

**TOWN OF FRANKLIN
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

TOWN OF FRANKLIN, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Board of Aldermen
Franklin, North Carolina

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Town of Franklin, North Carolina as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Franklin's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Franklin ABC Board which represents 75% of the assets, 74% 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, 2016, 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 Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress, the Other Post-Employment Benefits Schedules of Funding Progress and Employer Contributions, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Franklin's basic financial statements. The budgetary schedules, Tourism Development Authority schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules, Tourism Development Authority schedules, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed above, and the report of other auditors, the budgetary schedules, Tourism Development Authority schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016 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 and grant agreements, and other matters. The purpose of that report is 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 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 19, 2016

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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, 2016. 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

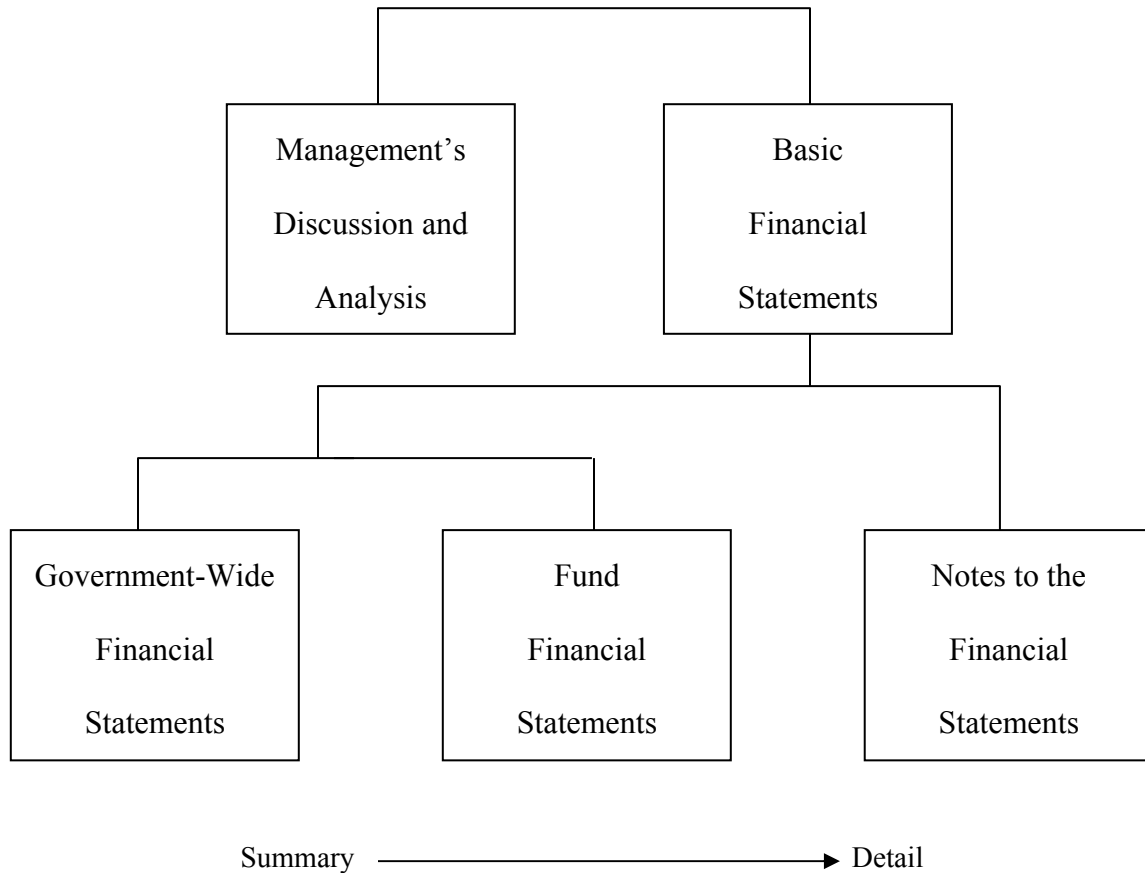
- The assets and deferred outflows of the Town of Franklin exceeded its liabilities and deferred inflows at the close of the fiscal year by \$25,836,797 (*net position*).
- The government's total net position increased by \$1,201,008, due to an increase in governmental net position and an increase in business-type activities net position.
- As of the close of the current fiscal year, the Town of Franklin's General Fund reported total ending fund balance of \$2,711,869, an increase of \$406,934, in comparison with the prior year. Approximately 40 percent of this total amount, or \$1,088,281, is restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$2,330,773, or 57 percent, of total General Fund expenditures.
- The Town of Franklin's total debt decreased by \$902,322 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 unit. 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.

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

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and the accompanying notes, this report includes certain required supplementary information concerning the Town of Franklin's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 56 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	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 2,877,073	\$ 2,452,945	\$ 3,938,974	\$ 3,883,600	\$ 6,816,047	\$ 6,336,545
Capital assets	6,276,643	6,454,180	23,675,100	23,926,419	29,951,743	30,380,599
Total assets	<u>9,153,716</u>	<u>8,907,125</u>	<u>27,614,074</u>	<u>27,810,019</u>	<u>36,767,790</u>	<u>36,717,144</u>
Deferred Outflows of Resources	<u>106,664</u>	<u>104,925</u>	<u>62,644</u>	<u>61,623</u>	<u>169,308</u>	<u>166,548</u>
Liabilities:						
Long-term liabilities outstanding	2,342,205	2,462,957	8,435,083	8,974,486	10,777,288	11,437,443
Other liabilities	106,369	88,646	116,409	138,822	222,778	227,468
Total liabilities	<u>2,448,574</u>	<u>2,551,603</u>	<u>8,551,492</u>	<u>9,113,308</u>	<u>11,000,066</u>	<u>11,664,911</u>
Deferred Inflows of Resources	<u>63,361</u>	<u>367,285</u>	<u>36,874</u>	<u>215,707</u>	<u>100,235</u>	<u>582,992</u>
Net Position:						
Net investment in capital assets	4,829,711	4,592,485	15,599,938	15,124,497	20,429,649	19,716,982
Restricted	1,088,281	875,189	-	-	1,088,281	875,189
Unrestricted	830,453	625,488	3,488,414	3,418,130	4,318,867	4,043,618
Total net position	<u>\$ 6,748,445</u>	<u>\$ 6,093,162</u>	<u>\$ 19,088,352</u>	<u>\$ 18,542,627</u>	<u>\$ 25,836,797</u>	<u>\$ 24,635,789</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 \$25,836,797 as of June 30, 2016. The Town's net position increased by \$1,201,008 for the fiscal year ended June 30, 2016. However, the largest portion (79%) 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 \$1,088,281, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,318,867 is unrestricted.

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

- Continued diligence in the collection of property taxes in the current year

Town of Franklin's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 122,880	\$ 142,892	\$ 3,555,872	\$ 3,374,202	\$ 3,678,752	\$ 3,517,094
Operating grants	-	96,368	38,725	70,742	38,725	167,110
Capital grants	291,111	140,219	-	1,000,000	291,111	1,140,219
General revenues:						
Property taxes	1,964,206	1,970,317	-	-	1,964,206	1,970,317
Other taxes	1,293,043	1,125,031	-	-	1,293,043	1,125,031
Miscellaneous	752,466	606,933	-	-	752,466	606,933
Investment earnings	4,272	229	4,040	820	8,312	1,049
Total revenues	<u>4,427,978</u>	<u>4,081,989</u>	<u>3,598,637</u>	<u>4,445,764</u>	<u>8,026,615</u>	<u>8,527,753</u>
Expenses:						
General government	1,034,297	811,203	-	-	1,034,297	811,203
Public safety	2,161,764	2,040,992	-	-	2,161,764	2,040,992
Transportation	343,498	431,530	-	-	343,498	431,530
Culture and recreation	-	71,724	-	-	-	71,724
Planning and economic	166,193	166,804	-	-	166,193	166,804
Interest on long-term debt	66,943	90,543	-	-	66,943	90,543
Water and sewer	-	-	3,052,912	3,298,796	3,052,912	3,298,796
Total expenses	<u>3,772,695</u>	<u>3,612,796</u>	<u>3,052,912</u>	<u>3,298,796</u>	<u>6,825,607</u>	<u>6,911,592</u>
Increase (decrease) in net position	<u>655,283</u>	<u>469,193</u>	<u>545,725</u>	<u>1,146,968</u>	<u>1,201,008</u>	<u>1,616,161</u>
Net Position:						
Beginning of year - July 1	6,093,162	5,826,763	18,542,627	17,514,760	24,635,789	23,341,523
Restatement	-	(202,794)	-	(119,101)	-	(321,895)
Beginning of year - July 1, as restated	<u>6,093,162</u>	<u>5,623,969</u>	<u>18,542,627</u>	<u>17,395,659</u>	<u>24,635,789</u>	<u>23,019,628</u>
End of year - June 30	<u>\$ 6,748,445</u>	<u>\$ 6,093,162</u>	<u>\$ 19,088,352</u>	<u>\$ 18,542,627</u>	<u>\$ 25,836,797</u>	<u>\$ 24,635,789</u>

Governmental Activities. Governmental activities increased the Town's net position by \$655,283.

Key elements of this increase are as follows:

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

Business-Type Activities. Business-type activities increased the Town of Franklin's net position by \$545,725. Key elements of this increase are as follows:

- Increased revenues from operating and capital grants and decreased operating costs in the current fiscal year

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Franklin. At the end of the current fiscal year, the Town of Franklin's fund balance available in the General Fund was \$2,330,773, while total fund balance reached \$2,711,869. The Town currently has an available fund balance of 57% of General Fund expenditures, while total fund balance represents 66% of General Fund expenditures.

At June 30, 2016, the General Fund of the Town of Franklin reported an increase in fund balance of 18 percent over last year, primarily due to increased revenues and decreased expenditures.

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

Proprietary Funds. The Town of Franklin's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,488,414. The total increase in net position for the Fund was \$545,725. 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, 2016 totals \$29,951,743 (net of accumulated depreciation). These assets include land, construction in progress, buildings, improvements, equipment, furnishings and fixtures, vehicles, infrastructure, and water and sewer distribution systems.

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

Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 2,745,138	\$ 2,745,138	\$ 841,050	\$ 841,050	\$ 3,586,188	\$ 3,586,188
Construction in progress	-	-	254,970	-	254,970	-
Infrastructure	308,469	336,944	-	-	308,469	336,944
Buildings	2,234,680	2,293,177	1,258,116	1,262,821	3,492,796	3,555,998
Improvements to facilities	60,128	33,034	30,023	32,658	90,151	65,692
Vehicles	720,242	796,802	71,697	42,416	791,939	839,218
Equipment and furniture	207,986	98,388	65,167	49,357	273,153	147,745
Water and sewer distribution systems	-	-	21,154,077	21,609,613	21,154,077	21,609,613
Total	<u>\$ 6,276,643</u>	<u>\$ 6,303,483</u>	<u>\$ 23,675,100</u>	<u>\$ 23,837,915</u>	<u>\$ 29,951,743</u>	<u>\$ 30,141,398</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, 2016, the Town of Franklin had no bonded debt outstanding.

General Obligation Bonds and Other Long-Term Liabilities

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Capital leases	\$ 399,692	\$ 537,758	\$ -	\$ -	\$ 399,692	\$ 537,758
Installment purchases and notes payable	1,047,240	1,173,240	8,075,162	8,713,418	9,122,402	9,886,658
Total	<u>\$ 1,446,932</u>	<u>\$ 1,710,998</u>	<u>\$ 8,075,162</u>	<u>\$ 8,713,418</u>	<u>\$ 9,522,094</u>	<u>\$ 10,424,416</u>

Town of Franklin's Outstanding Debt

The Town of Franklin's total debt decreased by \$902,322 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 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Franklin is \$54,786,497.

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.

- There continues to be slow growth in sales tax and water and sewer revenues. Tourism and related business remains a primary driver of the Town economy.

Budget Highlights for the Year Ending June 30, 2017

Governmental Activities. The General Fund budget was increased by \$115,221. There was no tax increase this fiscal year.

Budgeted expenditures have been maintained at levels consistent with the fiscal year 2015-2016 through item-specific savings while continuing to provide necessary services. Employee benefits remained unchanged.

Business-Type Activities. Water and sewer rates were increased this current fiscal year based on the detailed water rate study that was completed in fiscal year 2014-2015. The Town is continuing to work on Phase I of the Water Plant Upgrade and Expansion Project.

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, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Town of Franklin ABC Board	Town of Franklin Tourism Development Authority
Assets:					
Current assets:					
Cash and cash equivalents	\$ 1,730,533	\$ 3,302,939	\$ 5,033,472	\$ 160,110	\$ 167,151
Receivables, net:					
Taxes	58,259	-	58,259	-	-
Accounts	230,936	482,853	713,789	-	11,604
Due from other governments	150,160	-	150,160	-	-
Inventories	-	116,750	116,750	346,210	-
Prepaid expenses	-	-	-	4,908	-
Restricted assets -					
cash and cash equivalents	707,185	36,432	743,617	-	-
Total current assets	<u>2,877,073</u>	<u>3,938,974</u>	<u>6,816,047</u>	<u>511,228</u>	<u>178,755</u>
Capital assets:					
Land and construction in progress	2,745,138	1,096,020	3,841,158	-	-
Other capital assets, net of depreciation	3,531,505	22,579,080	26,110,585	26,996	-
Total other assets	<u>6,276,643</u>	<u>23,675,100</u>	<u>29,951,743</u>	<u>26,996</u>	<u>-</u>
Total assets	<u>9,153,716</u>	<u>27,614,074</u>	<u>36,767,790</u>	<u>538,224</u>	<u>178,755</u>
Deferred Outflows of Resources:					
Contributions to pension plan in					
current fiscal year	104,060	61,114	165,174	-	-
Pension deferrals	2,604	1,530	4,134	-	-
Total deferred outflows of resources	<u>106,664</u>	<u>62,644</u>	<u>169,308</u>	<u>-</u>	<u>-</u>
Liabilities:					
Current liabilities:					
Accounts payable	37,054	-	37,054	38,480	-
Accrued liabilities	69,315	79,977	149,292	-	-
Liabilities payable from					
restricted assets:					
Customer deposits	-	36,432	36,432	-	-
Long-term liabilities:					
Net pension liability	111,682	65,592	177,274	-	-
Due within one year	580,441	682,409	1,262,850	-	-
Due in more than one year	1,650,082	7,687,082	9,337,164	-	-
Total liabilities	<u>2,448,574</u>	<u>8,551,492</u>	<u>11,000,066</u>	<u>38,480</u>	<u>-</u>
Deferred Inflows of Resources:					
Prepaid taxes	576	-	576	-	-
Pension deferrals	62,785	36,874	99,659	-	-
Total deferred inflows of resources	<u>63,361</u>	<u>36,874</u>	<u>100,235</u>	<u>-</u>	<u>-</u>
Net Position:					
Net investment in capital assets	4,829,711	15,599,938	20,429,649	26,996	-
Restricted for:					
Stabilization by State statute	381,096	-	381,096	-	11,604
Streets	691,352	-	691,352	-	-
Public safety	15,833	-	15,833	-	-
Other purposes	-	-	-	76,086	167,151
Unrestricted	830,453	3,488,414	4,318,867	396,662	-
Total net position	<u>\$ 6,748,445</u>	<u>\$ 19,088,352</u>	<u>\$ 25,836,797</u>	<u>\$ 499,744</u>	<u>\$ 178,755</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, 2016

	<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	\$ 1,034,297	\$ 114,568	\$ -	\$ 23,022
Public safety	2,161,764	8,312	-	137,648
Transportation	343,498	-	-	130,441
Planning and economic	166,193	-	-	-
Interest on long-term debt	66,943	-	-	-
Total governmental activities	<u>3,772,695</u>	<u>122,880</u>	<u>-</u>	<u>291,111</u>
Business-Type Activities:				
Water and sewer	<u>3,052,912</u>	<u>3,555,872</u>	<u>38,725</u>	<u>-</u>
Total business-type activities	<u>3,052,912</u>	<u>3,555,872</u>	<u>38,725</u>	<u>-</u>
Total primary government	<u>\$ 6,825,607</u>	<u>\$ 3,678,752</u>	<u>\$ 38,725</u>	<u>\$ 291,111</u>
Component Unit:				
ABC Board	\$ 2,592,678	\$ 2,591,203	\$ -	\$ -
Tourism Development Authority	107,902	118,523	-	-
Total component units	<u>\$ 2,700,580</u>	<u>\$ 2,709,726</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, 2016

	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	\$ (896,707)	\$ -	\$ (896,707)	\$ -	\$ -
Public safety	(2,015,804)	-	(2,015,804)	-	-
Transportation	(213,057)	-	(213,057)	-	-
Planning and economic	(166,193)	-	(166,193)	-	-
Interest on long-term debt	(66,943)	-	(66,943)	-	-
Total governmental activities	<u>(3,358,704)</u>	<u>-</u>	<u>(3,358,704)</u>	<u>-</u>	<u>-</u>
Business-Type Activities:					
Water and sewer	-	541,685	541,685	-	-
Total business-type activities	<u>-</u>	<u>541,685</u>	<u>541,685</u>	<u>-</u>	<u>-</u>
Total primary government	<u>(3,358,704)</u>	<u>541,685</u>	<u>(2,817,019)</u>	<u>-</u>	<u>-</u>
Component Unit:					
ABC Board	-	-	-	(1,475)	-
Tourism Development Authority	-	-	-	-	10,621
Total component units	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,475)</u>	<u>10,621</u>
General Revenues:					
Taxes:					
Property taxes, levied for					
general purposes	1,964,206	-	1,964,206	-	-
Other taxes and licenses	1,293,043	-	1,293,043	-	-
Local option sales tax	752,466	-	752,466	-	-
Investment earnings, unrestricted	4,272	4,040	8,312	732	-
Total general revenues	<u>4,013,987</u>	<u>4,040</u>	<u>4,018,027</u>	<u>732</u>	<u>-</u>
Change in net position	655,283	545,725	1,201,008	(743)	10,621
Net Position:					
Beginning of year - July 1	<u>6,093,162</u>	<u>18,542,627</u>	<u>24,635,789</u>	<u>500,487</u>	<u>168,134</u>
End of year - June 30	<u>\$ 6,748,445</u>	<u>\$ 19,088,352</u>	<u>\$ 25,836,797</u>	<u>\$ 499,744</u>	<u>\$ 178,755</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2016

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 1,730,533
Receivables, net:	
Taxes	58,259
Accounts	230,936
Due from other governments	150,160
Restricted assets - cash and cash equivalents	<u>707,185</u>
Total assets	<u>\$ 2,877,073</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:	
Liabilities:	
Accounts payable	\$ 37,054
Accrued liabilities	<u>69,315</u>
Total liabilities	<u>106,369</u>
Deferred Inflows of Resources:	
Prepaid taxes	576
Property taxes receivable	<u>58,259</u>
Total deferred inflows of resources	<u>58,835</u>
Fund Balance:	
Restricted:	
Stabilization by State statute	381,096
Restricted for streets	691,352
Restricted for Public safety	15,833
Assigned	767,867
Unassigned	<u>855,721</u>
Total fund balance	<u>2,711,869</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,877,073</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2016**

	<u>General Fund</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balance	\$ 2,711,869
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	6,276,643
Net pension liability	(111,682)
Contributions to pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	104,060
Pension related deferrals	(60,181)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,446,932)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(107,337)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(316,329)
Other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.	(359,925)
Liabilities for earned revenues considered deferred inflows of resources in fund statements	<u>58,259</u>
Net position of governmental activities	<u>\$ 6,748,445</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, 2016**

	General Fund
	<u> </u>
Revenues:	
Ad valorem taxes	\$ 1,965,311
Other taxes and licenses	698,721
Unrestricted intergovernmental revenues	1,346,788
Restricted intergovernmental revenues	291,111
Permits and fees	5,717
Investment earnings	4,272
Miscellaneous	<u>117,163</u>
Total revenues	<u>4,429,083</u>
Expenditures:	
Current:	
General government	996,919
Public safety	2,169,359
Transportation	362,433
Planning and economic development	166,193
Debt service:	
Principal	337,871
Interest	<u>66,943</u>
Total expenditures	<u>4,099,718</u>
Revenues over (under) expenditures	<u>329,365</u>
Other Financing Sources (Uses):	
Sale of capital assets	3,764
Capital leases issued	<u>73,805</u>
Total other financing sources (uses)	<u>77,569</u>
Net change in fund balance	406,934
Fund Balance:	
Beginning of year - July 1	<u>2,304,935</u>
End of year - June 30	<u>\$ 2,711,869</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, 2016

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)	\$ 406,934
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.	(1,105)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	104,060
Pension expense	(60,200)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premium discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.</p>	
Debt issued	(73,805)
Principal paid	337,871
Compensated absences expense, net pension obligation, and OPEB expense reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(31,632)
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.	278,172
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.	(8,785)
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>(296,227)</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 655,283</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, 2016

	Budgeted Amounts		Actual	Variance Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 2,007,500	\$ 2,007,500	\$ 1,965,311	\$ (42,189)
Other taxes and licenses	587,415	605,877	698,721	92,844
Unrestricted intergovernmental revenues	1,142,500	1,150,287	1,346,788	196,501
Restricted intergovernmental revenues	162,000	294,210	291,111	(3,099)
Permits and fees	8,200	8,200	5,717	(2,483)
Investment earnings	500	500	4,272	3,772
Miscellaneous	45,076	90,447	117,163	26,716
Total revenues	<u>3,953,191</u>	<u>4,157,021</u>	<u>4,429,083</u>	<u>272,062</u>
Expenditures:				
General government	1,062,523	1,121,208	996,919	124,289
Public safety	2,074,364	2,281,306	2,169,359	111,947
Transportation	837,768	853,385	362,433	490,952
Planning and economic development	174,634	183,178	166,193	16,985
Debt service:				
Principal	322,912	340,073	337,871	2,202
Interest and fees	27,575	67,322	66,943	379
Contingency	100,000	79,500	-	79,500
Total expenditures	<u>4,599,776</u>	<u>4,925,972</u>	<u>4,099,718</u>	<u>826,254</u>
Revenues over (under) expenditures	<u>(646,585)</u>	<u>(768,951)</u>	<u>329,365</u>	<u>1,098,316</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	2,719	3,764	1,045
Capital leases issued	-	73,805	73,805	-
Transfers in	-	84,500	-	(84,500)
Transfers out	77,000	-	-	-
Appropriated fund balance	569,585	607,927	-	(607,927)
Total other financing sources (uses)	<u>646,585</u>	<u>768,951</u>	<u>77,569</u>	<u>(691,382)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>406,934</u>	<u>\$ 406,934</u>
Fund Balance:				
Beginning of year - July 1			<u>2,304,935</u>	
End of year - June 30			<u>\$ 2,711,869</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, 2016

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 3,302,939
Accounts receivable, net	482,853
Inventory	116,750
Restricted assets - cash and cash equivalents	<u>36,432</u>
Total current assets	<u>3,938,974</u>
Capital assets:	
Land	841,050
Construction in progress	254,970
Other capital assets, net	<u>22,579,080</u>
Total capital assets	<u>23,675,100</u>
Total assets	<u>27,614,074</u>
Deferred Outflows of Resources:	
Contributions to pension plan in current fiscal year	61,114
Pension deferrals	<u>1,530</u>
Total deferred outflows of resources	<u>62,644</u>
Liabilities:	
Current liabilities:	
Accrued liabilities	79,977
Liabilities payable from restricted assets:	
Customer deposits	36,432
Current portion of notes payable	648,083
Current portion of compensated absences payable	<u>34,326</u>
Total current liabilities	<u>798,818</u>
Non-current liabilities:	
Notes payable	7,427,079
Net pension liability	65,592
OPEB liability	225,677
Compensated absences payable	<u>34,326</u>
Total non-current liabilities	<u>7,752,674</u>
Total liabilities	<u>8,551,492</u>
Deferred Inflows of Resources:	
Pension deferrals	<u>36,874</u>
Net Position:	
Net investment in capital assets	15,599,938
Unrestricted	<u>3,488,414</u>
Total net position	<u>\$ 19,088,352</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, 2016

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 3,535,277
Total operating revenues	<u>3,535,277</u>
Operating Expenses:	
Water/sewer operations	2,173,591
Depreciation	<u>619,178</u>
Total operating expenses	<u>2,792,769</u>
Operating income (loss)	<u>742,508</u>
Non-Operating Revenues (Expenses):	
Investment earnings	4,040
Interest expense	(260,143)
Macon County appropriations	38,725
Other revenues	<u>20,595</u>
Total non-operating revenues (expenses)	<u>(196,783)</u>
Change in net position	545,725
Net Position:	
Beginning of year - July 1	<u>18,542,627</u>
End of year - June 30	<u>\$ 19,088,352</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, 2016

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 3,540,894
Customer deposits paid	(1,346)
Cash paid for goods and services	(944,143)
Cash paid to employees	(1,241,318)
Net cash provided (used) by operating activities	<u>1,354,087</u>
Cash Flows from Non-Capital Financing Activities:	
Macon County appropriations	<u>38,725</u>
Net cash provided (used) by non-capital financing activities	<u>59,320</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(456,363)
Debt principal	(638,256)
Debt interest	(260,143)
Net cash provided (used) by capital and related financing activities	<u>(1,354,762)</u>
Cash Flows from Investing Activities:	
Interest received	<u>4,040</u>
Net increase (decrease) in cash, cash equivalents, and investments	62,685
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>3,276,686</u>
End of year - June 30	<u>\$ 3,339,371</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 742,508
Depreciation	619,178
Pension	(25,758)
Changes in assets and liabilities:	
Accounts receivables	5,617
Inventories	1,694
Accounts payable	(21,067)
Customer deposits	(1,346)
OPEB	22,167
Accrued vacation	<u>11,094</u>
Net cash provided (used) by operating activities	<u>\$ 1,354,087</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, 2016

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Component Unit – Town of Franklin ABC Board

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

Component Unit – Town of Franklin Tourism Development Authority

The members of the TDA's governing board are appointed by the Town. The TDA, which provides a financial benefit to the Town, was established to receive the proceeds of the room occupancy tax levied pursuant to Session Law SL 2004-105. The TDA is authorized to spend these proceeds to promote travel and tourism. The TDA Board, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). The Authority does not issue separate financial statements.

B. Basis of Presentation

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

Fund Financial Statements. The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for public safety, street maintenance and construction, sanitation service, and general governmental services.

The Town reports the following major enterprise fund:

Water and Sewer Fund. The Water and Sewer Fund is used to account for the Town's water and sewer operations. The primary revenue source is charges to water and sewer customers on a monthly basis. The primary expenses are water treatment, sewer treatment, distribution and collection lines, and administration. The Water and Sewer Capital Project Fund is consolidated into the Water and Sewer Fund.

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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and 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. 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. Long-term debt issued and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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. Project ordinances are adopted for the Enterprise Fund Capital Projects Fund, which is consolidated with the operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting.

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

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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 statutes. 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, ABC Board's, and the Tourism Development Authority's investments with a maturity of more than one year at acquisition, and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, an SEC registered (2a-7) external investment pool, are measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. All cash and investments for 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, 2016

Restricted Cash

Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per 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, 2016, consists of the following:

Governmental Activities:

General Fund:

Law Enforcement Funds	\$ 15,833
Powell Bill	<u>691,352</u>
Total governmental activities	<u>707,185</u>

Business-Type Activities:

Water and Sewer Fund:

Customer deposits	<u>36,432</u>
Total business-type activities	<u>36,432</u>

Total restricted cash	<u>\$ 743,617</u>
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Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2015. There are no discounts allowed by the Town.

Allowances for Doubtful Accounts

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Inventory and Prepaid Items

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

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

Capital Assets

Capital assets are recorded at original cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. Also, the Town has elected not to capitalize those interest costs that are incurred during the construction period of capital assets. Minimum capitalization costs are \$5,000.

Certain items acquired before July 1, 1981 are recorded at an estimated original cost. The total of such estimates is not considered large enough that the errors would be material when capital assets are considered as a whole.

In conjunction with implementing GASB Statement 34, "The New Reporting Model", the Town began capitalizing public domain ("infrastructure") capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town's capitalization threshold will be reported as capital assets in the Statement of Net Position. General governmental infrastructure assets acquired prior to July 1, 2003 were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Position only include assets purchased after July 1, 2003.

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet the criterion for this category, contributions made to the pension plan in the 2016 fiscal year and pension deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has three items that meet the criterion for this category – property taxes receivable, prepaid taxes and deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-Term Obligations

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Compensated Absences

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

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

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

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

Restricted Fund Balance

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

Stabilization by State Statute – portion of fund balance that is not an available resource for appropriation in accordance with State law [G.S. 159-8(a)].

Restricted for Streets – portion of fund balance available for appropriation but legally segregated for street expenditures. This amount represents the balance of total unexpended grant funds.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Restricted for Public Safety – portion of fund balance available for appropriation but legally segregated for public safety expenditures.

Committed Fund Balance

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

Assigned Fund Balance

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

Subsequent Year's Expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the Manager and Finance officer to make certain modifications without requiring Board approval.

Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not 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, 2016

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

Total fund balance - General Fund	\$ 2,711,869
Less:	
Stabilization by State statute	<u>381,096</u>
Total available fund balance	<u>\$ 2,330,773</u>

Pensions

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, 2016

2. Detail Notes On All Funds

A. Assets

Deposits

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

At June 30, 2016, the Town's deposits had a carrying amount of \$2,546,490 and a bank balance of \$3,129,829. Of the bank balance, \$480,922 was covered by federal depository insurance and \$2,648,907 was covered by collateral held under the Pooling Method. The Town also had cash on hand of \$594 at June 30, 2016. The Town of Franklin ABC Board's deposits had a carrying amount of \$160,110 and a bank balance of \$378,627. The Town of Franklin Tourism Development Authority's deposits had a carrying amount of \$167,151 and a bank balance of \$167,151. All of the bank balances were covered by federal depository insurance.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Investments

At June 30, 2016, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management			
Trust - Cash Portfolio	\$ 3,230,005	N/A	AAAm

The Town has no policy regarding credit risk.

Receivables – Allowances for Doubtful Accounts

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

<u>Fund</u>	<u>June 30, 2016</u>
General Fund:	
Taxes receivable	\$ 47,000
Water and Sewer Fund:	
Accounts receivable	\$ 237,709

Due from Other Governments

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

<u>Fund</u>	<u>June 30, 2016</u>
General Fund:	
Sales tax receivable	\$ 28,160
Franchise tax receivable	122,000
Total	\$ 150,160

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Capital Assets

Governmental Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 2,745,138	\$ -	\$ -	\$ 2,745,138
Total non-depreciable capital assets	<u>2,745,138</u>	<u>-</u>	<u>-</u>	<u>2,745,138</u>
Depreciable Capital Assets:				
Buildings	2,978,151	-	-	2,978,151
Improvements to facilities	249,607	32,570	-	282,177
Computer equipment	49,279	-	-	49,279
Equipment	522,120	149,867	-	671,987
Furniture and fixtures	156,076	-	-	156,076
Vehicles	3,371,105	95,735	82,430	3,384,410
Infrastructure	<u>1,972,895</u>	<u>-</u>	<u>-</u>	<u>1,972,895</u>
Total depreciable capital assets	<u>9,299,233</u>	<u>278,172</u>	<u>82,430</u>	<u>9,494,975</u>
Less Accumulated Depreciation:				
Buildings	684,974	58,497	-	743,471
Improvements to facilities	216,573	5,476	-	222,049
Computer equipment	49,279	-	-	49,279
Equipment	478,494	25,618	-	504,112
Furniture and fixtures	101,314	14,651	-	115,965
Vehicles	2,574,303	163,510	73,645	2,664,168
Infrastructure	<u>1,635,951</u>	<u>28,475</u>	<u>-</u>	<u>1,664,426</u>
Total accumulated depreciation	<u>5,740,888</u>	<u>\$ 296,227</u>	<u>\$ 73,645</u>	<u>5,963,470</u>
Total depreciable capital assets, net	<u>3,558,345</u>			<u>3,531,505</u>
Governmental activities capital assets, net	<u>\$ 6,303,483</u>			<u>\$ 6,276,643</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 40,403
Public safety	219,086
Transportation	36,738
Total depreciation expense	<u>\$ 296,227</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2016 was as follows:

	Balance	Increases	Decreases	Balance
	July 1, 2015			June 30, 2016
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 841,050	\$ -	\$ -	\$ 841,050
Construction in progress	-	254,970	-	254,970
Total non-depreciable capital assets	841,050	254,970	-	1,096,020
Depreciable Capital Assets:				
Buildings	1,310,387	-	-	1,310,387
Improvement to facilities	133,469	-	-	133,469
Equipment	783,748	30,750	7,480	807,018
Vehicles	362,303	43,858	-	406,161
Water and sewer distribution systems	29,895,401	126,785	-	30,022,186
Total depreciable capital assets	32,485,308	201,393	7,480	32,679,221
Less Accumulated Depreciation:				
Buildings	47,566	4,705	-	52,271
Improvements to facilities	100,811	2,635	-	103,446
Equipment	734,391	14,940	7,480	741,851
Vehicles	319,887	14,577	-	334,464
Water and sewer distribution systems	8,285,788	582,321	-	8,868,109
Total accumulated depreciation	9,488,443	\$ 619,178	\$ 7,480	10,100,141
Total depreciable capital assets, net	22,996,865			22,579,080
Business-type activities capital assets, net	\$ 23,837,915			\$ 23,675,100

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2016 is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 6,276,643	\$ 23,675,100
Long-term debt related to capital assets	(1,446,932)	(8,075,162)
Net investment in capital assets	\$ 4,829,711	\$ 15,599,938

Component Unit

Capital assets of the ABC Board as of June 30, 2016, were as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Depreciable Capital Assets:				
Equipment	\$ 158,782	\$ 11,063	\$ -	\$ 169,845
Leasehold improvements	192,475	-	-	192,475
Total depreciable capital assets	351,257	11,063	-	362,320
Less Accumulated Depreciation:				
Equipment	138,963	8,593	-	147,556
Leasehold improvements	174,375	13,393	-	187,768
Total accumulated depreciation	313,338	\$ 21,986	\$ -	335,324
Total depreciable capital assets, net	\$ 37,919			\$ 26,996

Construction Commitments

The government has active construction projects as of June 30, 2016. At year-end, the government's commitments with contractors are as follows:

	Spent-to-Date	Remaining Commitment
Water Treatment Plant Upgrade and Expansion	\$ 254,970	\$ 3,323,780
Total	\$ 254,970	\$ 3,323,780

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

B. Pension Plan Obligations

Local Governmental Employees' Retirement System

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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' contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% 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 \$165,174 for the year ended June 30, 2016.

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, 2016, the Town reported a liability of \$177,274 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 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, 2015, the Town's proportion was 0.03950%, which was an decrease of 0.00106% from its proportion measured as of June 30, 2014.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

For the year ended June 30, 2016, the Town recognized pension expense of \$95,557. At June 30, 2016, 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	\$ -	\$ 41,669
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	50,470
Changes in proportion and differences between Town contributions and proportionate share of contributions	4,134	7,520
Town contributions subsequent to the measurement date	165,174	-
Total	\$ 169,308	\$ 99,659

\$165,174 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, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Total
2017	\$ (59,392)
2018	(59,392)
2019	(59,340)
2020	82,599

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increase	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons.

Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 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%	2.2%
Global equity	42.0%	5.8%
Real estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation protection	<u>6.0%</u>	3.4%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 1,236,154	\$ 177,274	\$ (714,809)

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. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the Plan.

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Retirees receiving benefits	3
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>17</u>
Total	<u><u>20</u></u>

Summary of Significant Accounting Policies

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

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- Contributions to the pension plan and earnings on those contributions are irrevocable
- Pension plan assets are dedicated to providing benefits to plan members
- Pension plan assets are legally protected from the creditors or employers, non-employer contributing entities, the plan administrator, and plan members.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions. The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operation budget. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The Town's obligation to contribute to this Plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by the employees.

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percent of dollar on a closed basis. The remaining amortization period at December 31, 2014 was 16 years.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 70,227
Interest on net pension obligation	15,103
Adjustment to annual required contribution	<u>(26,544)</u>
Annual pension cost	58,786
Employer contributions made	<u>44,515</u>
Increase in net pension obligation	14,271
Net pension obligation:	
Beginning of year - July 1	<u>302,058</u>
 End of year - June 30	 <u><u>\$ 316,329</u></u>

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2016	\$ 58,786	75.72%	\$ 316,329
2015	56,799	78.37%	302,058
2014	45,544	97.74%	289,774

Funding Status and Funding Progress. As of December 31, 2015, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$827,883. The covered payroll (annual payroll of active employees covered by the Plan) was \$818,843, and the ratio of the UAAL to the covered payroll was 101.10%. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets are increasing or decreasing, over time, relative to the actuarial accrued liability for benefits.

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, 2016

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 five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2016 were \$54,072, which consisted of \$44,697 from the Town and \$9,375 from the law enforcement officers.

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, 2016 was \$75,760. The employees' elected deferrals to the Plan were \$21,489 for the year ended June 30, 2016.

Other Post-Employment Benefits

Healthcare Benefits

Plan Description. According to a Town resolution, the Town allows employees who retire under the provisions of the North Carolina Local Government Retirement System (LGERS) to participate in the Town's healthcare plan upon retirement, until they become eligible for Medicare. The Plan is a single employer defined benefit plan. The Town will pay a percentage of healthcare premiums based on certain criteria noted in the funding policy below.

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

Funding Policy. The Town will pay 100% of the premium if the employee has at least 30 years of service with the Town, or at least 20 years of service with the Town, and has attained the age of sixty-two. The Town will pay 75% of the premium if the employee has at least 15 years of service with the Town and has attained age fifty-seven. The Town will pay 100% of the premium for employees retiring due to medical disability, providing they have at least twenty years of service, or 75%, if they are age 57 with fifteen years of service and retire due to medical disability. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 5% of annual covered payroll. For the current year, the Town made contributions in the amount of \$52,772.

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Annual required contribution	\$ 113,141
Interest on net OPEB obligation	20,972
Adjustment to annual required contribution	<u>(20,035)</u>
Annual OPEB cost (expense)	114,078
Contributions made	<u>52,772</u>
Increase (decrease) in net OPEB obligation	61,306
Net OPEB obligation:	
Beginning of year - July 1	<u>524,296</u>
End of year - June 30	<u><u>\$ 585,602</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and net OPEB obligation for 2016 were as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2016	\$ 114,078	46.26%	\$ 585,602
2015	84,169	55.06%	524,296
2014	84,098	52.79%	486,472

Funded Status and Funding Progress. As of December 31, 2015, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$1,341,114. The covered payroll (annual payroll of active employees covered by the plan) was \$2,281,720, and the ratio of the UAAL to the covered payroll was 58.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the Plan, and the annual required contributions of

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing, over time, relative to the actuarial accrued liabilities for benefits.

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

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

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, 2016

Deferred Outflows and Inflows of Resources

Deferred outflows of resources at year-end are comprised of \$165,174 of contributions to pension plan in the current fiscal year and \$4,134 of pension related deferrals.

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

Taxes receivable (General Fund)	\$	58,259
Prepaid taxes		576
Pension deferrals		99,659

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in a self-funded risk-financing pool administered by the North Carolina League of Municipalities. Through the pool, the Town obtains workers' compensation coverage up to statutory limits. The pool is reinsured through commercial companies for \$300,000 up to statutory limits for workers' compensation. Specific information on the limits and of the insurance purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pool is audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

Commercial flood insurance is not available within the Town limits since the Town does not participate in the National Flood Insurance Program. However, the Town has Commercial Property Insurance coverage on the utility property that is subject to flooding and also carried flood insurance on the Police Department and Fire Department properties.

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

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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, 2016, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

Long-Term Obligations

Capital Leases

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

An agreement was executed on December 19, 2011 for the lease of an Aerial Truck for the fire department and requires five annual lease payments. The title passes to the Town at the end of the lease term.

An agreement was executed on April 27, 2012 for the lease of a Pumper Tanker for the fire department and requires five annual lease payments. The title passes to the Town at the end of the lease term.

An agreement was executed on February 1, 2016 for the lease of police sedans for the police department and requires two annual lease payments. The title passes to the Town at the end of the lease term.

At June 30, 2016, the Town leased vehicles valued at:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Public safety:			
Vehicles	<u>\$ 905,378</u>	<u>\$ 390,564</u>	<u>\$ 514,814</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2016 were as follows:

Year Ending June 30	Amount
2017	\$ 429,128
Total minimum lease payments	429,128
Less: amount representing interest	29,436
Present value of the minimum lease payments	<u>\$ 399,692</u>

Installment Purchases and Note Payable

Serviced by the General Fund:

Municipal buildings, executed \$1,539,720 in September 2012, under an installment purchase contract, due in semi-annual installments of \$68,400, including interest of 2.32%, through June 2024 \$ 1,047,240

Serviced by the Water and Sewer Fund:

Water and Sewer Department, executed \$2,737,280 in September 2012, under an installment purchase contract, due in semi-annual installments of \$121,600, including interest of 2.32%, through June 2024 \$ 1,861,760

Water and Sewer Department, executed \$2,619,500 in June 2010, under an installment purchase contract, due in semi-annual installments of \$254,695, including interest of 5.11%, through June 2025 1,801,491

Water and Sewer Department, executed \$5,018,104 in June 2012, under a Clean Water State Revolving Fund Loan, due in annual installments of \$267,515, plus interest of 2.445%, through May 2033 4,411,911

Total Water and Sewer Fund \$ 8,075,162

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Annual debt service requirements to maturity are as follows:

Year Ending June 30	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 127,080	\$ 24,275	\$ 648,083	\$ 243,083
2018	128,160	21,329	658,314	223,191
2019	129,240	18,359	668,970	202,828
2020	130,320	15,363	680,071	181,975
2021	131,400	12,342	691,642	160,607
2022-2026	401,040	18,650	2,911,414	468,731
2027-2031	-	-	1,297,621	158,634
2032-2033	-	-	519,047	19,036
Total	<u>\$ 1,047,240</u>	<u>\$ 110,318</u>	<u>\$ 8,075,162</u>	<u>\$ 1,658,085</u>

At June 30, 2016, the Town had a legal debt margin of \$54,786,497.

Changes in Long-Term Liabilities

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
Governmental Activities:					
Installment purchase	\$ 1,173,240	\$ -	\$ 126,000	\$ 1,047,240	\$ 127,080
Capital leases	537,758	73,805	211,871	399,692	399,692
Compensated absences	129,115	18,448	40,226	107,337	53,669
OPEB	320,786	72,830	33,691	359,925	-
Net pension liability (LGERS)	-	111,682	-	111,682	-
Net pension obligation (LEO)	<u>302,058</u>	<u>58,786</u>	<u>44,515</u>	<u>316,329</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 2,462,957</u>	<u>\$ 335,551</u>	<u>\$ 456,303</u>	<u>\$ 2,342,205</u>	<u>\$ 580,441</u>
Business-Type Activities:					
Installment purchase and note payable	\$ 8,713,418	\$ -	\$ 638,256	\$ 8,075,162	\$ 648,083
OPEB	203,510	41,248	19,081	225,677	-
Net pension liability (LGERS)	-	65,592	-	65,592	-
Compensated absences	<u>57,558</u>	<u>45,846</u>	<u>34,752</u>	<u>68,652</u>	<u>34,326</u>
Business-Type activities long-term liabilities	<u>\$ 8,974,486</u>	<u>\$ 152,686</u>	<u>\$ 692,089</u>	<u>\$ 8,435,083</u>	<u>\$ 682,409</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Compensated absences, OPEB, and net pension obligation for governmental activities are liquidated in the General Fund and for business-type activities they are liquidated in the Water and Sewer Fund.

C. Revenues, Expenditures, and Expenses

On-Behalf Payments for Fringe Benefits and Salaries

The Town has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$7,787 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, 2016. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

D. Jointly Governed Organization

Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and 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, 2016. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

E. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

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

TOWN OF FRANKLIN, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL)		Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
		Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)			
12/31/1999	\$ -	\$ 38,654	\$ 38,654	0.00%	\$ 398,932	9.69%
12/31/2000	-	76,935	76,935	0.00%	417,903	18.41%
12/31/2001	-	89,625	89,625	0.00%	464,086	19.31%
12/31/2002	-	105,374	105,374	0.00%	493,176	21.37%
12/31/2003	-	121,896	121,896	0.00%	509,988	23.90%
12/31/2004	-	149,016	149,016	0.00%	566,703	26.30%
12/31/2005	-	164,831	164,831	0.00%	630,166	26.16%
12/31/2006	-	184,617	184,617	0.00%	621,713	29.69%
12/31/2007	-	244,219	244,219	0.00%	673,120	36.28%
12/31/2008	-	313,330	313,330	0.00%	775,948	40.38%
12/31/2009	-	455,505	455,505	0.00%	776,999	58.62%
12/31/2010	-	421,957	421,957	0.00%	777,346	54.28%
12/31/2011	-	504,175	504,175	0.00%	767,799	65.66%
12/31/2012	-	568,221	568,221	0.00%	806,803	70.43%
12/31/2013	-	313,330	313,330	0.00%	775,948	40.38%
12/31/2014	-	573,912	573,912	0.00%	896,268	64.03%
12/31/2015	-	827,883	827,883	0.00%	818,843	101.10%

Notes to the Required Schedules:

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

Valuation date	12/31/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	3.57%
Projected salary increases*	Ranges from 3.50-7.35%
*Includes inflation at	3.00%
Cost-of-living adjustments	NA

TOWN OF FRANKLIN, NORTH CAROLINA

**OTHER POST-EMPLOYMENT BENEFITS -
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2016**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
		Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (b-a)			
12/31/2007	\$ -	\$ 1,201,064	\$ 1,201,064	0.00%	\$ 1,858,738	64.6%
12/31/2010	-	896,944	896,944	0.00%	2,189,609	40.9%
12/31/2013	-	1,344,390	1,344,390	0.00%	2,257,116	59.6%
12/31/2015	-	1,341,114	1,341,114	0.00%	2,281,720	58.8%

Schedule of Employer Contributions

Year Ended June 30	Annual		Percentage of ARC Contributed
	Required Contribution (ARC)	Amount Contributed By Employer	
2016	\$ 113,141	\$ 52,772	46.64%
2015	83,299	46,345	55.64%
2014	83,299	44,397	53.30%
2013	125,027	18,586	14.87%
2012	125,027	14,599	11.68%
2011	125,027	15,020	12.01%

Notes to the Required Schedules:

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

Valuation date	12/31/2015
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	7.75%-5.00%
Year of Ultimate trend rate	2022.0%

* Includes inflation at 3.00%

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

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM			
	2016	2015	2014
Proportion of the net pension liability (asset) (%)	0.03950%	0.04056%	0.04030%
Proportion of the net pension liability (asset) (\$)	\$ 177,274	\$ (239,201)	\$ 485,770
Covered-employee payroll	\$ 2,239,266	\$2,267,471	\$ 2,186,680
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.92%	-10.55%	22.21%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

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

 LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

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

TOWN OF FRANKLIN, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ 2,001,500	\$ 1,952,817	\$ (48,683)
Penalties and interest	6,000	12,494	6,494
Total	<u>2,007,500</u>	<u>1,965,311</u>	<u>(42,189)</u>
Other Taxes and Licenses:			
Privilege licenses	4,500	-	(4,500)
Fire tax	601,377	667,020	65,643
Vehicle rental tax	-	31,701	31,701
Total	<u>605,877</u>	<u>698,721</u>	<u>92,844</u>
Unrestricted Intergovernmental Revenues:			
Local option sales tax	640,000	752,466	112,466
Utility franchise tax	430,000	495,363	65,363
ABC profit distribution	70,000	87,517	17,517
On-behalf of payments - Fire and Rescue	7,787	7,787	-
Occupancy tax	2,500	3,655	1,155
Total	<u>1,150,287</u>	<u>1,346,788</u>	<u>196,501</u>
Restricted Intergovernmental Revenues:			
Powell Bill allocation	125,000	130,441	5,441
Federal Grant	136,810	136,810	-
Miscellaneous grants	32,400	23,860	(8,540)
Total	<u>294,210</u>	<u>291,111</u>	<u>(3,099)</u>
Permits and Fees:			
Building permits and inspection fees	4,000	4,650	650
Cable franchise fees	2,200	-	(2,200)
Sign permits	2,000	1,067	(933)
Total	<u>8,200</u>	<u>5,717</u>	<u>(2,483)</u>
Investment Earnings	<u>500</u>	<u>4,272</u>	<u>3,772</u>
Miscellaneous	<u>90,447</u>	<u>117,163</u>	<u>26,716</u>
Total revenues	<u>4,157,021</u>	<u>4,429,083</u>	<u>272,062</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	33,500	33,372	128
Operating expenses	104,598	102,238	2,360
Professional services	41,639	36,964	4,675
Total	<u>179,737</u>	<u>172,574</u>	<u>7,163</u>
Administration:			
Salaries and employee benefits	181,226	152,384	28,842
Operating expenses	16,040	14,978	1,062
Professional services	11,900	9,467	2,433
Total	<u>209,166</u>	<u>176,829</u>	<u>32,337</u>
Finance:			
Salaries and employee benefits	175,025	146,751	28,274
Operating expenses	12,275	11,537	738
Professional services	10,002	8,684	1,318
Total	<u>197,302</u>	<u>166,972</u>	<u>30,330</u>
Billing:			
Salaries and employee benefits	98,603	78,337	20,266
Operating expenses	7,398	6,776	622
Total	<u>106,001</u>	<u>85,113</u>	<u>20,888</u>
Legal and Election:			
Operating expenses	14,000	10,710	3,290
Professional services	63,500	57,105	6,395
Total	<u>77,500</u>	<u>67,815</u>	<u>9,685</u>
Facilities:			
Salaries and employee benefits	101,502	95,312	6,190
Operating expenses	190,865	177,742	13,123
Professional services	3,135	2,096	1,039
Total	<u>295,502</u>	<u>275,150</u>	<u>20,352</u>
Information Technology:			
Operating expenses	41,796	39,123	2,673
Professional services	14,000	13,343	657
Capital outlay	204	-	204
Total	<u>56,000</u>	<u>52,466</u>	<u>3,534</u>
Total general government	<u>1,121,208</u>	<u>996,919</u>	<u>124,289</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Public Safety:			
Police:			
Salaries and employee benefits	1,239,148	1,206,671	32,477
Operating expenses	197,244	155,221	42,023
Capital outlay	73,805	73,805	-
Total	<u>1,510,197</u>	<u>1,435,697</u>	<u>74,500</u>
Fire:			
Salaries and employee benefits	422,062	390,112	31,950
Operating expenses	198,584	193,683	4,901
Capital outlay	150,463	149,867	596
Total	<u>771,109</u>	<u>733,662</u>	<u>37,447</u>
Total public safety	<u>2,281,306</u>	<u>2,169,359</u>	<u>111,947</u>
Transportation:			
Streets and Highways:			
Salaries and employee benefits	112,169	97,576	14,593
Operating expenses	341,766	176,042	165,724
Capital outlay	333,450	54,499	278,951
Total	<u>787,385</u>	<u>328,117</u>	<u>459,268</u>
Memorial Park			
Operating expenses	<u>30,000</u>	<u>11,116</u>	<u>18,884</u>
Total	<u>30,000</u>	<u>11,116</u>	<u>18,884</u>
NC Bike & Pedestrian Planning			
Operating expenses	<u>36,000</u>	<u>23,200</u>	<u>12,800</u>
Total	<u>36,000</u>	<u>23,200</u>	<u>12,800</u>
Total transportation	<u>853,385</u>	<u>362,433</u>	<u>490,952</u>
Planning and Economic Development:			
Salaries and employee benefits	85,434	83,504	1,930
Operating expenses	<u>10,000</u>	<u>7,843</u>	<u>2,157</u>
Total	<u>95,434</u>	<u>91,347</u>	<u>4,087</u>
Festivals and Events:			
Operating expenses	<u>69,044</u>	<u>58,542</u>	<u>10,502</u>
Total	<u>69,044</u>	<u>58,542</u>	<u>10,502</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Traffic:			
Salaries and employee benefits	15,880	14,102	1,778
Operating expenses	<u>2,820</u>	<u>2,202</u>	<u>618</u>
Total	<u>18,700</u>	<u>16,304</u>	<u>2,396</u>
Total planning and economic development	<u>183,178</u>	<u>166,193</u>	<u>16,985</u>
Debt Service:			
Principal retirement	340,073	337,871	2,202
Interest and fees	<u>67,322</u>	<u>66,943</u>	<u>379</u>
Total debt service	<u>407,395</u>	<u>404,814</u>	<u>2,581</u>
Contingency	<u>79,500</u>	<u>-</u>	<u>79,500</u>
Total expenditures	<u>4,925,972</u>	<u>4,099,718</u>	<u>826,254</u>
Revenues over (under) expenditures	<u>(768,951)</u>	<u>329,365</u>	<u>(554,192)</u>
Other Financing Sources (Uses):			
Appropriated fund balance	607,927	-	607,927
Transfer in	84,500	-	84,500
Capital lease issued	73,805	73,805	-
Sale of capital assets	<u>2,719</u>	<u>3,764</u>	<u>(1,045)</u>
Total other financing sources (uses)	<u>768,951</u>	<u>77,569</u>	<u>691,382</u>
Net change in fund balance	<u>\$ -</u>	<u>406,934</u>	<u>\$ 406,934</u>
Fund Balance:			
Beginning of year - July 1		<u>2,304,935</u>	
End of year - June 30		<u>\$ 2,711,869</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, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 3,263,000	\$ 3,365,899	\$ 102,899
Water and sewer taps	50,550	46,365	(4,185)
Availability fees	10,000	42,800	32,800
Water tank maintenance fees	-	123	123
Dumping fees	30,000	61,540	31,540
Reconnections	15,000	18,550	3,550
Total operating revenues	<u>3,368,550</u>	<u>3,535,277</u>	<u>166,727</u>
Non-Operating Revenues:			
Investment earnings	500	4,040	3,540
Macon County appropriations	32,000	38,725	6,725
Other revenues	30,000	20,595	(9,405)
Total non-operating revenues	<u>62,500</u>	<u>63,360</u>	<u>860</u>
Total revenues	<u>3,431,050</u>	<u>3,598,637</u>	<u>167,587</u>
Expenditures:			
Water and Sewer Operations:			
Salaries and employee benefits	1,436,871	1,248,821	188,050
Utilities	200,000	197,826	2,174
Supplies	280,248	246,441	33,807
Insurance and bonds	60,000	51,348	8,652
Professional services	188,201	168,231	19,970
Repairs and maintenance	233,914	167,858	66,056
Miscellaneous	158,950	85,563	73,387
Total water and sewer operations	<u>2,558,184</u>	<u>2,166,088</u>	<u>392,096</u>
Capital Outlay:			
Water extensions	161,693	126,785	34,908
Equipment	30,850	30,750	100
Vehicles	43,860	43,858	2
Total capital outlay	<u>236,403</u>	<u>201,393</u>	<u>35,010</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, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Debt Service:			
Principal retirement	638,257	638,256	1
Interest	<u>273,924</u>	<u>262,528</u>	<u>11,396</u>
Total debt service	<u>912,181</u>	<u>900,784</u>	<u>11,397</u>
Total expenditures	<u>3,706,768</u>	<u>3,268,265</u>	<u>438,503</u>
Revenues over (under) expenditures	<u>(275,718)</u>	<u>330,372</u>	<u>606,090</u>
Other Financing Sources (Uses):			
Appropriated fund balance	<u>275,718</u>	<u>-</u>	<u>(275,718)</u>
Total other financing sources (uses)	<u>275,718</u>	<u>-</u>	<u>(275,718)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 330,372</u>	<u>\$ 330,372</u>
Reconciliation from Modified Accrual Basis to Full Accrual Basis:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 330,372	
Reconciling items:			
Change in accrued vacation		(11,094)	
Capital outlay		201,393	
Payment of debt principal		638,256	
Pension expense		25,758	
Change in accrued interest		2,385	
Change in OPEB liability		(22,167)	
Depreciation		<u>(619,178)</u>	
Change in net position		<u>\$ 545,725</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, 2016

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	
Expenditures:					
Water Treatment Plant Upgrade and Expansion	\$ 3,578,750	\$ -	\$ 254,970	\$ 254,970	\$ 3,323,780
Total expenditures	<u>3,578,750</u>	<u>-</u>	<u>254,970</u>	<u>254,970</u>	<u>3,323,780</u>
Revenues over (under) expenditures	<u>(3,578,750)</u>	<u>-</u>	<u>(254,970)</u>	<u>(254,970)</u>	<u>3,323,780</u>
Other Financing Sources (Uses):					
Clean Water State Revolving Fund loan	<u>3,578,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,578,750)</u>
Total other financing sources (uses)	<u>3,578,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,578,750)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (254,970)</u>	<u>\$ (254,970)</u>	<u>\$ (254,970)</u>

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2016

Fiscal Year	Uncollected Balance July 1, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 1,968,170	\$ 1,920,995	\$ 47,175
2014-2015	52,579	-	35,959	16,620
2013-2014	16,568	-	4,179	12,389
2012-2013	9,696	-	817	8,879
2011-2012	6,895	-	119	6,776
2010-2011	5,517	-	70	5,447
2009-2010	2,876	-	50	2,826
2008-2009	2,386	-	69	2,317
2007-2008	1,712	-	225	1,487
2006-2007	1,269	-	(74)	1,343
2005-2006	1,866	-	1,866	-
Total	\$ 101,364	\$ 1,968,170	\$ 1,964,275	105,259
Less: Allowance for uncollectible ad valorem taxes receivable				47,000
Ad valorem taxes receivable - net				\$ 58,259
Reconciliation with Revenues:				
Taxes - ad valorem				\$ 1,952,817
Releases, refunds, and other adjustments				(2,902)
Amounts written off for tax years per Statute of Limitations				1,866
Interest collected				12,494
Total collections and credits				\$ 1,964,275

TOWN OF FRANKLIN, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2016

	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	\$ 711,050,000	\$ 0.28	\$ 1,990,940	\$ 1,872,172	\$ 118,768
Discoveries	<u>21,686,786</u>	0.28	<u>60,723</u>	<u>60,723</u>	<u>-</u>
Abatements	<u>(29,818,929)</u>	0.28	<u>(83,493)</u>	<u>(83,493)</u>	<u>-</u>
Total property valuation	<u>\$ 702,917,857</u>				
Net Levy			1,968,170	1,849,402	118,768
Uncollected taxes as of June 30, 2016			<u>47,175</u>	<u>47,175</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 1,920,995</u>	<u>\$ 1,802,227</u>	<u>\$ 118,768</u>
Current Levy Collection Percentage			<u>97.60%</u>	<u>97.45%</u>	<u>100.00%</u>

TOWN OF FRANKLIN, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
 FRANKLIN TOURISM DEVELOPMENT AUTHORITY
 BALANCE SHEET
 JUNE 30, 2016

	<u>Authority</u>
Assets:	
Cash and cash equivalents	\$ 167,151
Accounts receivable	11,604
Total assets	<u>\$ 178,755</u>
Fund Balance:	
Restricted for:	
Stabilization by State statute	11,604
Tourism	<u>167,151</u>
Total fund balance	<u>178,755</u>
Total liabilities and fund balance	<u>\$ 178,755</u>
Reconciliation of total fund balance shown above to Statement of Net Position (Exhibit A):	
Fund balance, modified accrual basis (above)	<u>\$ 178,755</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, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Occupancy tax revenues	\$ 100,000	\$ 118,182	\$ 18,182
Interest	-	341	341
Total revenues	<u>100,000</u>	<u>118,523</u>	<u>18,523</u>
Expenditures:			
Operating:			
Professional services	<u>113,400</u>	<u>107,902</u>	<u>5,498</u>
Total expenditures	<u>113,400</u>	<u>107,902</u>	<u>5,498</u>
Revenues over (under) expenditures	<u>(13,400)</u>	<u>10,621</u>	<u>24,021</u>
Other Financing Sources (Uses):			
Fund balance appropriated	<u>13,400</u>	-	<u>(13,400)</u>
Total other financing sources (uses)	<u>13,400</u>	-	<u>(13,400)</u>
Net change in fund balance	<u>\$ -</u>	<u>10,621</u>	<u>\$ 10,621</u>
Fund Balance:			
Beginning of year - July 1		<u>168,134</u>	
End of year - June 30		<u>\$ 178,755</u>	

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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

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

Independent Auditor's Report

To the Honorable Mayor and
Board of Aldermen
Town of Franklin, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Town of Franklin, North Carolina, as of and for the year ended June 30, 2016, 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 19, 2016. Our report includes a reference to other auditors who audited the financial statements of the Town of Franklin ABC Board, as described in our report on the Town of Franklin's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Franklin ABC Board was not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Franklin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Franklin's Response to Finding

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

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 19, 2016

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2016

Findings Related to the Audit of the Basic Financial Statements

Significant Deficiency

Finding 2016-001

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

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board requires a level of technical expertise not possessed by Town personnel.

Context: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules.

Effect: The Town requires assistance from the external auditor in drafting their financial statements.

Cause: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears prohibitive.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2015-001.

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

Corrective Action/Management Response: Management concurs and will diligently review financial data to ensure agreement with audited financial statements.

TOWN OF FRANKLIN, NORTH CAROLINA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2016

Significant Deficiency

Finding 2016-001:

Name of Contact Person: Summer Woodard

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

Proposed Completion Date: Immediately.

TOWN OF FRANKLIN, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Finding 2015-001

Status: Repeated as Finding 2016-001. Management has evaluated the cost benefit and has chosen to engage the external auditor to perform this function.

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

Finding 2015-002

Status: Corrected.

Finding 2015-003

Status: Corrected.