

TOWN OF FRANKLINTON

NORTH CAROLINA

ANNUAL FINANCIAL REPORT

Town Council Members

Art Wright – Mayor

John Allers

Phil Meador

Anita Fuller

Brad Kearney

Alvin Holden

Administrative and Financial Staff

Gregory Bethea, Town Manager

Kim Worley, Assistant Finance Director

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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JUNE 30, 2019**

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Financial Section

May & Place, PA

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SCOTT H. MAY, CPA
DALE R. PLACE, CPA, CFE

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund for the Town of Franklinton, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the Town of Franklinton's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 *Governmental 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 Franklinton ABC Board were not audited in accordance with *Governmental 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 from 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 to design audit procedures that are appropriate in the circumstances, but not for 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 financial statement 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund, of the Town of Franklinton, North Carolina as of June 30, 2019, and the respective changes in financial position and, where appropriate, 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 the Management's Discussion and Analysis, the Local Government Employees' Retirement System's Schedule of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, and the Law Enforcement Officers' Special Separation Allowance 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 basic financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the 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 forming opinions on the financial statements that collectively comprise the Town of Franklinton's basic financial statements. The combining and individual fund financial statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary 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 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. In our opinion, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019 on our consideration of Town of Franklinton'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 the 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 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 Town of Franklinton's internal control over financial reporting and compliance.

May & Place, PA

May & Place, PA
Louisburg, NC 27549
December 16, 2019

Management Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Franklinton, we offer readers of the Town of Franklinton's financial statements this narrative overview and analysis of the financial activities of the Town of Franklinton for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

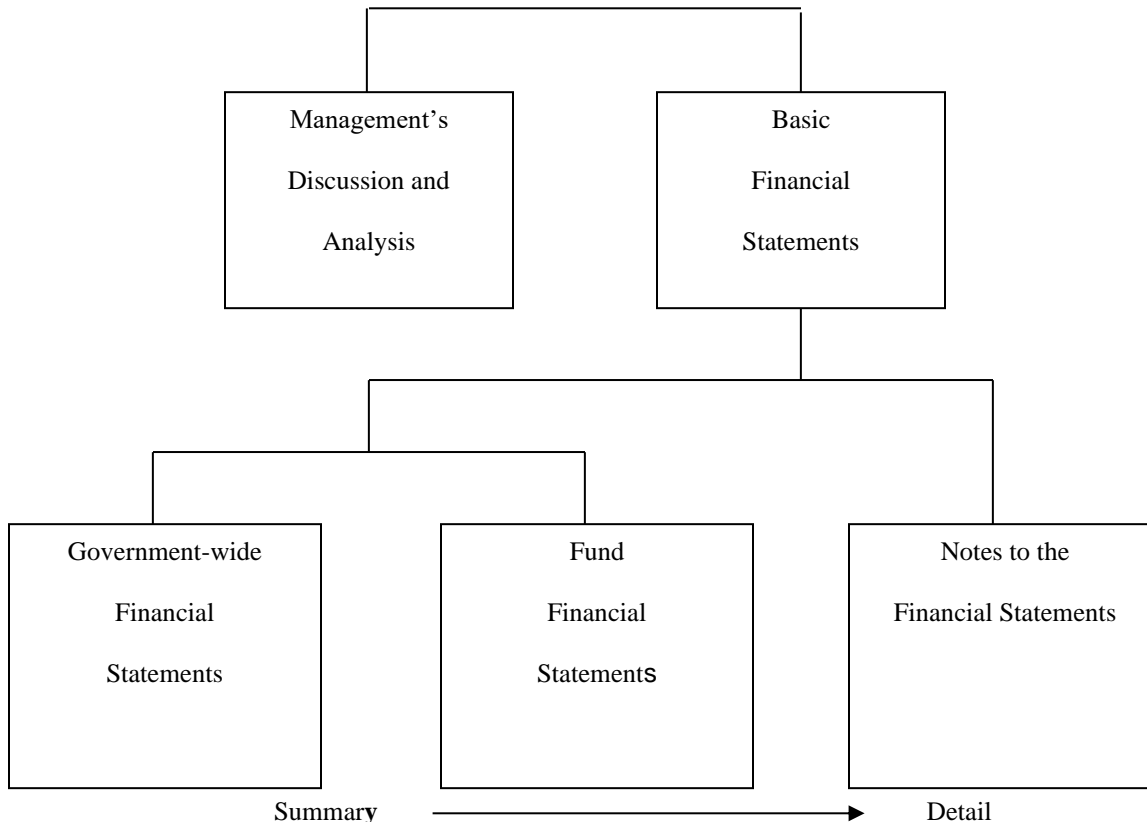
- The assets and deferred outflows of resources of the Town of Franklinton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$1,794,868 (*net position*).
- As of the close of the current fiscal year, the Town of Franklinton's governmental funds reported combined ending fund balances of \$1,213,939 with a net decrease of \$166,672 in fund balance. Approximately 24.62 percent of this total amount, or \$298,835, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$915,104, or 43.23 percent of total general fund expenditures for the fiscal year.
- The Town of Franklinton's total debt decreased by \$163,471 or 100.00% during the current fiscal year. All outstanding loans were paid off with no additional loans made.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Franklinton'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 Franklinton.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) 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 3 through 6) 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 two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the budgetary comparison 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 units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, planning, streets, and general administration. Property taxes and state and federal grant funds finance most of these activities. The other category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. This importance is acknowledged by the Town exercising control over appointments to the Board by requiring the Board to distribute its profits to the Town.

The government-wide financial statements are on Exhibits 1 and 2 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 Franklinton, 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 Franklinton can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 Franklinton 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.

Proprietary Funds – Town of Franklinton does not have any proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. 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.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Franklinton has one fiduciary fund: an agency fund.

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 start on page 23 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Franklinton’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 42 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 laws of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

**Government-Wide Financial Analysis
Town of Franklinton’s Net Position
Figure 2**

	Governmental Activities		Total	
	2019	2018	2019	2018
Current and other assets	\$ 1 324 573	\$ 1 679 254	\$ 1 324 573	\$ 1 679 254
Capital assets	789 171	727 450	789 171	727 450
Deferred outflows of resources	248 430	112 933	248 430	112 933
Total assets and deferred outflows of resources	<u>2 362 174</u>	<u>2 519 637</u>	<u>2 362 174</u>	<u>2 519 637</u>
Current liabilities	70 387	155 944	70 387	155 944
Other liabilities	451 141	364 076	451 141	364 076
Deferred inflows of resources	45 778	20 744	45 778	20 744
Total liabilities and deferred inflows of resources	<u>567 306</u>	<u>540 764</u>	<u>567 306</u>	<u>540 764</u>
Net position:				
Net investment in capital assets	789 171	563 979	789 171	563 979
Restricted	292 140	330 919	292 140	330 919
Unrestricted	713 557	1 083 975	713 557	1 083 975
Total net position	<u>\$ 1 794 868</u>	<u>\$ 1 978 873</u>	<u>\$ 1 794 868</u>	<u>\$ 1 978 873</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 Franklinton exceeded liabilities and deferred inflows by \$1,794,868 as of June 30, 2019. The Town’s net position decreased by \$184,005 for the fiscal year ended June 30, 2019. This decrease is a result of increase in revenues over budgeted amount for the general fund. One portion (43.97% or \$789,171) of the Town’s net position is reflected by the Town’s net investment in capital assets (e.g. land, buildings, equipment, and infrastructure net of related debt). The Town of Franklinton uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the Town of Franklinton’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 Franklinton's net position, \$292,140 (16.28%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$713,557 is unrestricted.

Several particular aspects of the Town's financial operations influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.42%, which is comparable to the statewide average in fiscal year 2019 of 98.78%. Franklin County collects taxes for the Town of Franklinton, so collection rates reflect their efforts.
- Continued effort to maintain expenditures within budgeted amounts.

Town of Franklinton Changes in Net Position
Figure 3

	Governmental Activities		Total	
	2019	2018	2019	2018
Revenues:				
Program revenues:				
Charges for services	\$ 60 762	\$ 104 498	\$ 60 762	\$ 104 498
Operating grants & contributions	169 367	134 406	169 367	134 406
General Revenues				
Property taxes	913 240	778 223	913 240	778 223
Other taxes	532 271	514 067	532 271	514 067
Sale of capital assets	60 700	-	60 700	-
Investment earnings	6 562	4 545	6 562	4 545
Other	18 623	104 735	18 623	104 735
Total revenues	<u>1 761 525</u>	<u>1 640 474</u>	<u>1 761 525</u>	<u>1 640 474</u>
Expenses				
General government	527 736	329 304	527 736	329 304
Public Safety	774 278	713 408	774 278	713 408
Streets and sanitation	604 911	432 960	604 911	432 960
Culture and recreation	31 590	30 342	31 590	30 342
Cemetery	1 700	2 520	1 700	2 520
Tree beautification	-	4 192	-	4 192
Interest and fiscal charges	5 315	6 153	5 315	6 153
Total expenses	<u>1 945 530</u>	<u>1 518 879</u>	<u>1 945 530</u>	<u>1 518 879</u>
Increase (decrease) in net position before transfers and extraordinary item	<u>(184 005)</u>	<u>121 595</u>	<u>(184 005)</u>	<u>121 595</u>
Net position July 1	<u>1 978 873</u>	<u>1 857 278</u>	<u>1 978 873</u>	<u>1 857 278</u>
Net position, June 30	<u>\$ 1 794 868</u>	<u>\$ 1 978 873</u>	<u>\$ 1 794 868</u>	<u>\$ 1 978 873</u>

Governmental activities: Net position of the governmental activities decreased by \$184,005 from its general fund activities.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Franklinton'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 Franklinton'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 Franklinton. At the end of the current fiscal year, Town of Franklinton's total fund balance unassigned in the General Fund was \$1,243,288 while total fund balance was \$1,580,611. The Town currently has available total fund balance of 77.30 percent of total general fund expenditures, while total fund balance represents 98.27 percent of the same amount.

At June 30, 2019, the governmental funds of Town of Franklinton reported a combined fund balance of \$1,213,939 with a net decrease in fund balance of \$366,672.

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.

Capital Asset and Debt Administration

Capital assets. The Town of Franklinton's investment in capital assets for its governmental activities as of June 30, 2019 totals \$789,171 (net of accumulated depreciation). These assets include buildings, streets and sidewalks, land, equipment, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Purchase of a new telephone for administration.
- Purchase of body armor and shooting targets for the police department.
- Purchase of dump trailer, 2007 Sterling dump truck, a 1995 Pier street sweeper, and Hustler mower.
- Shared construction of stormwater pipe.

**Town of Franklinton's Capital Assets
(Net of Depreciation)
Figure 4**

	Governmental Activities		Total	
	2019	2018	2019	2018
Land	\$ 115 597	\$ 115 597	\$ 115 597	\$ 115 597
Building and improvements	231 892	243 638	231 892	243 638
Machinery and equipment	90 869	92 903	90 869	92 903
Vehicles and motorized equipment	155 475	152 758	155 475	152 758
Infrastructure	195 472	122 554	195 472	122 554
Total	\$ 789 305	\$ 727 450	\$ 789 305	\$ 727 450

Additional information on the Town's capital assets can be found in note III.A.3 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2019, the Town of Franklinton had total debt outstanding of \$80,723. This total debt is backed by the full faith and credit of the Town.

**Town of Franklinton's Outstanding Debt
Figure 5**

	Governmental Activities		Total	
	2019	2018	2019	2018
Installment debt	\$ -	\$ 163 471	\$ -	\$ 163 471
Total	\$ -	\$ 163 471	\$ -	\$ 163 471

The Town of Franklinton's total debt decreased by \$163,471 or 100.00% 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 Town of Franklinton is \$10,134,550 based upon total assessed value of \$126.7 million.

Additional information regarding the Town of Franklinton's long-term debt can be found in note III.B.5 of this report.

Economic Factors and Next Year's Budgets and Rates

For the Town of Franklinton separate economic indicators are not available, but the following county trends are presented.

- Franklinton has an estimated population of 3,356 as of July 2014.
- Major transportation networks include US Highway 401 and NC Highways 39, 56, 561, and 581; freight rail service provided by CSX Transportation; and Raleigh-Durham International Airport is 35 miles southwest of the Town along with a local county airport.

The Town of Franklinton is located in Franklin County. It is located thirty miles northeast of Raleigh in a good agricultural section, which produces tobacco and soybeans as principle crops. A large enzyme plant (325 employees) is located five miles west of the Town of Franklinton.

Several other industrial plants are located along the US Highway 1 corridor about ten miles in distance. Embarq (telecommunications) has located a regional headquarters (800 employees) in the southwestern portion of the County about twelve miles from Franklinton. The commercial development in and around has remained stable over the past years.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: The Town's General Fund budgeted revenues are to remain consistent with prior year. Expenditures reflect increase in the COLA of 4.00 percent for all employees and the cutting of an additional employee in the police department. Budgeted expenditures in the General Fund are characterized as a maintenance budget with no anticipated unexpected expenditures for the fiscal year 2020.

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 General Manager, Town of Franklinton, 110 West Nash Street, Franklinton, NC 27549.

Basic Financial Statements

Town of Franklinton, North Carolina
Statement of Net Position
June 30, 2019

	<u>Governmental</u> <u>Activities</u>	<u>Total</u>	<u>Franklinton</u> <u>ABC Board</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1 012 922	\$ 1 012 922	\$ 153 710
Taxes receivables (net)	70 012	70 012	-
Accrued interest receivable on taxes	15 851	15 851	-
Due from other governments	109 818	109 818	-
Due from component units	84 826	84 826	-
Inventories	-	-	129 738
Prepaid items	6 695	6 695	4 180
Security deposit	-	-	2 813
Restricted cash and cash equivalents	24 449	24 449	-
Total current assets	<u>1 324 573</u>	<u>1 324 573</u>	<u>290 441</u>
Non-Current Assets:			
Capital Assets			
Land, non-depreciable			
improvements, and construction in progress	115 597	115 597	-
Other capital assets, net of depreciation	673 574	673 574	117 070
Total capital assets	<u>789 171</u>	<u>789 171</u>	<u>117 070</u>
Total assets	<u>2 113 744</u>	<u>2 113 744</u>	<u>407 511</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals LGESR	178 210	178 210	14 489
Pension deferrals LEO	70 220	70 220	-
Total deferred outflows of resource	<u>248 430</u>	<u>248 430</u>	<u>14 489</u>
LIABILITIES			
Current Liabilities			
Accounts payable	19 618	19 618	190 198
Payable from restricted assets	3 660	3 660	-
Compensated absences payable	47 109	47 109	-
Current portion of long-term liabilities	-	-	20 867
Total current liabilities	<u>70 387</u>	<u>70 387</u>	<u>211 065</u>
Long-term liabilities:			
Net pension liability LEOSSA	240 477	240 477	-
Net pension liability LGERS	210 664	210 664	11 862
Due in more than one year	-	-	83 937
Total long-term liabilities	<u>451 141</u>	<u>451 141</u>	<u>95 799</u>
Total liabilities	<u>521 528</u>	<u>521 528</u>	<u>306 864</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals LGERS	9 594	9 594	61
Pension deferrals LEO	36 184	36 184	-
Total deferred outflows of resource	<u>45 778</u>	<u>45 778</u>	<u>61</u>
NET POSITION			
Net investment in capital assets	789 171	789 171	12 266
Restricted for:			
Transportation	20 789	20 789	-
Stabilization by State Statute	271 351	271 351	-
Other functions	-	-	57 904
Unrestricted	713 557	713 557	44 905
Total net position	<u>\$ 1 794 868</u>	<u>\$ 1 794 868</u>	<u>\$ 115 075</u>

The notes to the financial statements are an integral part of this statement.

**Town of Franklinton, North Carolina
Statement of Activities
For the Year Ended June 30, 2019**

<u>Functions/Programs</u>	<u>Program Revenues</u>						<u>Franklinton ABC Board</u>
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>	
Primary government:							
Governmental activities:							
General government	\$ 527 736	\$ 18 300	\$ -	\$ -	\$ (509 436)	\$ (509 436)	\$ -
Public safety	774 278	37 545	69 543	-	(667 190)	(667 190)	-
Streets and sanitation	604 911	-	98 302	-	(506 609)	(506 609)	-
Cultural and recreation	31 590	4 917	-	-	(26 673)	(26 673)	-
Cemetery	1 700	-	-	-	(1 700)	(1 700)	-
Environmental protection	-	-	1 522	-	1 522	1 522	-
Interest on long term debt	5 315	-	-	-	(5 315)	(5 315)	-
Total governmental activities	<u>1 945 530</u>	<u>60 762</u>	<u>169 367</u>	<u>-</u>	<u>(1 715 401)</u>	<u>(1 715 401)</u>	<u>-</u>
Business-type activities:							
Total primary government	\$ <u>1 945 530</u>	\$ <u>60 762</u>	\$ <u>169 367</u>	\$ <u>-</u>	<u>(1 715 401)</u>	<u>(1 715 401)</u>	<u>-</u>
Component units:							
ABC Board	<u>1 215 734</u>	<u>1 219 195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3 461</u>
Total component units	\$ <u>1 215 734</u>	\$ <u>1 219 195</u>	\$ <u>-</u>	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>3 461</u>
General revenues							
Taxes:							
Property taxes, levied for general purpose					913 240	913 240	-
Other taxes					532 271	532 271	-
Sale of fixed assets					60 700	60 700	-
Unrestricted investment earnings					6 562	6 562	473
Miscellaneous					18 623	18 623	266
Total general revenues, special items					<u>1 531 396</u>	<u>1 531 396</u>	<u>739</u>
Change in net position					<u>(184 005)</u>	<u>(184 005)</u>	<u>4 200</u>
Net position – beginning					<u>1 978 873</u>	<u>1 978 873</u>	<u>110 875</u>
Net position – ending					\$ <u>1 794 868</u>	\$ <u>1 794 868</u>	\$ <u>115 075</u>

The notes to the financial statements are an integral part of this statement.

**Town of Franklinton
Balance Sheet
Governmental Funds
June 30, 2019**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total Non-</u> <u>Major Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1 012 922	\$ -	\$ 1 012 922
Restricted cash	24 449	-	24 449
Receivables, net:			
Taxes	70 012	-	70 012
Accounts	-	-	-
Due from other governments	109 818	-	109 818
Due from component unit	84 826	-	84 826
Prepaid expense	6 695	-	6 695
Total Assets	<u>1 308 722</u>	<u>-</u>	<u>1 308 722</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	19 619	-	19 619
Payable from restricted assets	3 660	-	3 660
Total liabilities	<u>23 279</u>	<u>-</u>	<u>23 279</u>
DEFERRED INFLOWS OF RESOURCES			
Prepaid taxes			
Property taxes receivable	71 504	-	71 504
Total deferred inflows of resources	<u>71 504</u>	<u>-</u>	<u>71 504</u>
FUND BALANCES			
Non-spendable			
Prepaid expense	6 695	-	6 695
Restricted			
Stabilization by State Statute	271 351	-	271 351
Streets	20 789	-	20 789
Public safety	-	-	-
Unassigned	915 104	-	915 104
Total fund balances	<u>1 213 939</u>	<u>-</u>	<u>1 213 939</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1 308 722</u>	<u>\$ -</u>	<u>\$ 1 213 939</u>

The notes to the financial statements are an integral part of this statement.

**Town of Franklinton
Balance Sheet
Governmental Funds
June 30, 2019**

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds, Capital Assets used in governmental activities are not reported in the funds.

Gross capital assets at historical cost	\$	2 002 481		
Accumulated depreciation		<u>(1 213 310)</u>	\$	789 171
Deferred outflows of resources related to pensions are not reported in the funds				248 430
Other long-term assets (accrued interest receivable from taxes, prepaid items) are not available to pay for current-period expenditures and therefore, are inflows of resources in the funds:				
Accrued interest receivable				15 851
Liabilities for earned revenues considered deferred inflows of resource in fund statements				71 504
Long-term liabilities used in governmental activities are not financial uses and therefore, are not reported in the funds.				
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year)				
				-
Net pension liability				(451 141)
Deferred inflows of resources related to pensions are not reported in the funds				(45 778)
Other long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds				
Compensated absences payable				<u>(47 108)</u>
Net position of governmental activities			\$	<u>1 794 868</u>

The notes to the financial statements are an integral part of this statement.

Town of Franklinton
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total Non-</u> <u>Major Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES			
Ad valorem taxes	\$ 902 083	\$ -	\$ 902 083
Unrestricted intergovernmental	532 270	-	532 270
Restricted intergovernmental	166 674	-	166 674
Permits and fees	15 795	-	15 795
Sales and services	36 020	-	36 020
Investment earnings	9 255	-	9 255
Miscellaneous	27 570	-	27 570
Total revenues	<u>1 689 667</u>	<u>-</u>	<u>1 689 667</u>
EXPENDITURES			
Current:			
General government	506 241	-	506 241
Public safety	721 476	-	721 476
Streets	688 438	-	688 438
Cemetery	1 700	-	1 700
Cultural and recreation	30 398	-	30 398
Debt service:			
Principal	163 471	-	163 471
Interest and other charges	5 315	-	5 315
Capital Outlay	-	-	-
Total expenditures	<u>2 117 039</u>	<u>-</u>	<u>2 117 039</u>
Excess (deficiency) of revenues over expenditures	<u>(427 372)</u>	<u>-</u>	<u>(427 372)</u>
OTHER FINANCING SOURCES (USES)			
Sales of capital assets	60 700	-	60 700
Grant proceeds	-	-	-
Loan proceeds	-	-	-
Total other financing sources (uses)	<u>60 700</u>	<u>-</u>	<u>60 700</u>
Net change in fund balance	<u>(366 672)</u>	<u>-</u>	<u>(366 672)</u>
Fund balances, beginning	<u>1 580 611</u>	<u>-</u>	<u>1 580 611</u>
Fund balances, ending	<u>\$ 1 213 939</u>	<u>\$ -</u>	<u>\$ 1 213 939</u>

The notes to the financial statements are an integral part of this statement.

Town of Franklinton
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	(366 672)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital outlay expenditures which were capitalized	\$ 150 171		
Depreciation expense for governmental assets	<u>(88 318)</u>		61 853

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities			55 290
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax sources			10 372
Change in accrued interest receivable on taxes			653

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 has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

New long-term debt issued			-
Principal payments on long-term debt			163 471

Some expenses 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.

Compensated absences			7 525
Pension expense			(116 497)

Total changes in net position of governmental activities	\$		<u><u>(184 005)</u></u>
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The notes to the financial statements are an integral part of this statement.

**Town of Franklinton
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
For the Year Ended June 30, 2019**

	General Fund			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 910 699	\$ 910 699	\$ 902 083	\$ (8 616)
Unrestricted intergovernmental	511 000	511 000	532 270	21 270
Restricted intergovernmental	138 120	168 120	166 674	(1 446)
Permits and fees	7 000	7 000	15 795	8 795
Sales and services	28 000	27 000	36 020	9 020
Investment earnings	2 500	2 500	9 255	6 755
Miscellaneous	16 300	33 303	27 570	(5 733)
Total revenues	<u>1 613 619</u>	<u>1 659 622</u>	<u>1 689 667</u>	<u>30 045</u>
Expenditures				
Current:				
General government	366 544	496 449	506 241	(9 792)
Public safety	725 205	749 546	721 476	28 070
Streets	537 039	721 008	688 438	32 570
Cemetery	2 600	2 856	1 700	1 156
Cultural and recreation	8 860	35 929	30 398	5 531
Debt service:				
Principal retirement	69 577	163 472	163 471	1
Interest and other changes	5 180	5 315	5 315	-
Contingency	-	-	-	-
Total expenditures	<u>1 715 005</u>	<u>2 174 575</u>	<u>2 117 039</u>	<u>57 536</u>
Revenues over (under) expenditures	<u>(101 386)</u>	<u>(514 953)</u>	<u>(427 372)</u>	<u>87 581</u>
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Loan proceeds	-	-	-	-
Grant proceeds	-	-	-	-
Sale of capital assets	45 000	45 000	60 700	15 700
Total other financing sources (uses)	<u>45 000</u>	<u>45 000</u>	<u>60 700</u>	<u>15 700</u>
Fund balance appropriated	<u>56 386</u>	<u>469 953</u>	<u>-</u>	<u>(469 953)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(366 672)</u>	<u>\$ (366 672)</u>
Fund balances, beginning			<u>1 580 611</u>	
Fund balances, ending			<u>\$ 1 213 939</u>	

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

Town of Franklinton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Franklinton and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Franklinton is a municipal corporation that is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements to emphasize that it is legally separate from the Town.

Town of Franklinton 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 Town of Franklinton ABC Board, Franklinton Square Shopping Center, Franklinton, NC 27525.

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 unit. 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.

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 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 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, including fiduciary fund. Separate statements for each fund category – *governmental, proprietary and fiduciary* – 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. Nonoperating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for administration, public safety, street maintenance, and cultural and recreation services.

The Town reports the following fund types:

Agency Fund. Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the Town holds on behalf of others. The Town maintains the Fines and Forfeitures Fund, which accounts for various legal fines and forfeitures that the Town is required to remit to the Franklin County Board of Education.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is 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 enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem tax receivables 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. Also, 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, Franklin County 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 during this period prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources. Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered shared revenue for the Town of Franklinton because the tax is levied by Franklin 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. Grant revenues which are unearned at year-end are recorded as unearned 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 positions 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. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. 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.

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

1) Deposits and Investments

All deposits of the Town and the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principle office is located in North Carolina. Also, the Town and the ABC Board 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 and the ABC Board 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 and the ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2) 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. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3) Restricted Assets

Powell Bill funds are 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. 134-41.1 through 136-41.4. Any capital project funds are classified as restrictive because they may only be used for the specific capital projects.

Town of Franklinton Restricted Cash

Governmental Activities	
General Fund Streets (Powell Bill)	\$ 24 449
Governmental Funds	-
Total governmental activities	<u>24 449</u>
Total Restricted Cash	\$ <u>24 449</u>

4) 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, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5) 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.

6) Inventory and Prepaid Items

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.

7) Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$5,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$5,000; furniture and equipment, \$1,000; vehicles, \$1,000 and computer equipment and software, \$500. Purchased or constructed capital assets are reported at cost or estimated historical 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. General fund infrastructure assets acquired prior to July 1, 2003, consist of the road and sidewalk network assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50
Buildings	30
Improvements	25
Vehicles	5-6
Furniture and equipment	10
Computer software	5
Computer equipment	3

Property, plant, and equipment of the Franklinton ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20
Furniture and equipment	10
Vehicles	3-5
Leasehold Improvements	10-20
Computers	3

8) Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 one item that meets this criterion, contributions made to the pension plan in the 2019 fiscal year. In addition to liabilities, the statement of financial 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 two items that meet the criterion for this category – prepaid taxes and other pension related deferrals.

9) 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 statement of net position. Bond premiums and discounts, as well as issuance costs, 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 over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued 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 debt proceeds received, are reported as debt service expenditures.

10) Compensated Absences

The vacation policies of the Town provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town’s government-wide funds, 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 first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town’s sick leave policy provides for an unlimited accumulation of earned sick leave. 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 the Town does not have any obligation for the accumulated sick leave until it actually taken, no accrual for sick leave has been made.

11) Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or 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:

Nonspendable 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.

Prepaid expense – portion of fund balance that is not available resource because it represents the balance of annual software support and license, which are not spendable resources.

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

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

Restricted for Streets – Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds. In addition, a portion of fund balance is restricted by revenue source for sidewalk capital projects.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Franklinton's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. 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 – portion of fund balance that Town of Franklinton intends to use for specific purposes.

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 to modify the appropriation by resources or appropriation within funds up to \$2,500.

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

The Town of Franklinton has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, 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.

12) Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension asset, 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 Franklinton's employer contributions are recognized when due and the Town of Franklinton 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.

II. Stewardship, Compliance, and Accountability

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1) Noncompliance with North Carolina General Statutes 159-28

Excess of Expenditures over Appropriation

For the fiscal year ended June 30, 2019, the expenditures in the Town's General Fund exceeded the authorized appropriations made by the governing board for the general government by \$9,792. The over expenditure for general government is the results of additional expenditures for operating the governing council and administration. The governing body budgeted enough funds to cover all expenditures, however administration needs to make budget transfers to cover additional expenditures within those functions. Management and the Board will more closely monitor its budget reports and make budget amendments and transfers in order to ensure compliance in future years.

III. Detail Notes on All Funds

A. Assets

1) Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is 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 and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. 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, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal 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 has no formal policy regarding custodial credit risk for deposits.

At June 30, 2019, the Town's deposits had a carrying amount of \$1,036,871 and a bank balance of \$1,048,693. Of the bank balance, \$271,016 was covered by federal depository insurance and the remainder of \$777,677 was covered under the pooling method. The carrying amount of deposits for the ABC Board was \$152,210 and the bank balance was \$166,832. All the bank balance was covered by federal depository insurance. At June 30, 2019, the Town's petty cash fund totaled \$1,500.

2) Receivables – Allowance for Doubtful Accounts

The amount of taxes receivable presented in the Balance Sheet and the Statement of Net Position includes penalties levied and outstanding in the amounts of \$71,504.

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

	<u>6/30/19</u>
General Fund:	
Taxes receivable	\$ 1 492
Total	<u>\$ 1 492</u>

3) Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2019, was:

	<u>Beginning Balances 7/01/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances 6/30/2019</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 115 597	\$ -	\$ -	\$ 115 597
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>115 597</u>	<u>-</u>	<u>-</u>	<u>115 597</u>
Capital assets being depreciated:				
Buildings and improvements	486 993	-	-	486 993
Equipment	480 047	26 790	74 097	432 740
Vehicles and motorized equipment	893 245	46 840	195 149	744 936
Infrastructure	145 675	76 540	-	222 215
Total capital assets being depreciated	<u>2 005 960</u>	<u>150 170</u>	<u>269 246</u>	<u>1 886 884</u>
Less accumulated depreciation for:				
Buildings and improvements	243 355	11 747	-	255 102
Equipment	387 144	28 827	74 100	341 871
Vehicles and motorized equipment	740 487	44 122	195 015	589 594
Infrastructure	23 121	3 622	-	26 743
Total accumulated depreciation	<u>1 394 107</u>	<u>\$ 88 318</u>	<u>\$ 269 115</u>	<u>1 213 310</u>
Total capital assets being depreciated, net	<u>611 853</u>			<u>673 574</u>
Governmental activity capital assets, net	<u>\$ 727 450</u>			<u>\$ 789 171</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$	12 173
Public safety		35 700
Streets and sanitation		39 254
Cultural and recreation		1 191
Total depreciation expense	\$	<u>88 318</u>

Discretely Presented component unit

Activity for the ABC Board for the year ended June 30, 2019 were as follows:

	Beginning Balances 7/01/2018	Increases	Decreases	Ending Balances 6/30/2019
Capital assets being depreciated:	\$	\$	\$	\$
Furniture and equipment	60 020	53 437	-	113 457
Leasehold improvements	<u>6 397</u>	<u>65 952</u>	-	<u>72 349</u>
Total capital assets being depreciated	<u>66 417</u>	<u>119 389</u>	-	<u>185 806</u>
Less accumulated depreciation for:				
Furniture and equipment	51 909	6 504	-	58 413
Leasehold improvements	<u>6 397</u>	<u>3 926</u>	-	<u>10 323</u>
Total accumulated depreciation	<u>58 306</u>	<u>10 430</u>	<u>-</u>	<u>68 736</u>
Total capital assets begin depreciated, net	<u>8 111</u>			<u>117 070</u>
ABC Board capital assets, net	\$ <u>8 111</u>			\$ <u>117 070</u>

B. Liabilities

1) Pension Plan and Postemployment Obligations

a. Local Governmental Employee's Retirement System

Plan Description. The Town of Franklinton is a participating employer in the statewide 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 Employee's Retirement System is included in the Comprehensive Annual Financial Report (CFAR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The

plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years

of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50 or have completed five years of creditable service as a LEO and have reached age 55 or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Franklinton 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 Franklinton's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees, 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 Franklinton were \$55,290 for the year ended June 30, 2019.

Refunds of Contributions – Town employees, who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions, or any other benefit provided by LGERS.

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

At June 30, 2019, the Town reported a liability of \$210,664 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan of all participating LGER employers, actuarially determined. At June 30, 2018, (measurement date) the Town's proportion was 0.00888%, which was an increase of 0.00005% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$57,753. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 32 500	\$ 1 091
Changes of assumptions and other inputs	55 902	-
Net difference between projected and actual earnings on pension plan investments	28 917	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	5 601	8 503
Town contributions subsequent to the measurement date	55 290	-
Total	<u>\$ 178 210</u>	<u>\$ 9 594</u>

\$55,290 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2019	\$	52 655
2020		35 293
2021		7 190
2022		18 191
Thereafter		-
	\$	<u>113 329</u>

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2017 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 506 033	\$ 210 664	\$ (36 151)

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.

b. Law Enforcement Officers Special Separation Allowance

1) *Plan Description*

The Town of Franklinton administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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

At December 31, 2017 the Separation Allowance's membership (Valuation Date) consisted of:

Inactive members currently receiving benefits	-
Active plan members	<u>9</u>
Total	<u>9</u>

2) *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 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 criteria which are outlined in GASB Statement 73.

3) *Actuarial Assumptions:*

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

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

Mortality rates are based on the RP-2015 Mortality tables with adjustments for mortality improvements based on Scale AA.

4) *Contributions:*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$0 as benefits came due for the reporting period.

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

At June 30, 2019, the Town reported a total pension liability of \$240,477. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$58,744.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 59 633	\$ 26 937
Changes of assumptions and other inputs	10 587	9 247
Town benefit payments and plan administrative expense made subsequent to the measurement date		-
Total	\$ 70 220	\$ 36 184

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made, and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2020	\$ 9 292
2021	9 292
2022	9 292
2023	9 414
2024	(3 254)
Thereafter	-
	\$ 34 036

\$0 paid as benefits came due and \$0 of administrative expenses subsequent to the measurement date is reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.64 percent, as well as what the

Town's total pension asset or total pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.64 percent) or one percentage point higher (4.64 percent) than the current rate:

	1% Decrease (2.64%)	Discount rate (3.64%)	1% Increase (4.64%)
Town's proportionate share of the net pension liability (asset)	\$ <u>258 926</u>	\$ <u>240 477</u>	\$ <u>223 498</u>

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

	<u>2019</u>
Beginning balance as of December 31, 2017	\$ <u>263 352</u>
Changes for the year:	
Service cost	9 870
Interest on the total pension liability	8 322
Change in benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(32 401)
Changes of assumptions or other inputs	(8 666)
Benefit payments	-
Other changes	-
Net changes	<u>(22 875)</u>
Ending balance of the total pension liability as of December 31, 2018	\$ <u>240 477</u>

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

	LGERS	LEOSSA	Total
Pension Expense	57 753	58 744	116 497
Pension Liability	210 664	240 477	451 141
Proportionate share of the net pension liability	.00888%	n/a	n/a
Deferred of Outflows of Resources			
Differences between expected and actual experience	32 500	59 633	92 133
Changes of assumptions	55 902	10 587	66 489
Net difference between projected and actual earnings on plan investments	28 917	-	28 917
Changes in proportionate and differences between contributions and proportionate share of contributions	5 601	-	5 601
Benefit payments and administrative costs paid subsequent to the measurement date	55 290	-	55 290
Deferred of Inflows of Resources			
Differences between expected and actual experience	1 091	26 937	28 028
Changes of assumptions	8 503	9 247	17 750
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportionate and differences between contributions and proportionate share of contributions	-	-	-

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 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, 2019 were \$26,014, which consisted of \$17,277 from the Town and \$8,737 from the law enforcement officers.

d. Supplemental Retirement Income Plan for General Employees

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of the State Treasurer and a Board of Trustees. The Plan provides retirement benefits to general employees of the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina Assembly.

Funding Policy. The Town has elected to contribute each month an amount equal to five percent of each employee's salary, and all amounts contributed are vested immediately. Also, the general employees may

make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$18,824, which consisted of \$16,686 from the Town and \$2,138 from the general employees.

e. 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 month's 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.

1) Deferred Outflows and Inflows at Resources

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

Source	Amount
Difference between expected and actual experience	\$ 92 133
Changes in assumptions and other inputs	66 489
Net difference between projected and actual earnings on pension plan investments	28 917
Changes in proportion and differences between employer contributions and proportionate share of contributions	5 601
Town contributions subsequent to the measurement date	55 290
Total	\$ <u>248 430</u>

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

Source	Amount
Taxes Receivable, less penalties (General Fund)	\$ 70 012
Changes in assumptions and other inputs	17 750
Differences between expected and actual experience	28 028
Prepaid taxes (General Fund)	71 504
Total	\$ <u>187 294</u>

5. 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 three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to \$20 million per building per occurrence, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, and auto liability in excess of \$500,000, up to \$500,000 for property, and \$250,000 up to \$5million for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit of \$1,000,000 for aggregate property losses in a single year.

After the property pool has paid out of \$1,000,000, then the pool will be liable for \$10,000 per claim maintenance deductible for future property losses for that year. The remainder of each claim will be borne by the reinsurer.

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.

The Town does not carry flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is not in an area of the State that has been mapped and designated an “A” area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is not eligible to purchase coverage of \$500,000 per structure through the NFIP.

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. All employees that have access to funds are bonded under a blanket bond for \$50,000. The Town’s Finance Director is individually bonded for \$50,000.

6. Long-term Obligations

a. Installment Purchases

General Fund

In October 2009, the Town entered an installment purchase to finance renovations that were made to the Magistrate Building. The financing contract requires principle payments beginning in fiscal year 2012 with an interest rate of 4.890 percent. On July 10, 2018, the Town paid off the remaining balance of installment purchase agreement in the amount of \$32,077 and with no accrued interest expense.

In May 2015, the Town entered into an installment purchase agreement to purchase five police vehicles with an interest rate of 3.91 percent. The first payment was applied on the date of purchase leaving future minimum payments of the installment purchase as of June 30, 2018 including interest of \$9,198. The financing contract requires five annual payments of principle and interest at a rate of 4.07 percent. On November 20, 2018, the Town paid off the remaining balance of installment purchase agreement in the amount of \$23,488 and interest charges of \$902.

In September 2016, the Town entered into an installment purchase agreement to purchase a leaf collector with an interest rate of 2.75 percent. The financing contract requires principle and interest payments to begin in fiscal year 2017. On November 20, 2018, the Town paid off the remaining balance of installment purchase agreement in the amount of \$21,637 and interest charges of \$697.

In September 2017, the Town entered into an installment purchase agreement to purchase an Isuzu Quad Cab truck with an interest rate of 2.76 percent. The financing contract requires principle and interest payments to begin in fiscal year 2019. On November 21, 2018, the Town paid off the remaining balance of installment purchase agreement in the amount of \$61,769 and interest charges of \$2,517.

In August 2017, the Town entered into an installment purchase agreement to purchase a 2017 Dodge Ram 1500 truck with an interest rate of 2.75 percent. The financing contract requires principle and interest payments to begin in fiscal year 2019. On November 20, 2018, the Town paid off the remaining balance of installment purchase agreement in the amount of \$24,500 and interest charges of \$1,093.

b. Changes in Long-Term Liabilities:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>	<u>Current Portion</u>
Governmental activities:					
Installment purchases	\$ 163 471	\$ -	\$ 163 471	\$ -	\$ -
Compensated absences	54 634	47 109	54 634	47 109	47 109
Net pension liability (LEO)	144 573	95 904	-	240 477	-
Net pension liability (LGERS)	134 898	75 766	-	210 664	-
Governmental activities:					
Long – term liabilities	\$ 497 576	\$ 218 779	\$ 218 105	\$ 498 250	\$ 47 109

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

7. Fund Balance

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	\$ 1 213 939
Less:	
Prepaid expense	6 695
Stabilization by State Statute	271 351
Streets-Powell Bill	20 789
Remaining Fund Balance	<u>915 104</u>

IV. Jointly Governed Organization

The Town, in conjunction with five counties and fourteen other municipalities established the Kerr-Tar Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints thirty-two members to the Council's governing board. The Town paid membership fees of \$1,196 to the Council during the fiscal year ended June 30, 2018.

V. 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 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 moneys.

VI. Significant Effects of Subsequent Events

The Town has evaluated subsequent events from the date of the balance sheet through the date the report is available to be issued which is the date of the independent auditors' report. The Town has not evaluated subsequent events after that date.

Required Supplementary Financial Data

This section contains additional information required by generally accepted accounting principles.

- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System.
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability for Special Separation Allowance for Law Enforcement Officers

Town of Franklinton, North Carolina
Town of Franklinton's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>
Franklinton's proportion of the net pension liability (asset) (%)	.00888%		0.00883%		0.0990%		0.01142%		0.01247%		0.01140%
Franklinton's proportion of the net pension liability (asset) (\$)	\$ 210 664	\$	134 898	\$	210 111	\$	51 252	\$	(73 541)	\$	49 373
Franklinton's covered-employee payroll	\$ 676 953	\$	637 009	\$	594 122	\$	620 686	\$	689 616	\$	657 115
Franklinton's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.12%		21.18%		35.36%		8.26%		(10.66%)		7.51%
Plan fiduciary net position as a percentage of total pension liability	91.63%		94.18%		91.47%		98.09%		102.64%		94.35%

**Town of Franklin
ton, North Carolina
Town of Franklinton's Contributions
Required Supplementary Information
Last Six Fiscal Years**

Local Government Employees' Retirement System

	<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>
Contractually required contribution	\$ 55 290	\$	50 555	\$	45 601	\$	41 400	\$	45 008	\$	49 446
Contributions in relation to the contractually	<u>55 290</u>		<u>50 555</u>		<u>45 601</u>		<u>41 400</u>		<u>45 008</u>		<u>49 446</u>
Contribution deficiency (excess)	<u>\$ -</u>	\$	<u>-</u>	\$	<u>-</u>	\$	<u>-</u>	\$	<u>-</u>	\$	<u>-</u>
Franklinton's covered-employee payroll	\$ 676 953	\$	637 009	\$	592 991	\$	594 122	\$	620 686	\$	689 616
Contributions as a percentage of covered-employee payroll	8.17%		7.94%		7.69%		6.97%		7.25%		7.17%

Town of Franklinton, North Carolina
Schedule of Changes in Total Pension Liability
Special Separation Allowance for Law Enforcement Officers
Required Supplementary Information

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total Pension Liability			
Service cost at end of year	\$ 9 870	\$ 9 462	\$ 8 857
Interest on the total pension liability	8 322	5 581	4 804
Change in benefit terms	-	-	-
Differences between expected and actual experience	(32 401)	88 097	-
Changes of assumptions or other inputs	(8 666)	15 639	(3 665)
Benefit payments	-	-	-
Other changes	-	-	-
Net changes in Total Pension Liability	<u>(22 875)</u>	<u>118 779</u>	<u>9 996</u>
Total Pension Liability - beginning	263 352	144 573	134 577
Total Pension Liability – ending	<u>\$ 240 477</u>	<u>\$ 263 352</u>	<u>\$ 144 573</u>
Covered employee payroll	\$ 380 279	\$ 396 280	\$ 346 399
Total pension liability as a percentage of covered-employee payroll	63.24%	66.46%	41.74%

Individual Fund Statements and Schedules

**Town of Franklinton
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 900 794	\$
Penalties and interest		1 289	
Total	<u>910 699</u>	<u>902 083</u>	<u>(8 616)</u>
Unrestricted intergovernmental:			
Local option sales taxes	311 500	329 572	
Utility franchise tax	110 000	118 295	
Beer and wine tax	11 500	8 849	
Sales and use taxes	3 000	7 792	
ABC profit distribution	75 000	67 762	
Total	<u>511 000</u>	<u>532 270</u>	<u>21 270</u>
Restricted intergovernmental:			
Powell Bill allocation	63 342	62 409	
ABC revenue for law enforcement	2 500	2 065	
Solid waste disposal tax	1 450	1 522	
School resource officer	60 000	60 000	
NCLM Grant	2 500	2 500	
Federal BVP Grant	3 628	4 193	
State Grant revenue	30 000	30 000	
NC DOT maintenance	3 200	3 200	
Drug tax revenues	1 500	785	
Total	<u>168 120</u>	<u>166 674</u>	<u>(1 446)</u>
Permits and fees:			
Building permits		15 795	
Total	<u>7 000</u>	<u>15 795</u>	<u>8 795</u>
Sales and services			
Rental income	18 000	18 300	
Police calendars	1 000	2 000	
Recreation fees	-	4 870	
Cemetery revenues	8 000	10 850	
Total	<u>27 000</u>	<u>36 020</u>	<u>9 020</u>
Investment earnings	<u>2 500</u>	<u>9 255</u>	<u>6 755</u>
Miscellaneous:			
Officer fees revenue	2 000	1 658	
Police reports	300	244	
Code violations	1 000	1 570	
Special events	17 003	13 146	
Parking fees	1 000	5 180	
Miscellaneous income	12 000	5 772	
Total	<u>33 303</u>	<u>27 570</u>	<u>(5 733)</u>
Total Revenues	<u>\$ 1 659 622</u>	<u>\$ 1 689 667</u>	<u>\$ 30 045</u>

**Town of Franklinton
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative)</u>
Expenditures:			
General government:			
Governing council:			
Salaries and employee benefits		15 907	
Other operating expenditures		22 071	
Special events		11 312	
Donation		5 000	
Total	\$ 49 878	\$ 54 290	\$ (4 412)
Administration:			
Salaries and employee benefits		243 613	
Other operating expenditures		164 218	
Capital outlay		18 640	
Total	420 273	426 471	(6 198)
Code enforcement:			
Code enforcement		7 971	
Total	7 972	7 971	1
Legal and accounting:			
Professional services		17 509	
Total	18 326	17 509	817
Total general government	496 449	506 241	(9 792)
Public safety:			
Police:			
Salaries and employee benefits		575 074	
Vehicle gas and maintenance		66 348	
Uniforms and vests		14 844	
Other operating expenditures		41 879	
National Night Out		1 321	
Capital outlay		8 150	
Total	734 111	707 616	26 495
Auxiliary police officer:			
Salaries and employee benefits		13 860	
Total	15 435	13 860	1 575
Total public safety	749 546	721 476	28 070
Streets:			
Salaries and employee benefits		240 703	
Utilities streetlights		50 509	
Vehicle and equipment maintenance		43 526	
Other operating expenditures		33 881	
Powell expenditures		166 438	
Street paving and patching		30 000	
Capital outlay		123 381	
Total	721 008	688 438	32 570

(continued)

**Town of Franklinton
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cemetery:			
Lots repurchased		800	
Other operating expenditures		900	
Total	<u>2 856</u>	<u>1 700</u>	<u>1 156</u>
Cultural and recreation:			
Library:			
Salaries and employee benefits		10 768	
Total	<u>10 770</u>	<u>10 768</u>	<u>2</u>
Recreation:			
Other operating expenditures		10 882	
Uniforms		3 387	
Official fees		2 355	
Total	<u>11 887</u>	<u>16 624</u>	<u>(4 737)</u>
Pocket Park:			
Utilities		792	
Trees		2 214	
Total	<u>13 272</u>	<u>3 006</u>	<u>10 266</u>
Total cultural and recreation	<u>35 929</u>	<u>30 398</u>	<u>5 531</u>
Debt service:			
Principal retirement		163 471	
Interest and other charges		5 315	
Total debt service	<u>168 787</u>	<u>168 786</u>	<u>1</u>
Total expenditures	<u>2 174 575</u>	<u>2 117 039</u>	<u>57 536</u>
Revenues over (under) expenditures	<u>\$ (514 953)</u>	<u>\$ (427 372)</u>	<u>\$ 87 581</u>
Other financing sources (uses):			
Sale of capital assets	<u>45 000</u>	<u>60 700</u>	<u>15 700</u>
Total	<u>45 000</u>	<u>60 700</u>	<u>15 700</u>
Contingency	-	-	-
Fund balance appropriated	<u>469 953</u>	<u>-</u>	<u>(469 953)</u>
	<u>469 953</u>	<u>-</u>	<u>(469 953)</u>
Net change in fund balance	<u>\$ -</u>	<u>(366 672)</u>	<u>\$ (366 672)</u>
Fund balances:			
Beginning of year, July 1		<u>1 580 611</u>	
End of year, June 30		<u>\$ 1 213 939</u>	

Other Schedules

This section contains additional information on property taxes.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

**Town of Franklinton, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2019**

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 912 109	\$ 879 441	\$ 32 668
2017-2018	22 090	-	10 681	11 409
2016-2017	8 686	-	3 662	5 024
2015-2016	5 373	-	1 103	4 270
2014-2015	3 955	-	822	3 133
2013-2014	4 593	-	727	3 866
2012-2013	5 187	-	791	4 396
2011-2012	3 757	-	689	3 068
2010-2011	2 702	-	525	2 177
2009-2010	1 993	-	500	1 493
2008-2009	1 359	-	1 359	-
	<u>\$ 59 695</u>	<u>\$ 912 109</u>	<u>\$ 900 300</u>	<u>\$ 71 504</u>
Less allowance for uncollectable accounts:				1 493
General Fund				<u>-</u>
Ad valorem taxes receivable – net				<u>\$ 70 011</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes – General Fund				<u>\$ 902 083</u>
Reconciling items:				
Interest collected				(5 354)
Discount allowed				2 212
Taxes written off				1 359
Subtotal				<u>(1 783)</u>
Total collections and credits				<u>\$ 900 300</u>

Town of Franklinton, North Carolina
Analysis of Current Tax Levy
Town – Wide Levy
Ended June 30, 2019

	Town-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current rate	\$ 126 681 870	.72	\$ 912 109	\$ 824 766	\$ 87 343
Penalties	-		-	-	-
Total	<u>126 681 870</u>		<u>912 109</u>	<u>824 766</u>	<u>87 343</u>
Discoveries:					
Current year taxes	-	.72	-	-	-
Prior year taxes	-		-	-	-
Penalties	-		-	-	-
	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
Abatements	-	.72	-	-	-
Total property valuation	<u>\$ 126 681 870</u>		<u>-</u>	<u>-</u>	<u>-</u>
Net levy			912 109	824 766	87 343
Uncollected taxes at June 30, 2018			<u>32 668</u>	<u>32 217</u>	<u>451</u>
Current year's taxed collected			<u>\$ 879 441</u>	<u>\$ 792 549</u>	<u>\$ 86 892</u>
Current levy collection percentage			<u>96.42%</u>	<u>96.09%</u>	<u>99.48%</u>

Compliance Section

May & Place, PA

CERTIFIED PUBLIC ACCOUNTANTS

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SCOTT H. MAY, CPA
DALE R. PLACE, CPA, CFE

Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Honorable Mayor and Town Council
Town of Franklinton
Franklinton, North Carolina 27525

We have audited, 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, the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Franklinton, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Franklinton's basic financial statements, and have issued our report thereon dated December 16, 2019. The financial statements of the Franklinton ABC Board were not audited in accordance with *Governmental Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Franklinton'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 of Franklinton'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 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedules of findings and responses that we consider to be significant deficiencies. 2019-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Franklinton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

Town of Franklinton's Response to Findings

The Town of Franklinton's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's response was not subjected 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May & Place, PA

Louisburg, North Carolina
December 16, 2019

May & Place, PA

CERTIFIED PUBLIC ACCOUNTANTS

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DALE R. PLACE, CPA, CFE

SIGNIFICANT DEFICIENCY

Finding: 2019-1

Criteria:	G.S. 159-28(a) states that no obligation may be incurred in a function accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.
Condition:	Expenditures in the Town's general fund exceeded authorized appropriations for the function of general government by \$9,792. This also indicates the pre-audit process is not functioning properly to make sure sufficient amount of appropriations are approved to cover the expenditures.
Effect:	Over-expenditures in the general fund for the general government function.
Cause:	The Town had budgeted enough appropriations for the general fund but a budget amendment (transfer) was not approved to adjust the estimates that are used to prepare the original budget ordinance once exact information was available.
Recommendation:	We recommend that management more closely review monthly budget reports in order to implement budget amendments and/or transfers before year end and there are no violations of the pre-audit certification process.
Views of responsible officials and planned corrective actions:	Management agrees with the recommendation. The Town will adopt budget amendments and/or transfers prior to making expenditures that exceed budgeted amounts for that function. Please refer to the corrective action plan on page 55.

TOWN OF FRANKLINTON

7 West Mason Street
Franklinton, North Carolina 27525
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Corrective Action Plan
For the Fiscal Year Ended June 30, 2019

Financial Statement Findings

Finding: 2019-1

Name of contact person:

Kim Worley, Assistant Finance Director

Corrective action:

Management will more closely review its budget to actual reports and make appropriate budget amendments and/or transfers in order to include enough budget appropriations in each function in order to cover all obligations made during the fiscal year. Management will also review its pre-audit procedures to ensure expenditures are within appropriated amounts before expenditures are made.

Proposed Completion Date:

Management will implement the above procedure during the fiscal year ending June 30, 2020.