

**TOWN OF FRANKLIN
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

TOWN OF FRANKLIN, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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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, 2020, 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 74% of the assets, 73% of net position, and 96% 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, 2020, 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 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, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2020 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 2, 2020

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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, 2020. 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

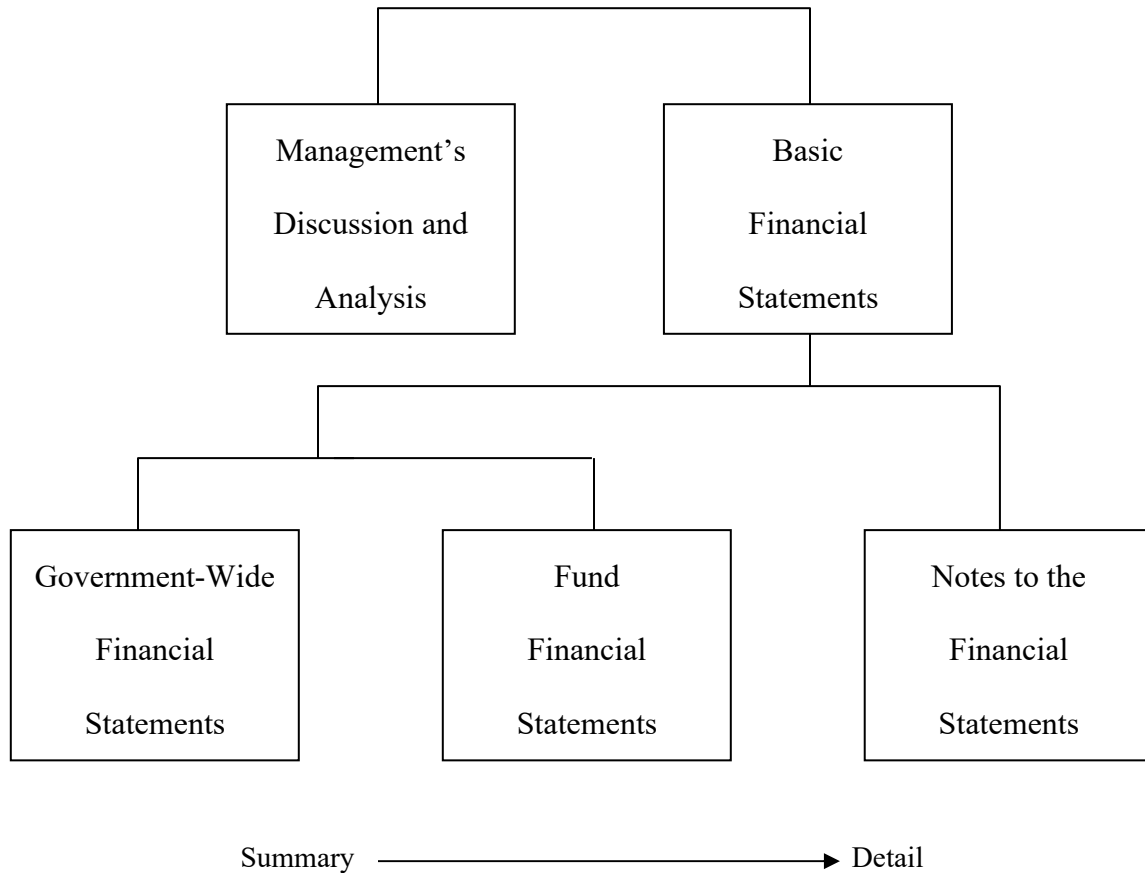
- The assets and deferred outflows of the Town of Franklin exceeded its liabilities and deferred inflows at the close of the fiscal year by \$30,137,417 (*net position*).
- The government's total net position increased by \$1,884,838, due to an increase in governmental net position and an increase in 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 \$4,295,758, an increase of \$476,294, in comparison with the prior year. Approximately 24.9 percent of this total amount, or \$1,070,420, is restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$3,848,081, or 82 percent, of total General Fund expenditures.
- The Town of Franklin's total debt decreased by \$1,069,848 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 60 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	
	2020	2019	2020	2019	2020	2019
Assets:						
Current and other assets	\$ 4,639,737	\$ 4,222,806	\$ 6,617,142	\$ 5,713,899	\$ 11,256,879	\$ 9,936,705
Capital assets	6,374,113	6,111,744	24,992,347	25,349,343	31,366,460	31,461,087
Total assets	<u>11,013,850</u>	<u>10,334,550</u>	<u>31,609,489</u>	<u>31,063,242</u>	<u>42,623,339</u>	<u>41,397,792</u>
Deferred Outflows of Resources	<u>569,682</u>	<u>569,023</u>	<u>265,339</u>	<u>298,043</u>	<u>835,021</u>	<u>867,066</u>
Liabilities:						
Long-term liabilities outstanding	3,362,176	3,455,307	9,171,681	9,989,872	12,533,857	13,445,179
Other liabilities	203,288	238,471	311,750	167,148	515,038	405,619
Total liabilities	<u>3,565,464</u>	<u>3,693,778</u>	<u>9,483,431</u>	<u>10,157,020</u>	<u>13,048,895</u>	<u>13,850,798</u>
Deferred Inflows of Resources	<u>189,115</u>	<u>118,550</u>	<u>82,933</u>	<u>42,931</u>	<u>272,048</u>	<u>161,481</u>
Net Position:						
Net investment in capital assets	5,841,673	5,332,070	16,806,030	16,340,412	22,647,703	21,672,482
Restricted	1,070,420	1,089,462	-	-	1,070,420	1,089,462
Unrestricted	916,860	669,713	5,502,434	4,820,922	6,419,294	5,490,635
Total net position	<u>\$ 7,828,953</u>	<u>\$ 7,091,245</u>	<u>\$ 22,308,464</u>	<u>\$ 21,161,334</u>	<u>\$ 30,137,417</u>	<u>\$ 28,252,579</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 \$30,137,417 as of June 30, 2020. The Town's net position increased by \$1,884,838 for the fiscal year ended June 30, 2020. However, the largest portion (75%) 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 \$1,070,420, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,419,294 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, had a re-evaluation year for FY19-20 property taxes. The town adopted a revenue-neutral budget.

Town of Franklin's Changes in Net Position

Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues:						
Program revenues:						
Charges for services	\$ 91,359	\$ 148,887	\$ 4,213,188	\$ 4,196,597	\$ 4,304,547	\$ 4,345,484
Operating grants	58,084	1,971	138,565	40,309	196,649	42,280
Capital grants	123,261	136,741	-	-	123,261	136,741
General revenues:						
Property taxes	2,290,421	2,252,589	-	-	2,290,421	2,252,589
Other taxes	1,546,428	1,594,448	-	-	1,546,428	1,594,448
Miscellaneous	963,812	793,045	-	-	963,812	793,045
Investment earnings	37,120	47,644	24,827	39,512	61,947	87,156
Total revenues	<u>5,110,485</u>	<u>4,975,325</u>	<u>4,376,580</u>	<u>4,276,418</u>	<u>9,487,065</u>	<u>9,251,743</u>
Expenses:						
General government	1,144,132	1,081,780	-	-	1,144,132	1,081,780
Public safety	2,425,306	2,474,377	-	-	2,425,306	2,474,377
Transportation	433,578	377,784	-	-	433,578	377,784
Planning and economic	352,722	365,622	-	-	352,722	365,622
Interest on long-term debt	17,039	23,246	-	-	17,039	23,246
Water and sewer	-	-	3,229,450	3,437,558	3,229,450	3,437,558
Total expenses	<u>4,372,777</u>	<u>4,322,809</u>	<u>3,229,450</u>	<u>3,437,558</u>	<u>7,602,227</u>	<u>7,760,367</u>
Change in net position	737,708	652,516	1,147,130	838,860	1,884,838	1,491,376
Net Position:						
Beginning of year - July 1	<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>
End of year - June 30	<u>\$ 7,828,953</u>	<u>\$ 7,091,245</u>	<u>\$ 22,308,464</u>	<u>\$ 21,161,334</u>	<u>\$ 30,137,417</u>	<u>\$ 28,252,579</u>

Governmental Activities. Governmental activities increased the Town's net position by \$737,708.

Key elements of this increase are as follows:

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

Business-Type Activities. Business-type activities increased the Town of Franklin's net position by \$1,147,130. Key elements of this increase are as follows:

- Water rate increase of four percent during the current year

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Franklin. At the end of the current fiscal year, the Town of Franklin's fund balance available in the General Fund was \$3,848,081 while total fund balance reached \$4,295,758. The Town currently has an available fund balance of 82% of General Fund expenditures, while total fund balance represents 92% of General Fund expenditures.

At June 30, 2020, the General Fund of the Town of Franklin reported an increase in fund balance of 12.5 percent over last year, primarily due to increased revenues in the areas of charges for services, property and other taxes.

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

Proprietary Funds. The Town of Franklin's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$5,502,434. The total increase in net position for the Fund was \$1,147,130. 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, 2020 totals \$31,366,460 (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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land	\$ 3,212,087	\$ 2,954,808	\$ 1,052,081	\$ 1,025,550	\$ 4,264,168	\$ 3,980,358
Construction in progress	-	-	87,248	-	87,248	-
Infrastructure	694,228	462,284	-	-	694,228	462,284
Buildings	1,969,485	2,025,229	1,188,333	1,192,707	3,157,818	3,217,936
Improvements to facilities	38,224	43,351	19,511	22,139	57,735	65,490
Vehicles	242,464	417,471	107,504	115,838	349,968	533,309
Equipment and furniture	217,625	208,601	119,369	121,861	336,994	330,462
Water and sewer distribution systems	-	-	22,418,301	22,871,248	22,418,301	22,871,248
Total	<u>\$ 6,374,113</u>	<u>\$ 6,111,744</u>	<u>\$ 24,992,347</u>	<u>\$ 25,349,343</u>	<u>\$ 31,366,460</u>	<u>\$ 31,461,087</u>

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

Long-Term Debt. As of June 30, 2020, 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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Capital leases	\$ -	\$ 43,497	\$ -	\$ -	\$ -	\$ 43,497
Notes from direct borrowings and direct placements	532,440	736,177	8,186,317	9,008,931	8,718,757	9,745,108
Total OPEB liability	1,058,559	1,093,049	543,376	592,195	1,601,935	1,685,244
Net pension liability (LGERS)	651,889	574,514	382,857	337,414	1,034,746	911,928
Total pension liability (LEOSSA)	995,982	896,132	-	-	995,982	896,132
Compensated absences	123,306	111,938	59,131	51,332	182,437	163,270
Total	<u>\$ 3,362,176</u>	<u>\$ 3,455,307</u>	<u>\$ 9,171,681</u>	<u>\$ 9,989,872</u>	<u>\$ 12,533,857</u>	<u>\$ 13,445,179</u>

Town of Franklin's Outstanding Debt

The Town of Franklin's total debt decreased by \$1,069,848 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 \$56,406,735.

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. However, the Covid-19 Pandemic could effect all of the above referenced factors.

Budget Highlights for the Year Ending June 30, 2021

Governmental Activities. The General Fund budget was decreased by \$260,980. There was no tax increase this fiscal year.

Budgeted expenditures have been maintained at levels consistent with the fiscal year 2020-2021 through item-specific savings while continuing to provide necessary services. Employee benefits remained unchanged with the exception of a one-time, merit-based payment based on salary for full-time employees. This performance-based payment is based on the town's evaluation policy. Employee benefit contributions remain the same.

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

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TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2020

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Town of Franklin ABC Board	Town of Franklin Tourism Development Authority
Assets:					
Current assets:					
Cash and cash equivalents	\$ 3,429,014	\$ 5,887,679	\$ 9,316,693	\$ 282,142	\$ 197,757
Receivables, net:					
Taxes	140,303	-	140,303	-	-
Accounts	266,252	509,385	775,637	-	7,084
Due from other governments	181,425	67,154	248,579	-	-
Inventories	-	111,644	111,644	270,761	-
Prepaid expenses	-	-	-	5,721	-
Restricted assets -					
cash and cash equivalents	622,743	41,280	664,023	-	-
Total current assets	4,639,737	6,617,142	11,256,879	558,624	204,841
Capital assets:					
Land and construction in progress	3,212,087	1,139,329	4,351,416	-	-
Other capital assets, net of depreciation	3,162,026	23,853,018	27,015,044	37,602	-
Total other assets	6,374,113	24,992,347	31,366,460	37,602	-
Total assets	11,013,850	31,609,489	42,623,339	596,226	204,841
Deferred Outflows of Resources:					
OPEB deferrals	76,726	39,385	116,111	-	-
Pension deferrals	492,956	225,954	718,910	-	-
Total deferred outflows of resources	569,682	265,339	835,021	-	-
Liabilities:					
Current liabilities:					
Accounts payable	38,744	159,592	198,336	53,604	350
Accrued liabilities	163,566	95,687	259,253	-	-
Accrued interest	978	15,191	16,169	-	-
Liabilities payable from restricted assets:					
Customer deposits	-	41,280	41,280	-	-
Total current liabilities	203,288	311,750	515,038	53,604	350
Long-term liabilities:					
Net pension liability - LGERS	651,889	382,857	1,034,746	-	-
Total pension liability - LEOSSA	995,982	-	995,982	-	-
Total OPEB liability	1,058,559	543,376	1,601,935	-	-
Due within one year	193,053	874,907	1,067,960	-	-
Due in more than one year	462,693	7,370,541	7,833,234	-	-
Total long-term liabilities	3,362,176	9,171,681	12,533,857	-	-
Total liabilities	3,565,464	9,483,431	13,048,895	53,604	350
Deferred Inflows of Resources:					
Prepaid taxes	1,366	-	1,366	-	-
OPEB deferrals	160,106	82,185	242,291	-	-
Pension deferrals	27,643	748	28,391	-	-
Total deferred inflows of resources	189,115	82,933	272,048	-	-
Net Position:					
Net investment in capital assets	5,841,673	16,806,030	22,647,703	37,602	-
Restricted for:					
Stabilization by state statute	447,677	-	447,677	-	7,084
Streets	603,464	-	603,464	-	-
Public safety	19,279	-	19,279	-	-
Other purposes	-	-	-	96,320	197,407
Unrestricted	916,860	5,502,434	6,419,294	408,700	-
Total net position	\$ 7,828,953	\$ 22,308,464	\$ 30,137,417	\$ 542,622	\$ 204,491

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, 2020

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 1,144,132	\$ 86,292	\$ 20,931	\$ -
Public safety	2,425,306	5,067	37,153	-
Transportation	433,578	-	-	123,261
Planning and economic	352,722	-	-	-
Interest on long-term debt	17,039	-	-	-
Total governmental activities	<u>4,372,777</u>	<u>91,359</u>	<u>58,084</u>	<u>123,261</u>
Business-Type Activities:				
Water and sewer	<u>3,229,450</u>	<u>4,213,188</u>	<u>138,565</u>	<u>-</u>
Total business-type activities	<u>3,229,450</u>	<u>4,213,188</u>	<u>138,565</u>	<u>-</u>
Total primary government	<u>\$ 7,602,227</u>	<u>\$ 4,304,547</u>	<u>\$ 196,649</u>	<u>\$ 123,261</u>
Component Units:				
ABC Board	\$ 3,230,544	\$ 3,268,855	\$ -	\$ -
Tourism Development Authority	112,269	115,187	-	-
Total component units	<u>\$ 3,342,813</u>	<u>\$ 3,384,042</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, 2020

	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Town of Franklin ABC Board	Town of Franklin Tourism Development Authority
Functions/Programs:					
Primary Government:					
Governmental Activities:					
General government	\$ (1,036,909)	\$ -	\$ (1,036,909)	\$ -	\$ -
Public safety	(2,383,086)	-	(2,383,086)	-	-
Transportation	(310,317)	-	(310,317)	-	-
Planning and economic	(352,722)	-	(352,722)	-	-
Interest on long-term debt	(17,039)	-	(17,039)	-	-
Total governmental activities	<u>(4,100,073)</u>	<u>-</u>	<u>(4,100,073)</u>	<u>-</u>	<u>-</u>
Business-Type Activities:					
Water and sewer	-	1,122,303	1,122,303	-	-
Total business-type activities	<u>-</u>	<u>1,122,303</u>	<u>1,122,303</u>	<u>-</u>	<u>-</u>
Total primary government	<u>(4,100,073)</u>	<u>1,122,303</u>	<u>(2,977,770)</u>	<u>-</u>	<u>-</u>
Component Units:					
ABC Board				38,311	-
Tourism Development Authority				-	2,918
Total component units				<u>38,311</u>	<u>2,918</u>
General Revenues:					
Taxes:					
Property taxes, levied for					
general purposes	2,290,421	-	2,290,421	-	-
Other taxes and licenses	1,546,428	-	1,546,428	-	-
Local option sales tax	963,812	-	963,812	-	-
Investment earnings, unrestricted	37,120	24,827	61,947	1,448	1,978
Total general revenues	<u>4,837,781</u>	<u>24,827</u>	<u>4,862,608</u>	<u>1,448</u>	<u>1,978</u>
Change in net position	737,708	1,147,130	1,884,838	39,759	4,896
Net Position:					
Beginning of year - July 1	<u>7,091,245</u>	<u>21,161,334</u>	<u>28,252,579</u>	<u>502,863</u>	<u>199,595</u>
End of year - June 30	<u>\$ 7,828,953</u>	<u>\$ 22,308,464</u>	<u>\$ 30,137,417</u>	<u>\$ 542,622</u>	<u>\$ 204,491</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2020

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 3,429,014
Receivables, net:	
Taxes	140,303
Accounts	266,252
Due from other governments	181,425
Restricted assets - cash and cash equivalents	622,743
Total assets	<u>\$ 4,639,737</u>
 Liabilities, Deferred Inflows of Resources, and Fund Balance:	
Liabilities:	
Accounts payable	\$ 38,744
Accrued liabilities	163,566
Total liabilities	<u>202,310</u>
 Deferred Inflows of Resources:	
Prepaid taxes	1,366
Property taxes receivables	140,303
Total deferred inflows of resources	<u>141,669</u>
 Fund Balance:	
Restricted:	
Stabilization by state statute	447,677
Restricted for streets	603,464
Restricted for public safety	19,279
Assigned	272,408
Unassigned	2,952,930
Total fund balance	<u>4,295,758</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u>\$ 4,639,737</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2020

	<u>General Fund</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balance	\$ 4,295,758
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	6,374,113
Net pension liability - LGERS	(651,889)
Total pension liability - LEOSSA	(995,982)
Total OPEB liability	(1,058,559)
Deferred inflows of resources related to pensions are not reported in the funds.	(27,643)
Deferred inflows of resources related to OPEB are not reported in the funds.	(160,106)
Deferred outflows of resources related to pensions are not reported in the funds.	492,956
Deferred outflows of resources related to OPEB are not reported in the funds.	76,726
Other long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(532,440)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(123,306)
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	140,303
Other long-term liabilities (accrued interest) are not due and payable in the funds.	<u>(978)</u>
Net position of governmental activities	<u><u>\$ 7,828,953</u></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, 2020

	General Fund
	<u> </u>
Revenues:	
Ad valorem taxes	\$ 2,314,568
Other taxes and licenses	896,395
Unrestricted intergovernmental revenues	1,613,845
Restricted intergovernmental revenues	181,345
Permits and fees	5,067
Investment earnings	37,120
Miscellaneous	86,292
Total revenues	<u>5,134,632</u>
Expenditures:	
Current:	
General government	1,212,007
Public safety	2,336,701
Transportation	506,985
Planning and economic development	351,712
Debt service:	
Principal	247,234
Interest	18,227
Total expenditures	<u>4,672,866</u>
Revenues over (under) expenditures	461,766
Other Financing Sources (Uses):	
Sale of capital assets	<u>14,528</u>
Net change in fund balance	476,294
Fund Balance:	
Beginning of year - July 1	<u>3,819,464</u>
End of year - June 30	<u>\$ 4,295,758</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, 2020

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)	\$ 476,294
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.	(24,147)
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.	247,234
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(11,368)
Pension expense - LGERS	(145,419)
Pension expense - LEO	(38,111)
OPEB plan expense	(30,332)
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.	638,949
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.	(47,117)
Other long-term liabilities (accrued interest) are not due and payable in the funds.	1,188
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>(329,463)</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 737,708</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, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/Under</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 2,063,027	\$ 2,063,027	\$ 2,314,568	\$ 251,541
Other taxes and licenses	865,007	865,007	896,395	31,388
Unrestricted intergovernmental revenues	1,180,000	1,328,705	1,613,845	285,140
Restricted intergovernmental revenues	130,000	166,420	181,345	14,925
Permits and fees	3,500	3,500	5,067	1,567
Investment earnings	5,000	5,000	37,120	32,120
Miscellaneous	24,132	71,777	86,292	14,515
Total revenues	<u>4,270,666</u>	<u>4,503,436</u>	<u>5,134,632</u>	<u>631,196</u>
Expenditures:				
General government	1,197,241	1,390,996	1,212,007	178,989
Public safety	2,417,258	2,553,060	2,336,701	216,359
Transportation	854,772	873,420	506,985	366,435
Planning and economic development	249,799	405,624	351,712	53,912
Debt service:				
Principal	247,237	247,155	247,234	(79)
Interest and fees	18,398	18,480	18,227	253
Contingency	30,000	3,624	-	3,624
Total expenditures	<u>5,014,705</u>	<u>5,492,359</u>	<u>4,672,866</u>	<u>819,493</u>
Revenues over (under) expenditures	<u>(744,039)</u>	<u>(988,923)</u>	<u>461,766</u>	<u>1,450,689</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	14,526	14,528	2
Transfers in	79,500	79,500	-	(79,500)
Appropriated fund balance	664,539	894,897	-	(894,897)
Total other financing sources (uses)	<u>744,039</u>	<u>988,923</u>	<u>14,528</u>	<u>(974,395)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	476,294	<u>\$ 476,294</u>
Fund Balance:				
Beginning of year - July 1			<u>3,819,464</u>	
End of year - June 30			<u>\$ 4,295,758</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, 2020

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 5,887,679
Accounts receivable, net	509,385
Due from other governments	67,154
Inventory	111,644
Restricted assets - cash and cash equivalents	<u>41,280</u>
Total current assets	<u>6,617,142</u>
Non-current assets:	
Capital assets:	
Land	1,052,081
Construction in progress	87,248
Other capital assets, net	<u>23,853,018</u>
Total capital assets	<u>24,992,347</u>
Total assets	<u>31,609,489</u>
Deferred Outflows of Resources:	
OPEB deferrals	39,385
Pension deferrals	<u>225,954</u>
Total deferred outflows of resources	<u>265,339</u>
Liabilities:	
Current liabilities:	
Accounts payable	159,592
Accrued liabilities	95,687
Accrued interest	15,191
Liabilities payable from restricted assets:	
Customer deposits	41,280
Current portion of notes payable	845,342
Current portion of compensated absences payable	<u>29,565</u>
Total current liabilities	<u>1,186,657</u>
Non-current liabilities:	
Notes payable	7,340,975
Net pension liability	382,857
Total OPEB liability	543,376
Compensated absences payable	<u>29,566</u>
Total non-current liabilities	<u>8,296,774</u>
Total liabilities	<u>9,483,431</u>
Deferred Inflows of Resources:	
OPEB deferrals	82,185
Pension deferrals	<u>748</u>
Total deferred outflows of resources	<u>82,933</u>
Net Position:	
Net investment in capital assets	16,806,030
Unrestricted	<u>5,502,434</u>
Total net position	<u>\$ 22,308,464</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, 2020**

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 4,193,014
Operating Expenses:	
Water/sewer operations	2,357,677
Depreciation	691,255
Total operating expenses	<u>3,048,932</u>
Operating income (loss)	<u>1,144,082</u>
Non-Operating Revenues (Expenses):	
Restricted intergovernmental revenue	97,436
Investment earnings	24,827
Interest expense	(180,518)
Macon County appropriations	41,129
Other revenues	20,174
Total non-operating revenues (expenses)	<u>3,048</u>
Change in net position	1,147,130
Net Position:	
Beginning of year - July 1	<u>21,161,334</u>
End of year - June 30	<u>\$ 22,308,464</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, 2020

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 4,269,236
Customer deposits received	2,115
Cash paid for goods and services	(910,501)
Cash paid to employees	<u>(1,233,323)</u>
Net cash provided (used) by operating activities	<u>2,127,527</u>
Cash Flows from Non-Capital Financing Activities:	
Macon County appropriations	41,129
Other revenues	<u>117,610</u>
Net cash provided (used) by non-capital financing activities	<u>158,739</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(323,009)
Proceeds from installment loan	1,864,733
Debt principal	(822,614)
Debt interest	<u>(181,975)</u>
Net cash provided (used) by capital and related financing activities	<u>537,135</u>
Cash Flows from Investing Activities:	
Interest received	<u>24,827</u>
Net increase (decrease) in cash, cash equivalents, and investments	2,848,228
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>3,080,731</u>
End of year - June 30	<u>\$ 5,928,959</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 1,144,082
Depreciation	691,255
Changes in assets and liabilities:	
Accounts receivables	76,222
Inventories	4,030
Accounts payable	132,694
Customer deposits	2,115
OPEB liability	(48,819)
Pension liability	45,443
Deferred outflows of resources for pension	42,561
Deferred inflows of resources for pension	(2,600)
Deferred outflows of resources for OPEB	(9,857)
Deferred inflows of resources for OPEB	42,602
Accrued vacation	<u>7,799</u>
Net cash provided (used) by operating activities	<u>\$ 2,127,527</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, 2020

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 columns in the Town's financial statements in order to emphasize that they are legally separate from the Town.

Component Unit – Town of Franklin ABC Board

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

Component Unit – Town of Franklin Tourism Development Authority

The members of the TDA's governing board are appointed by the Town. The TDA, which provides a financial benefit to the Town, was established to receive the proceeds of the room occupancy tax levied pursuant to Session Law SL 2004-105. The TDA is authorized to spend these proceeds to promote travel and tourism. The TDA Board, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). The 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, 2020

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, 2020

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, 2020

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, 2020

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. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

Cash and Cash Equivalents

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2020 consists of the following:

Governmental Activities:

General Fund:

Law enforcement funds	\$ 19,279
Powell Bill	<u>603,464</u>
Total governmental activities	<u>622,743</u>

Business-Type Activities:

Water and Sewer Fund:

Customer deposits	<u>41,280</u>
Total restricted cash	<u>\$ 664,023</u>

Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2019. There are no discounts allowed by the Town.

Allowances for Doubtful Accounts

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

Inventory and Prepaid Items

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

Capital Assets

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

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

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

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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.

Compensated Absences

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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.

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2020, the Town had \$272,408 assigned for subsequent year's expenditures.

Unassigned Fund Balance

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

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

The Town has not officially adopted a fund balance policy.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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	\$ 4,295,758
Less:	
Stabilization by state statute	<u>447,677</u>
Total available fund balance	<u>\$ 3,848,081</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.

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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

2. Detail Notes On All Funds

A. Assets

Deposits

All of the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for 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.

At June 30, 2020, the Town's deposits had a carrying amount of \$5,140,297 and a bank balance of \$5,325,470. Of the bank balance, \$439,432 was covered by federal depository insurance and \$4,886,038 was covered by collateral held under the Pooling Method. The Town also had cash on hand of \$603 at June 30, 2020. The Town of Franklin ABC Board's deposits had a carrying amount of \$279,842 and a bank balance of \$492,216. The Town of Franklin Tourism Development Authority's deposits had a carrying amount of \$45,115 and a bank balance of \$45,115. All of the bank balances were covered by federal depository insurance.

Investments

At June 30, 2020, the Town had \$4,839,816 and the TDA had \$152,642 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2020</u>
General Fund:	
Taxes receivable	\$ 93,770
Water and Sewer Fund:	
Accounts receivable	\$ 268,607

Due from Other Governments

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

<u>Fund</u>	<u>June 30, 2020</u>
General Fund:	
Sales tax receivable	\$ 28,806
NC DMV	37,656
Franchise tax receivable	94,032
CARES Act	20,931
	<u>181,425</u>
Water and Sewer Fund:	
NCDOT	26,249
Sales tax receivable	30,718
CARES Act	10,187
	<u>67,154</u>
Total	\$ <u>248,579</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Capital Assets

Governmental Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 2,954,808	\$ 304,396	\$ 47,117	\$ 3,212,087
Total non-depreciable capital assets	2,954,808	304,396	47,117	3,212,087
Depreciable Capital Assets:				
Buildings	2,800,297	-	-	2,800,297
Improvements to facilities	282,177	-	-	282,177
Computer equipment	247,292	-	-	247,292
Equipment	800,038	70,350	12,519	857,869
Furniture and fixtures	156,076	-	-	156,076
Vehicles	3,281,577	127,188	137,511	3,271,254
Infrastructure	2,226,539	137,015	-	2,363,554
Total depreciable capital assets	9,793,996	334,553	150,030	9,978,519
Less Accumulated Depreciation:				
Buildings	775,068	55,744	-	830,812
Improvements to facilities	238,826	5,127	-	243,953
Computer equipment	225,962	20,205	-	246,167
Equipment	612,768	41,121	12,519	641,370
Furniture and fixtures	156,075	-	-	156,075
Vehicles	2,864,106	164,684	-	3,028,790
Infrastructure	1,764,255	42,582	137,511	1,669,326
Total accumulated depreciation	6,637,060	\$ 329,463	\$ 150,030	6,816,493
Total depreciable capital assets, net	3,156,936			3,162,026
Governmental activities capital assets, net	\$ 6,111,744			\$ 6,374,113

Depreciation was charged to governmental functions as follows:

General government	\$ 38,457
Public safety	225,825
Transportation	65,181
Total depreciation expense	\$ 329,463

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2020 was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 1,025,550	\$ 26,531	\$ -	\$ 1,052,081
Construction in progress	-	87,248	-	87,248
Total non-depreciable capital assets	<u>1,025,550</u>	<u>113,779</u>	<u>-</u>	<u>1,139,329</u>
Depreciable Capital Assets:				
Buildings	1,310,387	26,098	-	1,336,485
Improvement to facilities	133,469	-	-	133,469
Equipment	909,375	29,718	(6,395)	932,698
Vehicles	491,374	29,894	-	521,268
Water and sewer distribution systems	<u>33,503,594</u>	<u>134,770</u>	<u>-</u>	<u>33,638,364</u>
Total depreciable capital assets	<u>36,348,199</u>	<u>220,480</u>	<u>(6,395)</u>	<u>36,562,284</u>
Less Accumulated Depreciation:				
Buildings	117,680	30,472	-	148,152
Improvements to facilities	111,330	2,628	-	113,958
Equipment	787,514	25,815	-	813,329
Vehicles	375,536	38,228	-	413,764
Water and sewer distribution systems	<u>10,632,346</u>	<u>594,112</u>	<u>6,395</u>	<u>11,220,063</u>
Total accumulated depreciation	<u>12,024,406</u>	<u>\$ 691,255</u>	<u>\$ 6,395</u>	<u>12,709,266</u>
Total depreciable capital assets, net	<u>24,323,793</u>			<u>23,853,018</u>
Business-type activities capital assets, net	<u>\$ 25,349,343</u>			<u>\$ 24,992,347</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2020 is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 6,374,113	\$ 24,992,347
Long-term debt related to capital assets	(532,440)	(8,186,317)
Net investment in capital assets	\$ 5,841,673	\$ 16,806,030

Component Unit

Capital assets of the ABC Board as of June 30, 2020, were as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Depreciable Capital Assets:				
Equipment	\$ 195,479	\$ -	\$ 27,712	\$ 167,767
Leasehold improvements	210,944	-	-	210,944
Total depreciable capital assets	406,423	-	27,712	378,711
Less Accumulated Depreciation:				
Equipment	165,994	7,009	27,712	145,291
Leasehold improvements	193,859	1,959	-	195,818
Total accumulated depreciation	359,853	\$ 8,968	\$ 27,712	341,109
Total depreciable capital assets, net	\$ 46,570			\$ 37,602

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The state's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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, 2020 was 9.70% of compensation for law enforcement officers and 9.03% 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 \$232,644 for the year ended June 30, 2020.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2020, the Town reported a liability of \$1,034,746 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 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, 2019 (measurement date), the Town’s proportion was 0.03789%, which was a decrease of 0.00055% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$463,465. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 177,175	\$ -
Changes of assumptions	168,646	-
Net difference between projected and actual earnings on pension plan investments	25,239	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	6,981	2,022
Town contributions subsequent to the measurement date	232,644	-
Total	\$ 610,685	\$ 2,022

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

\$232,644 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, 2021. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Total</u>
2021	\$ 186,875
2022	59,163
2023	100,481
2024	<u>29,500</u>
Total	<u>\$ 376,019</u>

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

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, 2018 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2019 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	6.0%	4.0%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2019 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.

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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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)	\$ 2,366,654	\$ 1,034,746	\$ (72,339)

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.

At December 31, 2018, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Active plan members	17
Total	19

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2018 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	3.26 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20-Year High Grade Rate Index as of December 31, 2018.

The actuarial assumptions used in the December 31, 2018 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.

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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2020, the Town reported a total pension liability of \$995,982. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was rolled forward to December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$77,293.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 44,701	\$ 3,530
Changes of assumptions	40,636	22,839
Town benefit payments and plan administrative expense made subsequent to the measurement date	22,888	-
Total	\$ 108,225	\$ 26,369

\$22,888 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, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Total
2021	\$ 16,994
2022	18,993
2023	12,037
2024	10,944
Total	\$ 58,968

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 3.26%, 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 (2.26%) or 1-percentage-point higher (4.26%) than the current rate:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 1,065,838	\$ 995,982	\$ 931,104

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

	2020
Beginning balance	\$ 896,132
Service cost	27,875
Interest on the total pension liability	32,040
Differences between expected and actual experience in the measurement of the total pension liability	46,528
Changes of assumptions or other inputs	25,228
Benefit payments	(31,821)
Net changes	99,850
Ending balance of the total pension liability	\$ 995,982

Changes of Assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 3.64 percent at December 31, 2018 (measurement date) to 3.26 percent at December 31, 2019 (measurement date).

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

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

	LGERS	LEOSSA	Total
Pension expense	\$ 463,465	\$ 77,293	\$ 540,758
Pension liability	1,034,746	995,982	2,030,728
Proportionate share of the net pension liability	0.03789%	n/a	-

Deferred of Outflows of Resources

Differences between expected and actual experience	\$ 177,175	\$ 44,701	\$ 221,876
Changes of assumptions	168,646	40,636	209,282
Net difference between projected and actual earnings on pension plan investments	25,239	-	25,239
Changes in proportion and differences between contributions and proportionate share of contributions	6,981	-	6,981
Benefit payments and administrative costs paid subsequent to the measurement date	232,644	22,888	255,532
	\$ 610,685	\$ 108,225	\$ 718,910

Deferred of Inflows of Resources

Differences between expected and actual experience	\$ -	\$ 3,530	\$ 3,530
Changes of assumptions	-	22,839	22,839
Changes in proportion and differences between contributions and proportionate share of contributions	2,022	-	2,022
	\$ 2,022	\$ 26,369	\$ 28,391

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, 2020

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 \$40,882 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, 2020 was \$83,120. The employees' elected deferrals to the Plan were \$38,259 for the year ended June 30, 2020.

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, 2020

Membership of the healthcare plan consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

Inactive members or beneficiaries currently receiving benefits	8
Active members	<u>55</u>
Total	<u><u>63</u></u>

Total OPEB Liability

The Town's total OPEB liability of \$1,601,935 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2019 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	3.89%
Measurement date	3.50%
Health care cost trend rates	
Pre-Medicare medical and Prescription Drug	7.00 % for 2019 decreasing to an ultimate rate of 4.50% by 2026

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, 2020

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

	<u>Total OPEB Liability</u>
Balance at July 1, 2019	\$ 1,685,244
Changes for the year:	
Service cost	58,829
Interest	64,131
Differences between expected and actual experience	(171,334)
Changes of assumptions or other inputs	39,045
Benefit payments	<u>(73,980)</u>
Net changes	<u>(83,309)</u>
Balance at June 30, 2020	<u>\$ 1,601,935</u>

Changes in assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 3.89% to 3.50%.

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, 2019 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, 2019 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2019 valuation.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 (2.50 percent) or one percentage point higher (4.50 percent) than the current discount rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Total OPEB liability	<u>\$ 1,746,460</u>	<u>\$ 1,601,935</u>	<u>\$ 1,471,578</u>

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

	1% Decrease	Current	1% Increase
Total OPEB liability	<u>\$ 1,450,714</u>	<u>\$ 1,601,935</u>	<u>\$ 1,776,766</u>

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

For the year ended June 30, 2020, the Town recognized OPEB expense of \$88,067. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,569	\$ 152,060
Changes of assumptions	33,733	90,231
Benefit payments and plan administrative expense made subsequent to the measurement date	<u>73,809</u>	<u>-</u>
Total	<u>\$ 116,111</u>	<u>\$ 242,291</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

\$73,809 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, 2021. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending	
June 30	Total
2021	\$ (34,893)
2022	(34,893)
2023	(34,893)
2024	(34,893)
2025	(32,262)
Thereafter	<u>(28,155)</u>
Total	<u>\$ (199,989)</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, 2020

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	\$ 255,532
Benefit payments made and administration expenses for OPEB	73,809
Differences between expected and actual experience - Pension	221,876
Differences between expected and actual experience - OPEB	8,569
Changes of assumptions - Pension	209,282
Changes of assumptions - OPEB	33,733
Net difference between projected and actual experience - Pension	25,239
Changes in proportion and differences between employer contributions and proportionate share - Pension	6,981
	<u>\$ 835,021</u>

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

	<u>Amount</u>
Taxes receivable (General Fund)	\$ 140,303
Prepaid taxes	1,366
Changes in assumptions - Pension	22,839
Changes in assumptions - OPEB	90,231
Differences between expected and actual experience - Pension	3,530
Differences between expected and actual experience - OPEB	152,060
Changes in proportion and differences between employer contributions and proportionate share - Pension	2,022
	<u>\$ 412,351</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 property.

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

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

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

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

Claims, Judgments, and Contingent Liabilities

At June 30, 2020, 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, 2020

Long-Term Obligations

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 \$ 532,440

The Town's outstanding notes from direct placements related to governmental activities of \$532,440 are secured with the building. The Town's outstanding notes from direct borrowings related to governmental activities of \$532,440 contain provisions that an event of default would result in repayment of balance to become at once due and payable, regardless of the maturity date or other due date thereof.

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 \$ 946,559

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 1,099,350

Water and Sewer Department, executed \$3,073,993 in October 2018, under a Drinking Water State Revolving Fund loan, due in annual installments of \$153,700, 0% interest, through May 2038 2,766,593

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 3,373,815

Total Water and Sewer Fund \$ 8,186,317

The Town's outstanding notes from direct placements related to business-type activities of \$946,559 are secured with the building. The Town's outstanding notes from direct borrowings related to business-type activities of \$946,559 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The Town's outstanding notes from direct placements related to business-type activities of \$1,099,350 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$1,099,350 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.

The Town's outstanding notes from direct borrowings related to business-type activities of \$2,766,593 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$2,766,593 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 \$3,373,815 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$3,373,815 contain provisions that an event of default would result in immediate repayment of note in whole and any further commitment of funds may be withdrawn.

Annual debt service requirements to maturity are as follows:

Year Ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 131,400	\$ 12,342	\$ 845,342	\$ 160,607
2022	132,480	9,296	857,406	138,703
2023	133,560	6,225	869,989	116,596
2024	135,000	3,129	883,756	93,179
2025	-	-	655,537	69,490
2026-2030	-	-	2,066,117	190,361
2031-2035	-	-	1,547,071	38,072
2036-2038	-	-	461,099	-
Total	<u>\$ 532,440</u>	<u>\$ 30,992</u>	<u>\$ 8,186,317</u>	<u>\$ 807,008</u>

At June 30, 2020, the Town had a legal debt margin of \$56,406,735.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Changes in Long-Term Liabilities

	<u>Balance</u>		<u>Balance</u>	<u>Current</u>
	<u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u>
				<u>Portion</u>
Governmental Activities:				
Notes from direct placements	\$ 736,177	\$ -	\$ 203,737	\$ 532,440
Capital leases	43,497	-	43,497	-
Compensated absences	111,938	115,077	103,709	123,306
Total OPEB Liability	1,093,049	-	34,490	1,058,559
Net pension liability (LGERS)	574,514	77,375	-	651,889
Total pension liability (LEOSSA)	896,132	99,850	-	995,982
Governmental activities				
long-term liabilities	<u>\$ 3,455,307</u>	<u>\$ 292,302</u>	<u>\$ 385,433</u>	<u>\$ 3,362,176</u>
Business-Type Activities:				
Notes from direct borrowings	\$ 9,008,931	\$ -	\$ 822,614	\$ 8,186,317
and direct placements				\$ 845,342
Total OPEB Liability	592,195	-	48,819	543,376
Net pension liability (LGERS)	337,414	45,443	-	382,857
Compensated absences	51,332	51,138	43,339	59,131
Business-type activities				
long-term liabilities	<u>\$ 9,989,872</u>	<u>\$ 96,581</u>	<u>\$ 914,772</u>	<u>\$ 9,171,681</u>

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

Intrafund Balances and Activity

Transfers to/from other funds for the year ended June 30, 2020 consist of the following:

From the Water and Sewer to the Water and Sewer Capital Project Fund	
To transfer funds for CY activity within project	<u>\$ 121,000</u>

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 \$8,705 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, 2020. 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, 2020

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 lightening 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, 2020. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

E. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

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

F. Subsequent Events

In March 2020, the World Health Organization declared the outbreak of a coronavirus (Covid-19), a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact Town revenues. At the current time, we are unable to quantify the potential effects of the pandemic.

TOWN OF FRANKLIN, NORTH CAROLINA

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

Law Enforcement Officers' Special Separation Allowance				
	2020	2019	2018	2017
Beginning balance	\$ 896,132	\$ 908,912	\$ 818,775	\$ 827,883
Service cost	27,875	27,316	24,311	24,957
Interest on the total pension liability	32,040	28,219	30,991	28,761
Differences between expected and actual experience in the measurement of the total pension liability	46,528	(5,964)	18,597	-
Changes of assumptions or other inputs	25,228	(30,530)	48,059	(18,311)
Benefit payments	(31,821)	(31,821)	(31,821)	(44,515)
Ending balance of the total pension liability	<u>\$ 995,982</u>	<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 FOUR FISCAL YEARS ***

Law Enforcement Officers' Special Separation Allowance				
	2020	2019	2018	2017
Total pension liability	\$ 995,982	\$ 896,132	\$ 908,912	\$ 818,775
Covered payroll	918,185	852,645	843,148	818,843
Total pension liability as a percentage of covered payroll	108.47%	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 THREE FISCAL YEARS ***

Schedule of Changes in Total OPEB Liability and Related Ratios			
	2020	2019	2018
Total OPEB Liability			
Service cost at end of year	\$ 58,829	\$ 60,931	\$ 66,072
Interest	64,131	58,376	50,421
Changes of benefit terms	(171,334)	-	-
Differences between expected and actual experience	-	11,533	(6,572)
Changes of assumptions or other inputs	39,045	(50,071)	(86,317)
Benefit payments and implicit subsidy credit	(73,980)	(70,015)	(48,113)
Net change in total OPEB liability	(83,309)	10,754	(24,509)
Total OPEB liability - beginning	1,685,244	1,674,490	1,698,999
Total OPEB liability - ending	<u>\$ 1,601,935</u>	<u>\$ 1,685,244</u>	<u>\$ 1,674,490</u>
Covered payroll	\$ 2,368,885	\$ 2,355,213	\$ 2,355,213
Total OPEB liability as a percentage of covered payroll	67.62%	71.55%	71.10%

Notes to the Required Schedules:

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

Fiscal Year	Rate
2020	3.50%
2019	3.89%
2018	3.56%

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

TOWN OF FRANKLIN, NORTH CAROLINA

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

	Local Government Employees' Retirement System						
	2020	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability (asset) (%)	0.03789%	0.03844%	0.04066%	0.03954%	0.03950%	0.04056%	0.04030%
Proportion of the net pension liability (asset) (\$)	\$ 1,034,746	\$ 911,928	\$ 621,172	\$ 839,171	\$ 177,274	\$ (239,201)	\$ 485,770
Covered payroll	\$ 2,642,187	\$ 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 payroll	39.16%	34.35%	24.80%	35.02%	7.92%	-10.55%	22.21%
Plan fiduciary net position as a percentage of the total pension liability**	90.86%	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 SEVEN FISCAL YEARS**

	Local Government Employees' Retirement System						
	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 232,644	\$ 212,390	\$ 206,822	\$ 189,300	\$ 165,174	\$ 161,032	\$ 163,874
Contributions in relation to the contractually required contribution	<u>232,644</u>	<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>	<u>\$ -</u>
Covered payroll	\$ 2,516,102	\$ 2,642,187	\$ 2,654,694	\$ 2,504,775	\$ 2,396,096	\$ 2,239,266	\$ 2,267,471
Contributions as a percentage of covered payroll	9.25%	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, 2020**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ 2,057,027	\$ 2,295,058	\$ 238,031
Penalties and interest	6,000	19,510	(6,000)
Total	<u>2,063,027</u>	<u>2,314,568</u>	<u>232,031</u>
Other Taxes and Licenses:			
Fire tax	845,007	869,179	24,172
Vehicle rental tax	20,000	27,216	7,216
Total	<u>865,007</u>	<u>896,395</u>	<u>31,388</u>
Unrestricted Intergovernmental Revenues:			
Local option sales tax	640,000	963,812	323,812
Utility franchise tax	450,000	445,074	(4,926)
Beer and wine tax	17,500	17,690	190
ABC profit distribution	70,000	70,000	-
On behalf of payments - Fire and Rescue	8,705	8,705	-
Occupancy tax	142,500	108,564	(33,936)
Total	<u>1,328,705</u>	<u>1,613,845</u>	<u>285,140</u>
Restricted Intergovernmental Revenues:			
Powell Bill allocation	125,000	123,261	(1,739)
Federal grant	36,420	57,351	20,931
Miscellaneous grants	5,000	733	(4,267)
Total	<u>166,420</u>	<u>181,345</u>	<u>14,925</u>
Permits and Fees:			
Zoning permits	3,000	4,078	1,078
Sign permits	500	989	489
Total	<u>3,500</u>	<u>5,067</u>	<u>1,567</u>
Investment Earnings	<u>5,000</u>	<u>37,120</u>	<u>32,120</u>
Miscellaneous	<u>71,777</u>	<u>86,292</u>	<u>14,515</u>
Total revenues	<u>4,503,436</u>	<u>5,134,632</u>	<u>611,686</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, 2020**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	34,500	32,941	1,559
Operating expenses	75,500	62,503	12,997
Professional services	58,000	41,777	16,223
Total	<u>168,000</u>	<u>137,221</u>	<u>30,779</u>
Administration:			
Salaries and employee benefits	260,709	210,199	50,510
Operating expenses	15,965	14,779	1,186
Professional services	11,100	11,100	-
Capital outlay	180,000	179,396	604
Total	<u>467,774</u>	<u>415,474</u>	<u>52,300</u>
Finance:			
Salaries and employee benefits	186,757	150,145	36,612
Operating expenses	10,700	9,402	1,298
Professional services	7,800	1,732	6,068
Total	<u>205,257</u>	<u>161,279</u>	<u>43,978</u>
Billing:			
Salaries and employee benefits	64,134	46,436	17,698
Operating expenses	8,500	4,476	4,024
Total	<u>72,634</u>	<u>50,912</u>	<u>21,722</u>
Legal and Election:			
Operating expenses	16,376	9,068	7,308
Professional services	63,500	62,872	628
Total	<u>79,876</u>	<u>71,940</u>	<u>7,936</u>
Facilities:			
Salaries and employee benefits	120,327	110,668	9,659
Operating expenses	212,638	203,638	9,000
Professional services	6,340	6,322	18
Total	<u>339,305</u>	<u>320,628</u>	<u>18,677</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, 2020**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Information Technology:			
Operating expenses	39,250	35,953	3,297
Professional services	18,900	18,600	300
Total	<u>58,150</u>	<u>54,553</u>	<u>3,597</u>
Total general government	<u>1,390,996</u>	<u>1,212,007</u>	<u>178,989</u>
Public Safety:			
Police:			
Salaries and employee benefits	1,344,635	1,233,130	111,505
Operating expenses	235,417	222,270	13,147
Capital outlay	77,300	77,299	1
Total	<u>1,657,352</u>	<u>1,532,699</u>	<u>124,653</u>
Fire:			
Salaries and employee benefits	526,877	508,979	17,898
Operating expenses	256,399	200,741	55,658
Capital outlay	112,432	94,282	18,150
Total	<u>895,708</u>	<u>804,002</u>	<u>91,706</u>
Total public safety	<u>2,553,060</u>	<u>2,336,701</u>	<u>216,359</u>
Transportation:			
Streets and Highways:			
Salaries and employee benefits	187,072	159,454	27,618
Operating expenses	390,245	184,559	205,686
Capital outlay	296,103	162,972	133,131
Total	<u>873,420</u>	<u>506,985</u>	<u>366,435</u>
Total transportation	<u>873,420</u>	<u>506,985</u>	<u>366,435</u>
Planning and Economic Development:			
Salaries and employee benefits	94,499	89,726	4,773
Operating expenses	68,370	64,100	4,270
Organization contributions	140,000	104,798	35,202
Total	<u>302,869</u>	<u>258,624</u>	<u>44,245</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, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Festivals and Events:			
Operating expenses	84,155	78,516	5,639
Traffic:			
Salaries and employee benefits	15,600	13,763	1,837
Operating expenses	3,000	809	2,191
Total	18,600	14,572	4,028
Total planning and economic development	405,624	351,712	53,912
Debt Service:			
Principal retirement	247,155	247,234	(79)
Interest and fees	18,480	18,227	253
Total debt service	265,635	265,461	174
Contingency	3,624	-	3,624
Total expenditures	5,492,359	4,672,866	819,493
Revenues over (under) expenditures	(988,923)	461,766	(207,807)
Other Financing Sources (Uses):			
Appropriated fund balance	894,897	-	894,897
Transfer in	79,500	-	79,500
Sale of capital assets	14,526	14,528	(2)
Total other financing sources (uses)	988,923	14,528	974,395
Net change in fund balance	<u>\$ -</u>	476,294	<u>\$ 476,294</u>
Fund Balance:			
Beginning of year - July 1		<u>3,819,464</u>	
End of year - June 30		<u>\$ 4,295,758</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, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 3,429,057	\$ 3,949,910	\$ 520,853
Water and sewer taps	25,000	66,113	41,113
Availability fees	12,000	34,350	22,350
Dumping fees	60,000	126,541	66,541
NCDOT	-	87,249	87,249
Reconnections	15,000	16,100	1,100
Total operating revenues	<u>3,541,057</u>	<u>4,280,263</u>	<u>739,206</u>
Non-Operating Revenues:			
Investment earnings	5,000	24,827	19,827
Macon County appropriations	39,000	41,129	2,129
CARES Act	-	10,187	10,187
Other revenues	4,563	20,174	15,611
Total non-operating revenues	<u>48,563</u>	<u>96,317</u>	<u>47,754</u>
Total revenues	<u>3,589,620</u>	<u>4,376,580</u>	<u>786,960</u>
Expenditures:			
Water and Sewer Operations:			
Salaries and employee benefits	1,424,170	1,310,452	113,718
Utilities	234,600	234,202	398
Supplies	279,940	215,862	64,078
Insurance and bonds	72,542	72,069	473
Professional services	175,118	143,482	31,636
Repairs and maintenance	279,727	197,538	82,189
Miscellaneous	163,432	106,943	56,489
Total water and sewer operations	<u>2,629,529</u>	<u>2,280,548</u>	<u>348,981</u>
Capital Outlay:			
Water extensions	175,000	160,868	14,132
Equipment	35,325	35,618	(293)
Vehicles	23,994	23,994	-
Capital improvements	26,660	26,531	129
Total capital outlay	<u>260,979</u>	<u>247,011</u>	<u>13,968</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, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Debt Service:			
Principal retirement	844,928	822,614	22,314
Interest	181,975	181,975	-
Total debt service	<u>1,026,903</u>	<u>1,004,589</u>	<u>22,314</u>
Total expenditures	<u>3,917,411</u>	<u>3,532,148</u>	<u>385,263</u>
Revenues over (under) expenditures	<u>(327,791)</u>	<u>844,432</u>	<u>1,172,223</u>
Other Financing Sources (Uses):			
Transfers out	(121,000)	(121,000)	-
Appropriated fund balance	448,791	-	(448,791)
Total other financing sources (uses)	<u>327,791</u>	<u>(121,000)</u>	<u>(448,791)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 723,432</u>	<u>\$ 723,432</u>
Reconciliation from Modified Accrual Basis to Full Accrual Basis:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 723,432	
Reconciling items:			
Change in accrued vacation		(7,799)	
Capital outlay		247,011	
Payment of debt principal		822,614	
Net pension liability		(45,443)	
Deferred outflows of resources - pensions		(42,561)	
Deferred inflows of resources - pensions		2,600	
Change in accrued interest		1,457	
Change in deferred outflows of resources - OPEB		9,857	
Change in OPEB liability		48,819	
Intrafund transfers - capital projects		121,000	
Change in deferred inflows of resources - OPEB		(42,602)	
Depreciation		<u>(691,255)</u>	
Change in net position		<u>\$ 1,147,130</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, 2020

	Project Authorization	Actual			Variance Over/Under
		Prior Years	Current Year	Total To Date	
Expenditures:					
Water Treatment Plant upgrade and expansion	\$ 3,297,128	\$ 3,073,992	\$ -	\$ 3,073,992	\$ 223,136
NCDOT - ROW Utility Re-location	121,000	-	87,248	87,248	33,752
Total expenditures	<u>3,418,128</u>	<u>3,073,992</u>	<u>87,248</u>	<u>3,161,240</u>	<u>256,888</u>
Revenues over (under) expenditures	<u>(3,418,128)</u>	<u>(3,073,992)</u>	<u>(87,248)</u>	<u>(3,161,240)</u>	<u>256,888</u>
Other Financing Sources (Uses):					
Transfer from other funds	121,000	-	121,000	121,000	-
Drinking Water State Revolving Fund loan	<u>3,297,128</u>	<u>3,073,992</u>	<u>-</u>	<u>3,073,992</u>	<u>(223,136)</u>
Total other financing sources (uses)	<u>3,418,128</u>	<u>3,073,992</u>	<u>121,000</u>	<u>3,194,992</u>	<u>(223,136)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,752</u>	<u>\$ 33,752</u>	<u>\$ 33,752</u>

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2020

Fiscal Year	Uncollected Balance July 1, 2019	Additions	Collections and Credits	Uncollected Balance June 30, 2020
2019-2020	\$ -	\$ 2,277,567	\$ 2,200,345	\$ 77,222
2018-2019	143,497	-	72,205	71,292
2017-2018	51,475	-	16,205	35,270
2016-2017	19,265	-	5,173	14,092
2015-2016	9,353	-	880	8,473
2014-2015	7,826	-	9	7,817
2013-2014	6,209	-	-	6,209
2012-2013	5,123	-	24	5,099
2011-2012	4,273	-	-	4,273
2010-2011	4,327	-	1	4,326
2009-2010	1,892	-	1,892	-
Total	<u>\$ 253,240</u>	<u>\$ 2,277,567</u>	<u>\$ 2,296,734</u>	<u>234,073</u>
Less: Allowance for uncollectible ad valorem taxes receivable				<u>(93,770)</u>
Ad valorem taxes receivable - net				<u>\$ 140,303</u>
Reconciliation with Revenues:				
Taxes - ad valorem			\$ 2,314,568	
Releases, refunds, and other adjustments			(216)	
Amounts written off for tax years per statute of limitations			1,892	
Interest collected			<u>(19,510)</u>	
Total collections and credits			<u>\$ 2,296,734</u>	

TOWN OF FRANKLIN, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2020

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 707,458,750	\$ 0.32	\$ 2,263,868	\$ 2,141,559	\$ 122,309
Discoveries	12,504,375	0.32	40,014	40,014	-
Releases	<u>(8,223,438)</u>	0.32	<u>(26,315)</u>	<u>(26,315)</u>	<u>-</u>
Total property valuation	<u>\$ 711,739,688</u>				
Net Levy			2,277,567	2,155,258	122,309
Uncollected taxes as of June 30, 2020			<u>77,222</u>	<u>77,222</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 2,200,345</u>	<u>\$ 2,078,036</u>	<u>\$ 122,309</u>
Current Levy Collection Percentage			<u>96.61%</u>	<u>96.42%</u>	<u>100.00%</u>

TOWN OF FRANKLIN, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
 FRANKLIN TOURISM DEVELOPMENT AUTHORITY
 BALANCE SHEET
 JUNE 30, 2020

	<u>Authority</u>
Assets:	
Cash and cash equivalents	\$ 197,757
Accounts receivable	<u>7,084</u>
Total assets	<u>\$ 204,841</u>
Liabilities and Fund Balance:	
Liabilities:	
Accounts payable and accrued liabilities	<u>\$ 350</u>
Fund Balance:	
Restricted for:	
Stabilization by state statute	7,084
Tourism	<u>197,407</u>
Total fund balance	<u>204,491</u>
Total liabilities and fund balance	<u>\$ 204,841</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, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Occupancy tax revenues	\$ 135,000	\$ 115,187	\$ (19,813)
Interest	-	1,978	1,978
Total revenues	<u>135,000</u>	<u>117,165</u>	<u>(17,835)</u>
Expenditures:			
Operating:			
Professional services	<u>140,000</u>	<u>112,269</u>	<u>27,731</u>
Revenues over (under) expenditures	(5,000)	4,896	9,896
Other Financing Sources (Uses):			
Fund balance appropriated	<u>5,000</u>	-	<u>(5,000)</u>
Net change in fund balance	<u>\$ -</u>	4,896	<u>\$ 4,896</u>
Fund Balance:			
Beginning of year - July 1		<u>199,595</u>	
End of year - June 30		<u>\$ 204,491</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, 2020, 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 2, 2020. Our report includes a reference to other auditors who audited the financial statements of the Town of Franklin ABC Board, as described in our report on the Town of Franklin's financial statements. The financial statements of the Town of Franklin ABC Board were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Town of Franklin ABC board.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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.

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 financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 2, 2020

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

1. Summary of Auditor's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Non-compliance material to financial statements noted?

_____ Yes X No

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

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

None reported.

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

Finding 2019-001

Status: Corrected.

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