \$911,928 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2018, the Town's proportion was 0.03844%, which was a decrease of 0.00222% from its proportion measured as of June 30, 2017.

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

For the year ended June 30, 2019, the Town recognized pension expense of \$256,041. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 140,689	\$ 4,721
Changes of assumptions	241,992	-
Net difference between projected and actual earnings on pension plan investments	125,180	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	5,465	4,327
Town contributions subsequent to the measurement date	212,390	-
Total	\$ 725,716	\$ 9,048

\$212,390 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, 2020. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30</b>	<b>Total</b>
2020	\$ 242,555
2021	159,637
2022	30,071
2023	72,015
Total	\$ 504,278

**Actuarial Assumptions.** The total pension liability in the December 31, 2017 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 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 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, 2019

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, 2017 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, 2018 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 2018 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, 2019

**Discount Rate.** The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 2,190,531	\$ 911,928	\$ (156,492)

**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, 2019

At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
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 normal actuarial cost method was used in the December 31, 2017 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	3.64 percent

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2014.

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

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

**Deaths after Retirement (Beneficiary):** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 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, 2019

**Deaths after Retirement (Disabled):** RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 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, 2019, the Town reported a total pension liability of \$896,132. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was rolled forward to December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$57,693.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 11,553	\$ 4,747
Changes of assumptions	29,855	32,455
Town benefit payments and plan administrative expense made subsequent to the measurement date	15,911	-
<b>Total</b>	<b>\$ 57,319</b>	<b>\$ 37,202</b>

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

\$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, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending</b>	
<b>June 30</b>	<b>Total</b>
2020	\$ 1,791
2021	1,791
2022	3,790
2023	<u>(3,166)</u>
Total	<u>\$ 4,206</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 3.64%, 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 (2.64%) or 1-percentage-point higher (4.64%) than the current rate:

	<b>1% Decrease (2.64%)</b>	<b>Discount Rate (3.64%)</b>	<b>1% Increase (4.64%)</b>
Total pension liability	<u>\$ 960,978</u>	<u>\$ 896,132</u>	<u>\$ 835,961</u>



# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

	<u>2019</u>
Beginning balance	\$ 908,912
Service cost	27,316
Interest on the total pension liability	28,219
Differences between expected and actual experience in the measurement of the total pension liability	(5,964)
Changes of assumptions or other inputs	(30,530)
Benefit payments	<u>(31,821)</u>
Net changes	<u>(12,780)</u>
Ending balance of the total pension liability	<u>\$ 896,132</u>

*Changes of assumptions.* Changes of assumptions and other inputs reflect a change in the discount rate from 3.16 percent at June 30, 2017 to 3.64 percent at June 30, 2018.

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.

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### **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:

	<b>LGERS</b>	<b>LEOSSA</b>	<b>Total</b>
Pension expense	\$ 256,041	\$ 57,693	\$ 313,734
Pension liability	911,928	896,132	1,808,060
Proportionate share of the net pension liability	0.03844%	n/a	-

### **Deferred of Outflows of Resources**

Differences between expected and actual experience	\$ 140,689	\$ 11,553	\$ 152,242
Changes of assumptions	241,992	29,855	271,847
Net difference between projected and actual earnings on pension plan investments	125,180	-	125,180
Changes in proportion and differences between contributions and proportionate share of contributions	5,465	-	5,465
Benefit payments and administrative costs paid subsequent to the measurement date	212,390	15,911	228,301
	\$ 725,716	\$ 57,319	\$ 783,035

### **Deferred of Inflows of Resources**

Differences between expected and actual experience	\$ 4,721	\$ 4,747	\$ 9,468
Changes of assumptions	-	32,455	32,455
Changes in proportion and differences between contributions and proportionate share of contributions	4,327	-	4,327
	\$ 9,048	\$ 37,202	\$ 46,250

### **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, 2019

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 \$42,436 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, 2019 was \$90,073. The employees' elected deferrals to the Plan were \$25,647 for the year ended June 30, 2019.

### **Other Post-Employment Benefits**

#### **Healthcare Benefits**

**Plan Description.** According to a Town resolution, the Town allows employees who retire on or after July 1, 1999 from the Town with at least 15 years of Town service before the age of 65 under the provisions set forth in the North Carolina Local Government Retirement System (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 100% of the premium if the employee has at least 30 years of service with the Town or has at least 20 years of service with the Town and has attained age 62. The Town will pay 75% of the premium if the employee has at least 15 years of service with the Town and has attained age 57. The Town will pay 100% of the premium for employees retiring due to medical disability, provided they have at least 20 years of service, or 75% if they are age 57 with 15 years of service and retire due to medical disability.

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.

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100px;">61</div>

### **Total OPEB Liability**

The Town's total OPEB liability of \$1,685,244 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

**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%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases, including wage inflation	
General employees	3.50% - 7.75%
Firefighters	3.50% - 7.75%
Law enforcement officers	3.50% - 7.35%
Municipal bond index rate	
Prior measurement date	3.56%
Measurement date	3.89%
Health care cost trend rates	
Pre-Medicare medical and Prescription Drug	7.50 % 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 published weekly by the Bond Buyer.

**Deaths before Retirement:** RP-2014 Employees base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

**Deaths after Retirement (Beneficiary):** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for all ages.

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

**Deaths after Retirement (Disabled):** RP-2014 Disabled retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% (male) and 99% (female) for all ages.

### Changes in the Total OPEB Liability

	<b>Total OPEB Liability</b>
<b>Balance at July 1, 2018</b>	<b>\$ 1,674,490</b>
<b>Changes for the year:</b>	
Service cost	60,931
Interest	58,376
Differences between expected and actual experience	11,533
Changes of assumptions or other inputs	(50,071)
Benefit payments	(70,015)
<b>Net changes</b>	<b>10,754</b>
<b>Balance at June 30, 2019</b>	<b>\$ 1,685,244</b>

Changes in assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 3.56% to 3.89%.

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

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

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 board.

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 performed concurrently with the June 30, 2017 valuation.

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

*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 (2.89 percent) or one percentage point higher (4.89 percent) than the current discount rate:

	<b>1% Decrease (2.89%)</b>	<b>Current Discount Rate (3.89%)</b>	<b>1% Increase (4.89%)</b>
Total OPEB liability	<u>\$ 1,842,341</u>	<u>\$ 1,685,244</u>	<u>\$ 1,543,650</u>

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

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
Total OPEB liability	<u>\$ 1,502,449</u>	<u>\$ 1,685,244</u>	<u>\$ 1,899,047</u>

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

For the year ended June 30, 2019, the Town recognized OPEB expense of \$102,413. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 10,051	\$ 4,882
Changes of assumptions	-	107,762
Benefit payments and plan administrative expense made subsequent to the measurement date	<u>73,980</u>	<u>-</u>
Total	<u>\$ 84,031</u>	<u>\$ 112,644</u>

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

\$73,980 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, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ending</b>	
<b>June 30</b>	<b>Total</b>
2020	\$ (16,894)
2021	(16,894)
2022	(16,894)
2023	(16,894)
2024	(16,894)
Thereafter	<u>(18,123)</u>
Total	<u>\$ (102,593)</u>

### Other Employment Benefits

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

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### 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	\$ 228,301
Benefit payments made and administration expenses for OPEB	73,980
Differences between expected and actual experience - Pension	152,242
Differences between expected and actual experience - OPEB	10,051
Changes of assumptions - Pension	271,847
Net difference between projected and actual experience - Pension	125,180
Changes in proportion and differences between employer contributions and proportionate share - Pension	5,465
	<u>\$ 867,066</u>

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

	<u>Amount</u>
Taxes receivable (General Fund)	\$ 164,450
Prepaid taxes	2,587
Changes in assumptions - Pension	32,455
Changes in assumptions - OPEB	107,762
Differences between expected and actual experience - Pension	9,468
Differences between expected and actual experience - OPEB	4,882
Changes in proportion and differences between employer contributions and proportionate share - Pension	4,327
	<u>\$ 325,931</u>



# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### **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, 2019, 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, 2019

### Long-Term Obligations

#### Capital Leases

The Town has entered into agreements to lease certain equipment. The lease agreement qualifies 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, 2019, 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	\$ 154,873	\$ 14,080

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2019 were as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 45,382
Total minimum lease payments	45,382
Less: amount representing interest	1,885
Present value of the minimum lease payments	<u>\$ 43,497</u>

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### Installment Purchases and Note Payable

#### Serviced by the General Fund:

Municipal buildings, executed \$1,533,872 in September 2012, under an installment purchase contract, due in annual installments of varying amounts, including interest of 2.32%, through June 2024 \$ 662,760

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% 73,417

Total General Fund \$ 736,177

The Town's outstanding notes from direct placements related to governmental activities of \$662,760 are secured with the building. The Town's outstanding notes from direct borrowings related to governmental activities of \$662,760 contain provisions that an event of default would result in repayment of balance to become at once due and payable, regardless of the maturity date or other due date thereof.

The Town's outstanding notes from direct placements related to governmental activities of \$73,417 are secured with the equipment. The Town's outstanding notes from direct borrowings related to governmental activities of \$73,417 contain provisions that an event of default would result in (1) be payable on demand; (2) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (a) the term of any applicable insurance policy; or (b) the remaining term of the Note; or (3) be treated as a balloon payment which will be due and payable at the Note's maturity.

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### Serviced by the Water and Sewer Fund:

Water and Sewer Department, executed \$2,743,128 in September 2012, under an installment purchase contract, due in annual installments of varying amounts, including interest of 2.32%, through June 2024 \$ 1,178,240

Water and Sewer Department, executed \$2,619,500 in June 2010, under an installment purchase contract, due in annual installments of \$254,695, including interest of 5.11%, through June 2025 1,288,217

\$2,909,136 note payable in annual installments of \$50,103, through May 2038; this loan was approved for \$3,297,128 in June 2018 and will increase based upon drawdowns during project finalization in fiscal year 2019 as the drinking water project is complete. 2,909,136

Water and Sewer Department, executed \$5,190,484 in June 2013, under a Clean Water State Revolving Fund loan, due in annual installments of \$259,524, plus interest of 2.445%, through May 2033 3,633,338

Total Water and Sewer Fund \$ 9,008,931

The Town's outstanding notes from direct placements related to business-type activities of \$1,178,240 are secured with the building. The Town's outstanding notes from direct borrowings related to business-type activities of \$1,178,240 contain provisions that an event of default would result in repayment of balance to become at once due and payable, regardless of the maturity date or other due date thereof.

The Town's outstanding notes from direct placements related to business-type activities of \$1,288,217 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$1,288,217 contain provisions that an event of default would result in (1) declare the whole unpaid principal balance of Installment Payments due and thereafter to become at once due and payable; 2) exercise its rights as a secured party under the Uniform Commercial Code of the state and pursuant to the grant made in Section 3.2 of Agreement, including, but not limited to, taking possession of any part on all of the Equipment pursuant to this Agreement, with or without terminating this Agreement, excluding the Town from possession, and selling or leasing the Equipment for the account of the Town; or 3) proceed by appropriate court action to enforce performance by the Town of the applicable covenants of this Agreement or to recover for the breach thereof; provided, however, that nothing contained in the Agreement shall be deemed to allow any judgment for a deficiency or waive any provision of N.C.G.S. Section 160A-20 or any defense the Town may otherwise have.

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The Town's outstanding notes from direct borrowings related to business-type activities of \$2,909,136 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$2,909,136 contain provisions that an event of default would result in immediate repayment of note in whole and any further commitment of funds may be withdrawn.

The Town's outstanding notes from direct borrowings related to business-type activities of \$3,633,338 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$3,633,338 contain provisions that an event of default would result in immediate repayment of note in whole and any further commitment of funds may be withdrawn.

Annual debt service requirements to maturity are as follows:

<b>Year Ending June 30</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ 203,737	\$ 16,512	\$ 822,614	\$ 181,975
2021	131,400	12,342	837,252	160,607
2022	132,480	9,296	849,317	138,703
2023	133,560	6,225	861,899	116,596
2024	135,000	3,129	875,667	93,179
2025-2029	-	-	2,267,984	234,470
2030-2034	-	-	1,766,147	63,454
2035-2039	-	-	728,051	6,345
Total	<u>\$ 736,177</u>	<u>\$ 47,504</u>	<u>\$ 9,008,931</u>	<u>\$ 995,329</u>

At June 30, 2019, the Town had a legal debt margin of \$56,147,901.

# TOWN OF FRANKLIN, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

### Changes in Long-Term Liabilities

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Portion</u>
<b>Governmental Activities:</b>					
Notes from direct placements	\$ 937,708	\$ -	\$ 201,531	\$ 736,177	\$ 203,737
Capital leases	85,118	-	41,621	43,497	43,497
Compensated absences	121,080	89,114	98,256	111,938	55,969
Total OPEB Liability	1,051,936	114,174	73,061	1,093,049	-
Net pension liability (LGERS)	391,338	183,176	-	574,514	-
Total pension liability (LEOSSA)	<u>908,912</u>	<u>-</u>	<u>12,780</u>	<u>896,132</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 3,496,092</u>	<u>\$ 386,464</u>	<u>\$ 427,249</u>	<u>\$ 3,455,307</u>	<u>\$ 303,203</u>
<b>Business-Type Activities:</b>					
Notes from direct borrowings and direct placements	\$ 7,374,147	\$ 2,468,610	\$ 833,826	\$ 9,008,931	\$ 822,614
Total OPEB Liability	622,554	9,224	39,583	592,195	-
Net pension liability (LGERS)	229,834	107,580	-	337,414	-
Compensated absences	<u>60,479</u>	<u>40,492</u>	<u>49,639</u>	<u>51,332</u>	<u>30,240</u>
Business-type activities long-term liabilities	<u>\$ 8,287,014</u>	<u>\$ 2,625,906</u>	<u>\$ 923,048</u>	<u>\$ 9,989,872</u>	<u>\$ 852,854</u>

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

### 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 \$15,414 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, 2019. 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.

# **TOWN OF FRANKLIN, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019**

### **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, 2019. 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.

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## TOWN OF FRANKLIN, NORTH CAROLINA

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

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

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 THREE FISCAL YEARS \***

<b>Law Enforcement Officers' Special Separation Allowance</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total pension liability	\$ 896,132	\$ 908,912	\$ 818,775
Covered payroll	852,645	843,148	818,843
Total pension liability as a percentage of covered payroll	105.10%	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  
LAST TWO FISCAL YEARS \***

**Schedule of Changes in Total OPEB Liability and Related Ratios**

	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>		
Service cost at end of year	\$ 60,931	\$ 66,072
Interest	58,376	50,421
Differences between expected and actual experience	11,533	(6,572)
Changes of assumptions or other inputs	(50,071)	(86,317)
Benefit payments and implicit subsidy credit	<u>(70,015)</u>	<u>(48,113)</u>
Net change in total OPEB liability	10,754	(24,509)
Total OPEB liability - beginning	<u>1,674,490</u>	<u>1,698,999</u>
Total OPEB liability - ending	<u>\$ 1,685,244</u>	<u>\$ 1,674,490</u>
Covered payroll	\$ 2,355,213	\$ 2,355,213
Total OPEB liability as a percentage of covered payroll	71.55%	71.10%

**Notes to the Required Schedules:**

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

<u>Fiscal Year</u>	<u>Rate</u>
2019	3.89%
2018	3.56%

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

## TOWN OF FRANKLIN, NORTH CAROLINA

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

<b>LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM</b>						
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Proportion of the net pension liability (asset) (%)	0.03844%	0.04066%	0.03954%	0.03950%	0.04056%	0.04030%
Proportion of the net pension liability (asset) (\$)	\$ 911,928	\$ 621,172	\$ 839,171	\$ 177,274	\$ (239,201)	\$ 485,770
Covered-employee payroll	\$2,654,694	\$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	34.35%	24.80%	35.02%	7.92%	-10.55%	22.21%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	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 SIX FISCAL YEARS

	LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM					
	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 212,390	\$ 206,822	\$ 189,300	\$ 165,174	\$ 161,032	\$ 163,874
Contributions in relation to the contractually required contribution	<u>212,390</u>	<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>	<u>\$ -</u>
Covered-employee payroll	\$2,642,187	\$2,654,694	\$2,504,775	\$2,396,096	\$2,239,266	\$2,267,471
Contributions as a percentage of covered-employee payroll	8.04%	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, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$ 2,158,476	\$ 2,169,025	\$ 10,549
Penalties and interest	6,000	14,291	8,291
Total	<u>2,164,476</u>	<u>2,183,316</u>	<u>18,840</u>
<b>Other Taxes and Licenses:</b>			
Fire tax	821,467	843,862	22,395
Vehicle rental tax	20,000	28,766	8,766
Total	<u>841,467</u>	<u>872,628</u>	<u>31,161</u>
<b>Unrestricted Intergovernmental Revenues:</b>			
Local option sales tax	640,000	793,045	153,045
Utility franchise tax	440,000	470,514	30,514
Beer and wine tax	17,500	17,638	138
ABC profit distribution	70,000	70,000	-
On behalf of payments - Fire and Rescue	15,414	15,414	-
Occupancy tax	137,500	148,254	10,754
Total	<u>1,320,414</u>	<u>1,514,865</u>	<u>194,451</u>
<b>Restricted Intergovernmental Revenues:</b>			
Powell Bill allocation	125,000	127,968	2,968
Miscellaneous grants	18,773	10,744	(8,029)
Total	<u>143,773</u>	<u>138,712</u>	<u>(5,061)</u>
<b>Permits and Fees:</b>			
Zoning permits	2,500	14,713	12,213
Sign permits	1,000	993	(7)
Total	<u>3,500</u>	<u>15,706</u>	<u>12,206</u>
<b>Investment Earnings</b>	<u>2,000</u>	<u>47,644</u>	<u>45,644</u>
<b>Miscellaneous</b>	<u>123,843</u>	<u>136,280</u>	<u>12,437</u>
Total revenues	<u>4,599,473</u>	<u>4,909,151</u>	<u>309,678</u>
<b>Expenditures:</b>			
<b>General Government:</b>			
<b>Governing Body:</b>			
Salaries and employee benefits	32,500	32,295	205
Operating expenses	106,000	100,513	5,487
Professional services	41,050	36,925	4,125
Total	<u>179,550</u>	<u>169,733</u>	<u>9,817</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, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Administration:</b>			
Salaries and employee benefits	242,983	183,770	59,213
Operating expenses	22,850	14,066	8,784
Professional services	11,300	9,375	1,925
Total	<u>277,133</u>	<u>207,211</u>	<u>69,922</u>
<b>Finance:</b>			
Salaries and employee benefits	174,130	108,458	65,672
Operating expenses	12,100	10,646	1,454
Professional services	10,900	4,882	6,018
Total	<u>197,130</u>	<u>123,986</u>	<u>73,144</u>
<b>Billing:</b>			
Salaries and employee benefits	60,100	33,559	26,541
Operating expenses	9,900	4,794	5,106
Total	<u>70,000</u>	<u>38,353</u>	<u>31,647</u>
<b>Legal and Election:</b>			
Operating expenses	11,142	10,933	209
Professional services	79,740	61,664	18,076
Total	<u>90,882</u>	<u>72,597</u>	<u>18,285</u>
<b>Facilities:</b>			
Salaries and employee benefits	110,943	106,135	4,808
Operating expenses	219,457	205,579	13,878
Professional services	4,000	3,106	894
Total	<u>334,400</u>	<u>314,820</u>	<u>19,580</u>
<b>Information Technology:</b>			
Operating expenses	40,560	39,874	686
Professional services	19,740	19,365	375
Total	<u>60,300</u>	<u>59,239</u>	<u>1,061</u>
Total general government	<u>1,209,395</u>	<u>985,939</u>	<u>223,456</u>
<b>Public Safety:</b>			
<b>Police:</b>			
Salaries and employee benefits	1,328,204	1,276,462	51,742
Operating expenses	217,691	193,357	24,334
Capital outlay	33,614	33,613	1
Total	<u>1,579,509</u>	<u>1,503,432</u>	<u>76,077</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, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Fire:</b>			
Salaries and employee benefits	547,430	527,046	20,384
Operating expenses	217,612	194,978	22,634
Capital outlay	37,185	37,185	-
Total	<u>802,227</u>	<u>759,209</u>	<u>43,018</u>
Total public safety	<u>2,381,736</u>	<u>2,262,641</u>	<u>119,095</u>
<b>Transportation:</b>			
<b>Streets and Highways:</b>			
Salaries and employee benefits	180,664	136,462	44,202
Operating expenses	383,850	180,667	203,183
Capital outlay	325,700	150,019	175,681
Total	<u>890,214</u>	<u>467,148</u>	<u>423,066</u>
Total transportation	<u>890,214</u>	<u>467,148</u>	<u>423,066</u>
<b>Planning and Economic Development:</b>			
Salaries and employee benefits	90,815	84,912	5,903
Operating expenses	50,800	40,795	10,005
Organization contributions	135,000	143,360	(8,360)
Total	<u>276,615</u>	<u>269,067</u>	<u>7,548</u>
<b>Festivals and Events:</b>			
Operating expenses	71,074	69,984	1,090
Capital outlay	10,000	9,645	355
Total	<u>81,074</u>	<u>79,629</u>	<u>1,445</u>
<b>Traffic:</b>			
Salaries and employee benefits	15,600	13,953	1,647
Operating expenses	3,000	2,656	344
Total	<u>18,600</u>	<u>16,609</u>	<u>1,991</u>
Total planning and economic development	<u>376,289</u>	<u>365,305</u>	<u>10,984</u>
<b>Debt Service:</b>			
Principal retirement	243,154	243,152	2
Interest and fees	24,396	24,394	2
Total debt service	<u>267,550</u>	<u>267,546</u>	<u>4</u>
<b>Contingency</b>	<u>5,789</u>	<u>-</u>	<u>5,789</u>
Total expenditures	<u>5,130,973</u>	<u>4,348,579</u>	<u>782,394</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, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	(531,500)	560,572	(472,716)
<b>Other Financing Sources (Uses):</b>			
Appropriated fund balance	452,000	-	452,000
Transfer in	79,500	-	79,500
Sale of capital assets	-	235,000	(235,000)
Total other financing sources (uses)	<u>531,500</u>	<u>235,000</u>	<u>296,500</u>
Net change in fund balance	<u>\$ -</u>	795,572	<u>\$ 795,572</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>3,023,892</u>	
End of year - June 30		<u>\$ 3,819,464</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, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Operating Revenues:</b>			
Charges for services:			
Water and sewer charges	\$ 3,378,381	\$ 3,854,069	\$ 475,688
Water and sewer taps	25,000	64,040	39,040
Availability fees	12,000	91,150	79,150
Dumping fees	60,000	120,468	60,468
Reconnections	15,000	23,699	8,699
Total operating revenues	<u>3,490,381</u>	<u>4,153,426</u>	<u>663,045</u>
<b>Non-Operating Revenues:</b>			
Investment earnings	2,000	39,512	37,512
Macon County appropriations	39,000	40,309	1,309
Other revenues	18,669	43,171	24,502
Total non-operating revenues	<u>59,669</u>	<u>122,992</u>	<u>63,323</u>
Total revenues	<u>3,550,050</u>	<u>4,276,418</u>	<u>726,368</u>
<b>Expenditures:</b>			
<b>Water and Sewer Operations:</b>			
Salaries and employee benefits	1,519,243	1,435,530	83,713
Utilities	232,000	226,105	5,895
Supplies	309,425	251,560	57,865
Insurance and bonds	65,000	60,993	4,007
Professional services	183,600	149,166	34,434
Repairs and maintenance	248,234	210,073	38,161
Miscellaneous	277,880	258,830	19,050
Total water and sewer operations	<u>2,835,382</u>	<u>2,592,257</u>	<u>243,125</u>
<b>Capital Outlay:</b>			
Water extensions	175,000	92,000	83,000
Equipment	15,000	13,127	1,873
Vehicles	66,600	66,372	228
Total capital outlay	<u>256,600</u>	<u>171,499</u>	<u>85,101</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, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Debt Service:</b>			
Principal retirement	833,828	833,826	2
Interest	202,829	202,828	1
Total debt service	<u>1,036,657</u>	<u>1,036,654</u>	<u>3</u>
Total expenditures	<u>4,128,639</u>	<u>3,800,410</u>	<u>328,229</u>
Revenues over (under) expenditures	<u>(578,589)</u>	<u>476,008</u>	<u>1,054,597</u>
 <b>Other Financing Sources (Uses):</b>			
Appropriated fund balance	<u>578,589</u>	-	<u>(578,589)</u>
Total other financing sources (uses)	<u>578,589</u>	-	<u>(578,589)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 476,008</u>	<u>\$ 476,008</u>
 <b>Reconciliation from Modified Accrual Basis to Full Accrual Basis:</b>			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 476,008	
Reconciling items:			
Change in accrued vacation		9,147	
Capital outlay		171,499	
Payment of debt principal		833,826	
Net pension liability		(107,580)	
Deferred outflows of resources - pensions		86,921	
Deferred inflows of resources - pensions		4,508	
Change in accrued interest		1,457	
Change in deferred outflows of resources - OPEB		25,657	
Change in OPEB liability		30,359	
Change in deferred inflows of resources - OPEB		(10,069)	
Depreciation		<u>(682,873)</u>	
Change in net position		<u>\$ 838,860</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, 2019

	<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>	
<b>Expenditures:</b>					
Water Treatment Plant Upgrade and Expansion	\$ 3,297,128	\$ 865,428	\$ 2,208,564	\$ 3,073,992	\$ 223,136
Revenues over (under) expenditures	(3,297,128)	(865,428)	(2,208,564)	(3,073,992)	223,136
<b>Other Financing Sources (Uses):</b>					
Drinking Water State Revolving Fund loan	3,297,128	605,382	2,468,610	3,073,992	(223,136)
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (260,046)</u>	<u>\$ 260,046</u>	<u>\$ -</u>	<u>\$ -</u>

## TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2019

Fiscal Year	Uncollected Balance July 1, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 2,277,103	\$ 2,133,606	\$ 143,497
2017-2018	82,160	-	30,685	51,475
2016-2017	26,294	-	7,029	19,265
2015-2016	11,578	-	2,225	9,353
2014-2015	9,292	-	1,466	7,826
2013-2014	6,802	-	593	6,209
2012-2013	5,380	-	257	5,123
2011-2012	4,480	-	207	4,273
2010-2011	4,534	-	207	4,327
2009-2010	2,099	-	207	1,892
2008-2009	2,041	-	2,041	-
Total	\$ 154,660	\$ 2,277,103	\$ 2,178,523	253,240
Less: Allowance for uncollectible ad valorem taxes receivable				88,790
Ad valorem taxes receivable - net				\$ 164,450
<b>Reconciliation with Revenues:</b>				
Taxes - ad valorem				\$ 2,183,316
Releases, refunds, and other adjustments				7,457
Amounts written off for tax years per statute of limitations				2,041
Interest collected				(14,291)
Total collections and credits				\$ 2,178,523

## TOWN OF FRANKLIN, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY  
TOWN-WIDE LEVY  
FOR THE YEAR ENDED JUNE 30, 2019

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 709,288,125	\$ 0.32	\$ 2,269,722	\$ 2,133,326	\$ 136,396
<b>Discoveries</b>	12,806,563	0.32	40,981	40,981	-
<b>Releases</b>	(10,500,000)	0.32	(33,600)	(33,600)	-
Total property valuation	\$ 711,594,688				
<b>Net Levy</b>			2,277,103	2,140,707	136,396
Uncollected taxes as of June 30, 2019			143,497	143,497	-
<b>Current Year's Taxes Collected</b>			\$ 2,133,606	\$ 1,997,210	\$ 136,396
<b>Current Levy Collection Percentage</b>			<u>93.70%</u>	<u>93.30%</u>	<u>100.00%</u>

## TOWN OF FRANKLIN, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT  
FRANKLIN TOURISM DEVELOPMENT AUTHORITY  
BALANCE SHEET  
JUNE 30, 2019

	<u>Authority</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 184,679
Accounts receivable	<u>15,377</u>
Total assets	<u>\$ 200,056</u>
<b>Liabilities:</b>	
Liabilities:	
Accounts payable and accrued liabilities	<u>\$ 461</u>
<b>Fund Balance:</b>	
Restricted for:	
Stabilization by state statute	15,377
Tourism	<u>184,218</u>
Total fund balance	<u>199,595</u>
Total liabilities and fund balance	<u>\$ 200,056</u>
Reconciliation of total fund balance shown above to Statement of Net Position (Exhibit A):	
Fund balance, modified accrual basis (above)	<u>\$ 199,595</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, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Occupancy tax revenues	\$ 129,000	\$ 147,793	\$ 18,793
Interest	-	3,250	3,250
Total revenues	<u>129,000</u>	<u>151,043</u>	<u>22,043</u>
<b>Expenditures:</b>			
Operating:			
Professional services	<u>135,000</u>	<u>138,496</u>	<u>(3,496)</u>
Revenues over (under) expenditures	(6,000)	12,547	18,547
<b>Other Financing Sources (Uses):</b>			
Fund balance appropriated	<u>6,000</u>	-	<u>(6,000)</u>
Net change in fund balance	<u>\$ -</u>	12,547	<u>\$ 12,547</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>187,048</u>	
End of year - June 30		<u>\$ 199,595</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, 2019, 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 14, 2019. 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings, Responses, and Questioned Costs as item 2019-001 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, Responses, and Questioned Costs. 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 14, 2019

# MARTIN STARNES

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## & ASSOCIATES, CPAs, P.A.

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

### **Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With Uniform Guidance And The State Single Audit Implementation Act**

#### **Independent Auditor's Report**

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

#### **Report on Compliance for Each Major Federal Program**

We have audited the Town of Franklin, North Carolina's, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the Town of Franklin's major federal programs for the year ended June 30, 2019. The Town of Franklin's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

#### **Management's Responsibility**

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Town of Franklin's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Franklin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Franklin's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Town of Franklin complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

### **Report on Internal Control Over Compliance**

Management of the Town of Franklin is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Franklin's internal control over compliance with the requirements that could have a direct and material effect on each major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Franklin's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P. A.  
Hickory, North Carolina  
October 14, 2019

**TOWN OF FRANKLIN, NORTH CAROLINA**

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**1. Summary of Auditor's Results**

**Financial Statements**

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

Unmodified

Internal control over financial reporting:

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

Non-compliance material to financial statements noted?

\_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over financial reporting:

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

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ Yes      X   No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA #</u>
Drinking Water State Revolving Fund Cluster	66.468
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	No

# TOWN OF FRANKLIN, NORTH CAROLINA

## SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

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

#### Significant Deficiency

##### Finding 2019-001

**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, 2018-001.

**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 85 of this report.

### 3. Findings Related to the Audit of the Federal Awards

None reported.



# TOWN OF FRANKLIN

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## **CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2019**

### **Significant Deficiency**

#### **Finding 2019-001:**

**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, 2019**

**Finding 2018-001**

**Status:** Repeated as Finding 2019-001. Management has evaluated the cost benefit and has chosen to engage the external auditor to perform this function.



TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass-Through or Grantor's Number</u>	<u>Federal (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Passed-Through to Subrecipients</u>
<b>Federal Awards:</b>					
<b><u>U.S. Environmental Protection Agency</u></b>					
Passed through the North Carolina Department of Environmental Quality Division of Water Infrastructure: Drinking Water State Revolving Fund Cluster					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	WIF-1874	\$ 2,208,564	\$ -	\$ -
Total Drinking Water State Revolving Funds Cluster			<u>2,208,564</u>	<u>-</u>	<u>-</u>
Total U.S. Environmental Protection Agency			<u>2,208,564</u>	<u>-</u>	<u>-</u>
<b>Total Federal Awards</b>			<u>2,208,564</u>	<u>-</u>	<u>-</u>
<b>State Awards:</b>					
<b><u>N.C. Department of Transportation</u></b>					
Non-State System Street-Aid Allocation (Powell Bill)					
Total N.C. Department of Transportation			<u>-</u>	<u>107,217</u>	<u>-</u>
<b>Total State Awards</b>			<u>-</u>	<u>107,217</u>	<u>-</u>
<b>Total Federal and State Awards</b>			<u>\$ 2,208,564</u>	<u>\$ 107,217</u>	<u>\$ -</u>

**Notes to the Schedule of Expenditures of Federal and State Financial Awards**

**Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Town of Franklin under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Franklin, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town of Franklin.

**Summary of Significant Accounting Policies**

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Town has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Loans Outstanding**

The Town of Franklin had the following loan balances outstanding at June 30, 2019 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2019 consist of:

<u>Program Title</u>	<u>CFDA</u>	<u>Grantor's Number</u>	<u>Amount Outstanding</u>
Capitalization Grants for Drinking Water State Revolving Fund	66.468	WIF-1874	\$ <u>2,909,136</u>

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