

REVIEWED

By SLGFD at 4:40 pm, Nov 03, 2021

**TOWN OF FRANKLIN
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

TOWN OF FRANKLIN, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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MARTIN STARNES & ASSOCIATES, CPAs, P.A.

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

Independent Auditor's Report

To the Honorable Mayor and
Town Council
Franklin, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Franklin, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Franklin's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Franklin ABC Board, which represents 75% of the assets, 73% of net position, and 96% of revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Franklin ABC Board, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Town of Franklin ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Franklin, North Carolina, as of June 30, 2021, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Other Post-Employment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Franklin's basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021 on our consideration of the Town of Franklin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of 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 to provide an opinion on the effectiveness of the Town of Franklin's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Franklin's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 25, 2021

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Management's Discussion and Analysis

As management of the Town of Franklin, we offer readers of the Town of Franklin's financial statements this narrative overview and analysis of the financial activities of the Town of Franklin for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

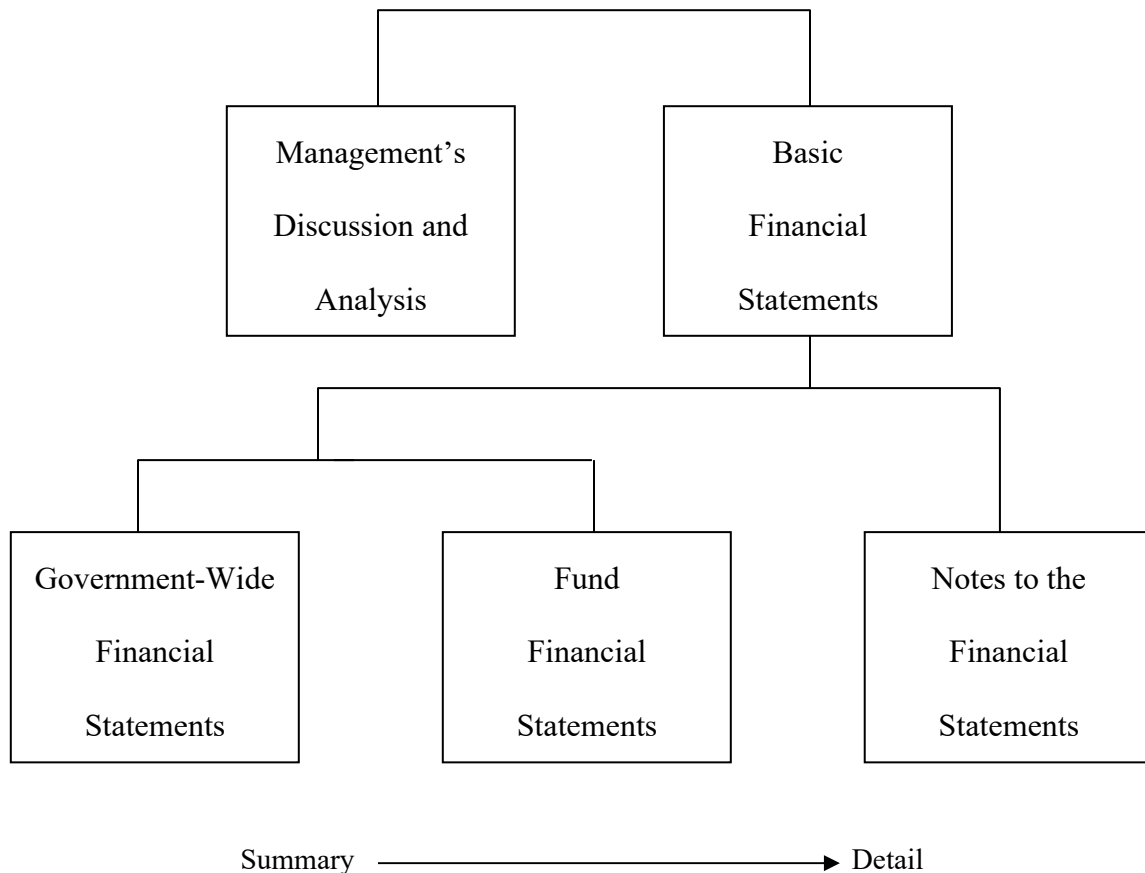
- The assets and deferred outflows of the Town of Franklin exceeded its liabilities and deferred inflows at the close of the fiscal year by \$32,209,652 (*net position*). For the Franklin Tourism Development Authority ("TDA"), the assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$242,215.
- The government's total net position increased by \$2,072,235, due to an increase in governmental net position and an increase in business-type activities net position. The TDA's total net position increased by \$37,724.
- As of the close of the current fiscal year, the Town of Franklin's General Fund reported total ending fund balance of \$4,946,774, an increase of \$651,016, in comparison with the prior year. Approximately 20.6% of this total amount, or \$1,017,716, is restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$4,336,477, or 90.13 percent, of total General Fund expenditures.
- The Town of Franklin's total debt decreased by \$762,668 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Franklin's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Franklin.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **government-wide financial statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C through I) are **fund financial statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component unit. The governmental activities include most of the Town's basic services such as general government, public safety, transportation, and cultural and recreation. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Franklin. The final category is the component units, of which the Town has two. The Town of Franklin Tourism Development Authority is considered a component unit of the Town because the Town exercises control over the Board by appointing its members and because the Board is required to expend the local occupancy taxes promoting travel and tourism for the Town. Although legally separate from the Town, the Town of Franklin ABC Board is important to the Town, because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

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

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and the accompanying notes, this report includes certain required supplementary information concerning the Town of Franklin's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 63 of this report.

Interdependence with Other Entities

The Town depends on financial resources flowing from or associated with both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations.

Government-Wide Financial Analysis

Town of Franklin's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets:						
Current and other assets	\$ 5,351,353	\$ 4,639,737	\$ 7,438,329	\$ 6,617,142	\$ 12,789,682	\$ 11,256,879
Capital assets	6,822,339	6,374,113	24,537,223	24,992,347	31,359,562	31,366,460
Total assets	12,173,692	11,013,850	31,975,552	31,609,489	44,149,244	42,623,339
Deferred Outflows of Resources	932,943	569,682	355,491	265,339	1,288,434	835,021
Liabilities:						
Long-term liabilities						
outstanding	3,911,313	3,362,176	8,445,359	9,171,681	12,356,672	12,533,857
Other liabilities	269,639	203,288	298,045	311,750	567,684	515,038
Total liabilities	4,180,952	3,565,464	8,743,404	9,483,431	12,924,356	13,048,895
Deferred Inflows of Resources	220,403	189,115	83,267	82,933	303,670	272,048
Net Position:						
Net investment in capital assets	6,207,225	5,841,673	17,196,248	16,806,030	23,403,473	22,647,703
Restricted	1,046,578	1,070,420	-	-	1,046,578	1,070,420
Unrestricted	1,451,477	916,860	6,308,124	5,502,434	7,759,601	6,419,294
Total net position	\$ 8,705,280	\$ 7,828,953	\$ 23,504,372	\$ 22,308,464	\$ 32,209,652	\$ 30,137,417

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Franklin exceeded liabilities and deferred inflows by \$32,209,652 as of June 30, 2021. The Town's net position increased by \$2,072,235 for the fiscal year ended June 30, 2021. However, the largest portion (73%) reflects the Town's net investment in capital assets (e.g. land, construction in progress, buildings, improvements, equipment, vehicles, furniture, infrastructure, and distribution systems). The Town of Franklin uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Franklin's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Franklin's net position \$1,046,578, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,759,601 is unrestricted.

At June 30, 2021, all of the TDA's net position is restricted for tourism activity, except for \$17,314, which is restricted for stabilization by state statute. Ending net position for the TDA was \$242,215.

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

- Continued diligence in the collection of property taxes, an increase in sales & use taxes, and general charges for services. The town adopted a revenue-neutral budget.

Town of Franklin's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 96,608	\$ 91,359	\$ 4,425,330	\$ 4,213,188	\$ 4,521,938	\$ 4,304,547
Operating grants	208,454	58,084	106,256	138,565	314,710	196,649
Capital grants	116,842	123,261	-	-	116,842	123,261
General revenues:						
Property taxes	2,359,515	2,290,421	-	-	2,359,515	2,290,421
Other taxes	1,609,811	1,546,428	-	-	1,609,811	1,546,428
Miscellaneous	1,066,083	963,812	-	-	1,066,083	963,812
Investment earnings	1,018	37,120	410	24,827	1,428	61,947
Total revenues	<u>5,458,331</u>	<u>5,110,485</u>	<u>4,531,996</u>	<u>4,376,580</u>	<u>9,990,327</u>	<u>9,487,065</u>
Expenses:						
General government	888,183	1,144,132	-	-	888,183	1,144,132
Public safety	2,872,395	2,425,306	-	-	2,872,395	2,425,306
Transportation	448,900	433,578	-	-	448,900	433,578
Planning and economic	355,605	352,722	-	-	355,605	352,722
Interest on long-term debt	16,921	17,039	-	-	16,921	17,039
Water and sewer	-	-	3,336,088	3,229,450	3,336,088	3,229,450
Total expenses	<u>4,582,004</u>	<u>4,372,777</u>	<u>3,336,088</u>	<u>3,229,450</u>	<u>7,918,092</u>	<u>7,602,227</u>
Change in net position	876,327	737,708	1,195,908	1,147,130	2,072,235	1,884,838
Net Position:						
Beginning of year - July 1	<u>7,828,953</u>	<u>7,091,245</u>	<u>22,308,464</u>	<u>21,161,334</u>	<u>30,137,417</u>	<u>28,252,579</u>
End of year - June 30	<u>\$ 8,705,280</u>	<u>\$ 7,828,953</u>	<u>\$ 23,504,372</u>	<u>\$ 22,308,464</u>	<u>\$ 32,209,652</u>	<u>\$ 30,137,417</u>

Governmental Activities. Governmental activities increased the Town's net position by \$876,327.

Key elements of this increase are as follows:

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

Business-Type Activities. Business-type activities increased the Town of Franklin's net position by \$1,195,908. Key elements of this increase are as follows:

- Water rate increase of four percent during the current year

The TDA had a change in net position of \$37,724 during the fiscal year. They received more revenues in the current year than the prior year despite the pandemic. Total revenues exceeded total expenditures at June 30, 2021.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Franklin. At the end of the current fiscal year, the Town of Franklin's fund balance available in the General Fund was \$4,336,477 while total fund balance reached \$4,946,774. The Town currently has an available fund balance of 90% of General Fund expenditures, while total fund balance represents 103% of General Fund expenditures.

At June 30, 2021, the General Fund of the Town of Franklin reported an increase in fund balance of 15% over last year, primarily due to increased revenues in the areas of charges for services, property and sales & use taxes.

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

Proprietary Funds. The Town of Franklin's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$6,308,124. The total increase in net position for the fund was \$1,195,908. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Franklin's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Franklin's net investment in capital assets for its governmental and business-type activities as of June 30, 2021 totals \$31,359,562 (net of accumulated depreciation). These assets include land, construction in progress, buildings, improvements, equipment, furnishings and fixtures, vehicles, infrastructure, and water and sewer distribution systems.

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

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 3,244,639	\$ 3,212,087	\$ 1,052,081	\$ 1,052,081	\$ 4,296,720	\$ 4,264,168
Construction in progress	214,074	-	113,497	87,248	327,571	87,248
Infrastructure	646,375	694,228	-	-	646,375	694,228
Buildings	1,925,282	1,969,485	1,156,607	1,188,333	3,081,889	3,157,818
Improvements to facilities	33,331	38,224	16,883	19,511	50,214	57,735
Vehicles	419,170	242,464	143,250	107,504	562,420	349,968
Equipment and furniture	339,468	217,625	168,297	119,369	507,765	336,994
Water and sewer distribution systems	-	-	21,886,608	22,418,301	21,886,608	22,418,301
Total	\$ 6,822,339	\$ 6,374,113	\$ 24,537,223	\$ 24,992,347	\$ 31,359,562	\$ 31,366,460

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

Long-Term Debt. As of June 30, 2021, the Town of Franklin had no bonded debt outstanding.

Capital Leases and Other Long-Term Liabilities

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Notes from direct borrowings and direct placements	\$ 615,114	\$ 532,440	\$ 7,340,975	\$ 8,186,317	\$ 7,956,089	\$ 8,718,757
Total OPEB liability	1,223,282	1,058,559	612,572	543,376	1,835,854	1,601,935
Net pension liability (LGERS)	749,893	651,889	440,415	382,857	1,190,308	1,034,746
Total pension liability (LEOSSA)	1,223,886	995,982	-	-	1,223,886	995,982
Compensated absences	99,138	123,306	51,397	59,131	150,535	182,437
Total	\$ 3,911,313	\$ 3,362,176	\$ 8,445,359	\$ 9,171,681	\$ 12,356,672	\$ 12,533,857

Town of Franklin's Outstanding Debt

The Town of Franklin's total debt decreased by \$762,688 during the past fiscal year.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Franklin is \$57,492,736.

Additional information regarding the Town of Franklin's long-term debt can be found in notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- Sales tax revenues have seen substantial growth and water and sewer revenues continue a steady increase due to commercial development in the area. Tourism and related business remains a primary driver for the Town economy.
- During the fiscal year, the state and the nation were affected by the spread of a coronavirus. The Town of Franklin's response to the coronavirus included an increase in expenditures for sanitation and cleaning related items, some building modifications in order to ensure safety for both staff and the general public and various expenditures for messaging in order to share emergency related information with the general public. The Town of Franklin also saw a decrease in investment earnings due to the coronavirus pandemic.

Budget Highlights for the Year Ending June 30, 2022

Governmental Activities. The General Fund budget was decreased by \$246,700. There was no tax increase this fiscal year.

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

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

Requests for Information

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

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TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2021

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Town of Franklin ABC Board	Town of Franklin Tourism Development Authority
Assets:					
Current assets:					
Cash and cash equivalents	\$ 4,087,522	\$ 6,617,338	\$ 10,704,860	\$ 347,931	\$ 224,901
Receivables, net:					
Taxes	137,014	-	137,014	-	-
Accounts	375,704	628,440	1,004,144	-	-
Due from other governments	183,216	37,346	220,562	-	-
Due from primary governments	-	-	-	-	17,314
Inventories	-	112,965	112,965	312,246	-
Prepaid expenses	80,239	-	80,239	5,101	-
Restricted assets -					
cash and cash equivalents	487,658	42,240	529,898	-	-
Total current assets	5,351,353	7,438,329	12,789,682	665,278	242,215
Capital assets:					
Land and construction in progress	3,458,713	1,165,578	4,624,291	-	-
Other capital assets, net of depreciation	3,363,626	23,371,645	26,735,271	42,595	-
Total capital assets	6,822,339	24,537,223	31,359,562	42,595	-
Total assets	12,173,692	31,975,552	44,149,244	707,873	242,215
Deferred Outflows of Resources:					
OPEB deferrals	210,518	107,601	318,119	-	-
Pension deferrals	722,425	247,890	970,315	-	-
Total deferred outflows of resources	932,943	355,491	1,288,434	-	-
Liabilities:					
Current liabilities:					
Accounts payable	86,510	151,035	237,545	41,450	-
Accrued liabilities	160,258	91,046	251,304	-	-
Due to component unit	17,314	-	17,314	-	-
Accrued interest	5,557	13,724	19,281	-	-
Liabilities payable from restricted assets:					
Customer deposits	-	42,240	42,240	-	-
Total current liabilities	269,639	298,045	567,684	41,450	-
Long-term liabilities:					
Net pension liability - LGERS	749,893	440,415	1,190,308	-	-
Total pension liability - LEOSSA	1,223,886	-	1,223,886	-	-
Total OPEB liability	1,223,282	612,572	1,835,854	-	-
Due within one year	201,609	883,105	1,084,714	-	-
Due in more than one year	512,643	6,509,267	7,021,910	-	-
Total long-term liabilities	3,911,313	8,445,359	12,356,672	-	-
Total liabilities	4,180,952	8,743,404	12,924,356	41,450	-
Deferred Inflows of Resources:					
Prepaid taxes	3,483	-	3,483	-	-
OPEB deferrals	133,668	66,936	200,604	-	-
Pension deferrals	83,252	16,331	99,583	-	-
Total deferred inflows of resources	220,403	83,267	303,670	-	-
Net Position:					
Net investment in capital assets	6,207,225	17,196,248	23,403,473	42,595	-
Restricted for:					
Stabilization by state statute	558,920	-	558,920	-	17,314
Streets	476,836	-	476,836	-	-
Public safety	10,822	-	10,822	-	-
Other purposes	-	-	-	109,980	224,901
Unrestricted	1,451,477	6,308,124	7,759,601	513,848	-
Total net position	\$ 8,705,280	\$ 23,504,372	\$ 32,209,652	\$ 666,423	\$ 242,215

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 888,183	\$ 90,120	\$ -	\$ -
Public safety	2,872,395	6,488	208,454	-
Transportation	448,900	-	-	116,842
Planning and economic	355,605	-	-	-
Interest on long-term debt	16,921	-	-	-
Total governmental activities	<u>4,582,004</u>	<u>96,608</u>	<u>208,454</u>	<u>116,842</u>
Business-Type Activities:				
Water and sewer	<u>3,336,088</u>	<u>4,425,330</u>	<u>106,256</u>	<u>-</u>
Total primary government	<u>\$ 7,918,092</u>	<u>\$ 4,521,938</u>	<u>\$ 314,710</u>	<u>\$ 116,842</u>
Component Units:				
ABC Board	\$ 3,610,457	\$ 3,733,665	\$ -	\$ -
Tourism Development Authority	<u>101,436</u>	<u>139,131</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 3,711,893</u>	<u>\$ 3,872,796</u>	<u>\$ -</u>	<u>\$ -</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	Net (Expense) Revenue and Changes in Net Position			Component Units	
	Primary Government				
	Governmental Activities	Business-Type Activities	Total	Town of Franklin ABC Board	Town of Franklin Tourism Development Authority
Functions/Programs:					
Primary Government:					
Governmental Activities:					
General government	\$ (798,063)	\$ -	\$ (798,063)	\$ -	\$ -
Public safety	(2,657,453)	-	(2,657,453)	-	-
Transportation	(332,058)	-	(332,058)	-	-
Planning and economic	(355,605)	-	(355,605)	-	-
Interest on long-term debt	(16,921)	-	(16,921)	-	-
Total governmental activities	<u>(4,160,100)</u>	<u>-</u>	<u>(4,160,100)</u>	<u>-</u>	<u>-</u>
Business-Type Activities:					
Water and sewer	-	1,195,498	1,195,498	-	-
Total primary government	<u>(4,160,100)</u>	<u>1,195,498</u>	<u>(2,964,602)</u>	<u>-</u>	<u>-</u>
Component Units:					
ABC Board				123,208	-
Tourism Development Authority				-	37,695
Total component units				<u>123,208</u>	<u>37,695</u>
General Revenues:					
Taxes:					
Property taxes, levied for general purposes	2,359,515	-	2,359,515	-	-
Other taxes and licenses	1,609,811	-	1,609,811	-	-
Local option sales tax	1,066,083	-	1,066,083	-	-
Investment earnings, unrestricted	1,018	410	1,428	593	29
Total general revenues	<u>5,036,427</u>	<u>410</u>	<u>5,036,837</u>	<u>593</u>	<u>29</u>
Change in net position	876,327	1,195,908	2,072,235	123,801	37,724
Net Position:					
Beginning of year - July 1	<u>7,828,953</u>	<u>22,308,464</u>	<u>30,137,417</u>	<u>542,622</u>	<u>204,491</u>
End of year - June 30	<u>\$ 8,705,280</u>	<u>\$ 23,504,372</u>	<u>\$ 32,209,652</u>	<u>\$ 666,423</u>	<u>\$ 242,215</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND JUNE 30, 2021

	<u>Major</u>	<u>Non-Major</u>	
	<u>General</u>	<u>Other</u>	
	<u>Fund</u>	<u>Governmental</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	
Assets:			
Cash and cash equivalents	\$ 4,087,522	\$ -	\$ 4,087,522
Receivables, net:			
Taxes	137,014	-	137,014
Accounts	346,842	28,862	375,704
Due from other governments	183,216	-	183,216
Prepaid items	80,239	-	80,239
Restricted assets - cash and cash equivalents	487,658	-	487,658
Total assets	<u>\$ 5,322,491</u>	<u>\$ 28,862</u>	<u>\$ 5,351,353</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:			
Liabilities:			
Accounts payable	\$ 57,648	\$ 28,862	\$ 86,510
Due to component unit	17,314	-	17,314
Accrued liabilities	160,258	-	160,258
Total liabilities	<u>235,220</u>	<u>28,862</u>	<u>264,082</u>
Deferred Inflows of Resources:			
Prepaid taxes	3,483	-	3,483
Property taxes receivables	137,014	-	137,014
Total deferred inflows of resources	<u>140,497</u>	<u>-</u>	<u>140,497</u>
Fund Balance:			
Non-spendable:			
Prepaid items	80,239	-	80,239
Restricted:			
Stabilization by state statute	530,058	28,862	558,920
Restricted for streets	476,836	-	476,836
Restricted for public safety	10,822	-	10,822
Assigned	434,351	-	434,351
Unassigned	3,414,468	(28,862)	3,385,606
Total fund balance	<u>4,946,774</u>	<u>-</u>	<u>4,946,774</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,322,491</u>	<u>\$ 28,862</u>	<u>\$ 5,351,353</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND JUNE 30, 2021

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

Total fund balance	\$ 4,946,774
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	6,822,339
Net pension liability - LGERS	(749,893)
Total pension liability - LEOSSA	(1,223,886)
Total OPEB liability	(1,223,282)
Deferred inflows of resources related to pensions are not reported in the funds.	(83,252)
Deferred inflows of resources related to OPEB are not reported in the funds.	(133,668)
Deferred outflows of resources related to pensions are not reported in the funds.	722,425
Deferred outflows of resources related to OPEB are not reported in the funds.	210,518
Other long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(615,114)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(99,138)
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	137,014
Other long-term liabilities (accrued interest) are not due and payable in the funds.	<u>(5,557)</u>
Net position of governmental activities	<u>\$ 8,705,280</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Major</u>	<u>Non-Major</u>	
	<u>General</u>	<u>Other</u>	
	<u>Fund</u>	<u>Governmental</u>	<u>Total</u>
		<u>Fund</u>	
Revenues:			
Ad valorem taxes	\$ 2,362,804	\$ -	\$ 2,362,804
Other taxes and licenses	930,882	-	930,882
Unrestricted intergovernmental revenues	1,745,012	-	1,745,012
Restricted intergovernmental revenues	325,296	-	325,296
Permits and fees	5,192	-	5,192
Investment earnings	1,018	-	1,018
Miscellaneous	91,416	-	91,416
Total revenues	<u>5,461,620</u>	<u>-</u>	<u>5,461,620</u>
Expenditures:			
Current:			
General government	1,065,403	-	1,065,403
Public safety	2,659,857	214,074	2,873,931
Transportation	587,169	-	587,169
Planning and economic development	355,213	-	355,213
Debt service:			
Principal	131,400	-	131,400
Interest	12,342	-	12,342
Total expenditures	<u>4,811,384</u>	<u>214,074</u>	<u>5,025,458</u>
Revenues over (under) expenditures	<u>650,236</u>	<u>(214,074)</u>	<u>436,162</u>
Other Financing Sources (Uses):			
Sale of capital assets	780	-	780
Long-term debt issued	<u>-</u>	<u>214,074</u>	<u>214,074</u>
Total other financing sources (uses)	<u>780</u>	<u>214,074</u>	<u>214,854</u>
Net change in fund balance	651,016	-	651,016
Fund Balance:			
Beginning of year - July 1	<u>4,295,758</u>	<u>-</u>	<u>4,295,758</u>
End of year - June 30	<u>\$ 4,946,774</u>	<u>\$ -</u>	<u>\$ 4,946,774</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2021

Amounts reported for governmental activities in the Statement of Activities
(Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds (Exhibit D)	\$ 651,016
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement.	(3,289)
The issuance of long-term debt provides current financial resources to governmental funds. The transaction does not have an effect on net position.	(214,074)
Debt principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	131,400
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	24,168
Pension expense - LGERS	(87,188)
Pension expense - LEO	(64,860)
OPEB plan expense	(4,493)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	832,562
The sale/disposal of capital assets is reported as a revenue in the governmental funds statement without subtracting the net book value of the capital assets sold.	(31,640)
Other long-term liabilities (accrued interest) are not due and payable in the funds.	(4,579)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	<u>(352,696)</u>
Change in net position of governmental activities per Exhibit B	<u><u>\$ 876,327</u></u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	Budgeted Amounts			Variance
	Original	Final	Actual	Over/Under
Revenues:				
Ad valorem taxes	\$ 2,063,027	\$ 2,063,027	\$ 2,362,804	\$ 299,777
Other taxes and licenses	865,107	865,106	930,882	65,776
Unrestricted intergovernmental revenues	1,330,000	1,339,482	1,745,012	405,530
Restricted intergovernmental revenues	130,000	276,231	325,296	49,065
Permits and fees	3,500	3,500	5,192	1,692
Investment earnings	5,000	5,000	1,018	(3,982)
Miscellaneous	24,132	63,156	91,416	28,260
Total revenues	<u>4,420,766</u>	<u>4,615,502</u>	<u>5,461,620</u>	<u>846,118</u>
Expenditures:				
General government	1,249,849	1,296,276	1,065,403	230,873
Public safety	2,559,066	2,906,599	2,659,857	246,742
Transportation	891,096	890,596	587,169	303,427
Planning and economic development	348,921	428,909	355,213	73,696
Debt service:				
Principal	131,400	131,400	131,400	-
Interest and fees	12,342	12,342	12,342	-
Contingency	30,000	10,395	-	10,395
Total expenditures	<u>5,222,674</u>	<u>5,676,517</u>	<u>4,811,384</u>	<u>865,133</u>
Revenues over (under) expenditures	<u>(801,908)</u>	<u>(1,061,015)</u>	<u>650,236</u>	<u>1,711,251</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	780	780
Transfers in	79,500	79,500	-	(79,500)
Appropriated fund balance	722,408	981,515	-	(981,515)
Total other financing sources (uses)	<u>801,908</u>	<u>1,061,015</u>	<u>780</u>	<u>(1,060,235)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	651,016	<u>\$ 651,016</u>
Fund Balance:				
Beginning of year - July 1			<u>4,295,758</u>	
End of year - June 30			<u>\$ 4,946,774</u>	

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2021

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 6,617,338
Accounts receivable, net	628,440
Due from other governments	37,346
Inventory	112,965
Restricted assets - cash and cash equivalents	42,240
Total current assets	<u>7,438,329</u>
Non-current assets:	
Capital assets:	
Land	1,052,081
Construction in progress	113,497
Other capital assets, net	23,371,645
Total capital assets	<u>24,537,223</u>
Total assets	<u>31,975,552</u>
Deferred Outflows of Resources:	
OPEB deferrals	107,601
Pension deferrals	247,890
Total deferred outflows of resources	<u>355,491</u>
Liabilities:	
Current liabilities:	
Accounts payable	151,035
Accrued liabilities	91,046
Accrued interest	13,724
Liabilities payable from restricted assets:	
Customer deposits	42,240
Current portion of notes payable	857,406
Current portion of compensated absences payable	25,699
Total current liabilities	<u>1,181,150</u>
Non-current liabilities:	
Notes payable	6,483,569
Net pension liability	440,415
Total OPEB liability	612,572
Compensated absences payable	25,698
Total non-current liabilities	<u>7,562,254</u>
Total liabilities	<u>8,743,404</u>
Deferred Inflows of Resources:	
OPEB deferrals	66,936
Pension deferrals	16,331
Total deferred outflows of resources	<u>83,267</u>
Net Position:	
Net investment in capital assets	17,196,248
Unrestricted	6,308,124
Total net position	<u>\$ 23,504,372</u>

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

TOWN OF FRANKLIN, NORTH CAROLINA**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 4,409,835
Operating Expenses:	
Water/sewer operations	2,479,448
Depreciation	697,499
Total operating expenses	<u>3,176,947</u>
Operating income (loss)	<u>1,232,888</u>
Non-Operating Revenues (Expenses):	
Restricted intergovernmental revenue	60,618
Investment earnings	410
Interest expense	(159,141)
Macon County appropriations	45,638
Other revenues	15,495
Total non-operating revenues (expenses)	<u>(36,980)</u>
Change in net position	1,195,908
Net Position:	
Beginning of year - July 1	<u>22,308,464</u>
End of year - June 30	<u><u>\$ 23,504,372</u></u>

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

TOWN OF FRANKLIN, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 4,320,588
Customer deposits received	960
Cash paid for goods and services	(1,197,400)
Cash paid to employees	<u>(1,267,365)</u>
Net cash provided (used) by operating activities	<u>1,856,783</u>
Cash Flows from Non-Capital Financing Activities:	
Macon County appropriations	45,638
Other revenues	<u>76,113</u>
Net cash provided (used) by non-capital financing activities	<u>121,751</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(242,375)
Debt principal	(845,342)
Debt interest	<u>(160,608)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,248,325)</u>
Cash Flows from Investing Activities:	
Interest received	<u>410</u>
Net increase (decrease) in cash, cash equivalents, and investments	730,619
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>5,928,959</u>
End of year - June 30	<u><u>\$ 6,659,578</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 1,232,888
Depreciation	697,499
Changes in assets and liabilities:	
Accounts receivables	(89,247)
Inventories	(1,321)
Accounts payable	(13,198)
Customer deposits	960
OPEB liability	69,196
Pension liability	57,558
Deferred outflows of resources for pension	(21,936)
Deferred inflows of resources for pension	15,583
Deferred outflows of resources for OPEB	(68,216)
Deferred inflows of resources for OPEB	(15,249)
Accrued vacation	<u>(7,734)</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,856,783</u></u>

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

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TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Component Unit – Town of Franklin ABC Board

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

Component Unit – Town of Franklin Tourism Development Authority

The members of the TDA's governing board are appointed by the Town. The TDA, which provides a financial benefit to the Town, was established to receive the proceeds of the room occupancy tax levied pursuant to Session Law SL 2004-105. The TDA is authorized to spend these proceeds to promote travel and tourism. The TDA, which has a June 30 year-end, and is presented as if it were a governmental fund (discrete presentation), has elected not to issue separate financial statements, but to include all relevant information required by generally accepted accounting principles as supplementary information in the County's Annual Financial Report.

B. Basis of Presentation

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

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

Fund Financial Statements. The fund financial statements provide information about the Town's funds. Separate statements for each fund category, *governmental and proprietary*, are presented. The Town has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

The Town reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and state-shared revenues. The primary expenditures are for public safety, general government, transportation, and planning and economic services.

The Town reports the following nonmajor governmental fund:

Construction of Fire Substation Capital Project Fund. This fund is used to account for funds for the construction of a fire substation.

The Town reports the following major enterprise fund:

Water and Sewer Fund. The Water and Sewer Fund is used to account for the Town's water and sewer operations. The primary revenue source is charges to water and sewer customers on a monthly basis. The primary expenses are water treatment, sewer treatment, distribution and collection lines, and administration. The Water and Sewer Capital Project Fund is consolidated into the Water and Sewer Fund for financial reporting purposes. The budgetary comparison for the Water and Sewer Capital Project Fund has been included in the supplemental information.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

C. Measurement Focus and Basis of Accounting

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

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's Enterprise Fund are charges to customers for sales and services. The Town also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. As of September 1, 2013, state law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the state at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Macon County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Water and Sewer Capital Project Fund and the Construction of Fire Substation Capital Project Fund. The Enterprise Fund project is consolidated with the operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing council and the Town Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

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

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town, ABC Board, and the Tourism Development Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

Cash and Cash Equivalents

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Restricted Cash

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Equitable sharing funds and other law enforcement funds are restricted because they can only be expended for law enforcement purposes.

Governmental Activities:

General Fund:

Law enforcement funds	\$ 10,822
Powell Bill	<u>476,836</u>
Total governmental activities	<u>487,658</u>

Business-Type Activities:

Water and Sewer Fund:

Customer deposits	<u>42,240</u>
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Total restricted cash	<u><u>\$ 529,898</u></u>
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Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2020. There are no discounts allowed by the Town.

Allowances for Doubtful Accounts

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

Inventory and Prepaid Items

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

Capital Assets

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

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

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

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet the criteria for this category, pension and OPEB related deferrals.

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

Long-Term Obligations

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

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

Compensated Absences

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

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

Prepays – portion of fund balance that is not an available resource because it represents the year-end balance of prepaids, 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 of G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by state statute". Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stated at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding encumbrances are included within RSS. RSS is included as a component of restricted net position and restricted fund balance on the face of the balance sheet.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Restricted for Streets – Powell Bill - portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of total unexpended Powell Bill funds.

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

Committed Fund Balance

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

Assigned Fund Balance

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

Subsequent Year's Expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the Manager and Finance Officer to make certain modifications without requiring Council approval. At June 30, 2021, the Town had \$434,351 assigned for subsequent year's expenditures.

Unassigned Fund Balance

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

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

The Town has not officially adopted a fund balance policy.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

Total fund balance - General Fund	\$ 4,946,774
Less:	
Prepaid items	80,239
Stabilization by state statute	<u>530,058</u>
Total available fund balance	<u>\$ 4,336,477</u>

Defined Benefit Cost-Sharing Plans

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

Interfund Transactions

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas, where estimates are made, are allowance for doubtful accounts and depreciation lives.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

2. Detail Notes On All Funds

A. Assets

Deposits

All of the deposits of the Town and TDA are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage are collateralized with securities held by the Town's and TDA's agent in the units' name. Under the Pooling Method, a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the TDA, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the TDA, or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town and TDA 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 or TDA has no policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town and TDA 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, 2021, the Town's deposits had a carrying amount of \$5,916,131 and a bank balance of \$6,162,471. Of the bank balance, \$399,500 was covered by federal depository insurance and \$5,762,971 was covered by collateral held under the Pooling Method. The Town also had cash on hand of \$600 at June 30, 2021. The Town of Franklin ABC Board's deposits had a carrying amount of \$347,931 and a bank balance of \$613,800. Of the bank balance, \$294,340 was covered by federal depository insurance and \$319,460 was covered by collateral held under the Pooling Method. The Town of Franklin Tourism Development Authority's deposits had a carrying amount of \$72,229 and a bank balance of \$72,229. All of the bank balances for the TDA were covered by federal depository insurance.

Investments

At June 30, 2021, the Town had \$5,318,027 and the TDA had \$152,672 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's and AAA-mf by Moody's Investor Service as of June 30, 2021. The Government Portfolio is reported at fair value. The Town has no policy regarding credit risk.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Receivables

The receivables shown in Exhibit A at June 30, 2021 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 346,842	\$ 238,026	\$ 183,216	\$ 768,084
Other governmental funds	28,862	-	-	28,862
Allowance for doubtful accounts	<u>-</u>	<u>(101,012)</u>	<u>-</u>	<u>(101,012)</u>
Total governmental activities	<u>\$ 375,704</u>	<u>\$ 137,014</u>	<u>\$ 183,216</u>	<u>\$ 695,934</u>
Business-Type Activities:				
Water and Sewer Fund	\$ 919,659	\$ -	\$ 37,346	\$ 957,005
Allowance for doubtful accounts	<u>(291,219)</u>	<u>-</u>	<u>-</u>	<u>(291,219)</u>
Total business-type activities	<u>\$ 628,440</u>	<u>\$ -</u>	<u>\$ 37,346</u>	<u>\$ 665,786</u>

Due from Other Governments

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

<u>Fund</u>	<u>June 30, 2021</u>
General Fund:	
Sales tax receivable	\$ 68,495
NCDMV	14,418
Franchise tax receivable	<u>100,303</u>
	<u>183,216</u>
Water and Sewer Fund:	
Sales tax receivable	<u>37,346</u>
Total	<u>\$ 220,562</u>

The Tourism Development Authority's receivables consist of occupancy taxes from local hotels of \$17,314 due from the Town of Franklin. Management expects all accounts receivable to be collected; therefore, no allowance for doubtful accounts has been recorded.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Capital Assets

Governmental Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2021 was as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 3,212,087	\$ 32,552	\$ -	\$ 3,244,639
Construction in progress	-	214,074	-	214,074
Total non-depreciable capital assets	<u>3,212,087</u>	<u>246,626</u>	<u>-</u>	<u>3,458,713</u>
Depreciable Capital Assets:				
Buildings	2,800,297	11,725	-	2,812,022
Improvements to facilities	282,177	-	-	282,177
Computer equipment	247,292	5,343	-	252,635
Equipment	857,869	182,005	-	1,039,874
Furniture and fixtures	156,076	-	-	156,076
Vehicles	3,271,254	386,863	204,992	3,453,125
Infrastructure	2,363,554	-	-	2,363,554
Total depreciable capital assets	<u>9,978,519</u>	<u>585,936</u>	<u>204,992</u>	<u>10,359,463</u>
Less Accumulated Depreciation:				
Buildings	830,812	55,928	-	886,740
Improvements to facilities	243,953	4,893	-	248,846
Computer equipment	246,167	2,462	-	248,629
Equipment	641,370	63,043	-	704,413
Furniture and fixtures	156,075	-	-	156,075
Vehicles	3,028,790	178,517	173,352	3,033,955
Infrastructure	1,669,326	47,853	-	1,717,179
Total accumulated depreciation	<u>6,816,493</u>	<u>\$ 352,696</u>	<u>\$ 173,352</u>	<u>6,995,837</u>
Total depreciable capital assets, net	<u>3,162,026</u>			<u>3,363,626</u>
Governmental activities capital assets, net	<u>\$ 6,374,113</u>			<u>\$ 6,822,339</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 29,810
Public safety	238,989
Transportation	83,897
Total depreciation expense	<u>\$ 352,696</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2021 was as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 1,052,081	\$ -	\$ -	\$ 1,052,081
Construction in progress	87,248	26,249	-	113,497
Total non-depreciable capital assets	<u>1,139,329</u>	<u>26,249</u>	<u>-</u>	<u>1,165,578</u>
Depreciable Capital Assets:				
Buildings	1,336,485	-	-	1,336,485
Improvement to facilities	133,469	-	-	133,469
Equipment	932,698	68,323		1,001,021
Vehicles	521,268	76,099	-	597,367
Water and sewer distribution systems	<u>33,638,364</u>	<u>71,704</u>	<u>-</u>	<u>33,710,068</u>
Total depreciable capital assets	<u>36,562,284</u>	<u>216,126</u>	<u>-</u>	<u>36,778,410</u>
Less Accumulated Depreciation:				
Buildings	148,152	31,726	-	179,878
Improvements to facilities	113,958	2,628	-	116,586
Equipment	806,934	25,790	-	832,724
Vehicles	413,764	40,353	-	454,117
Water and sewer distribution systems	<u>11,226,458</u>	<u>597,002</u>	<u>-</u>	<u>11,823,460</u>
Total accumulated depreciation	<u>12,709,266</u>	<u>\$ 697,499</u>	<u>\$ -</u>	<u>13,406,765</u>
Total depreciable capital assets, net	<u>23,853,018</u>			<u>23,371,645</u>
Business-type activities capital assets, net	<u>\$ 24,992,347</u>			<u>\$ 24,537,223</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2021 is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 6,822,339	\$ 24,537,223
Long-term debt related to capital assets	<u>(615,114)</u>	<u>(7,340,975)</u>
Net investment in capital assets	<u><u>\$ 6,207,225</u></u>	<u><u>\$ 17,196,248</u></u>

Component Unit

Capital assets of the ABC Board as of June 30, 2021, were as follows:

	<u>Balance July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2021</u>
Depreciable Capital Assets:				
Equipment	\$ 167,767	\$ 15,443	\$ 9,626	\$ 173,584
Leasehold improvements	<u>210,944</u>	<u>-</u>	<u>-</u>	<u>210,944</u>
Total depreciable capital assets	<u>378,711</u>	<u>15,443</u>	<u>9,626</u>	<u>384,528</u>
Less Accumulated Depreciation:				
Equipment	145,291	8,491	9,626	144,156
Leasehold improvements	<u>195,818</u>	<u>1,959</u>	<u>-</u>	<u>197,777</u>
Total accumulated depreciation	<u>341,109</u>	<u>\$ 10,450</u>	<u>\$ 9,626</u>	<u>341,933</u>
Total depreciable capital assets, net	<u><u>\$ 37,602</u></u>			<u><u>\$ 42,595</u></u>

Construction Commitments

The Town has an active construction project as of June 30, 2021. At year-end, the Town's commitments are as follows:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Construction of Fire Substation	<u><u>\$ 214,074</u></u>	<u><u>\$ 185,926</u></u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2021 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Component Unit</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$ 57,648	\$ 160,258	\$ 17,314	\$ 235,220
Other governmental funds	<u>28,862</u>	<u>-</u>	<u>-</u>	<u>28,862</u>
Total governmental activities	<u>\$ 86,510</u>	<u>\$ 160,258</u>	<u>\$ 17,314</u>	<u>\$ 264,082</u>
Business-Type Activities:				
Water and Sewer Fund	<u>\$ 151,035</u>	<u>\$ 91,046</u>	<u>\$ -</u>	<u>\$ 242,081</u>

As of June 30, 2021, the Tourism Development Authority did not have any payables.

Pension Plan and Post-Employment Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town of Franklin is a participating employer in the state-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members, nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Annual Comprehensive Financial Report for the State of North Carolina. The state's Annual Comprehensive Financial Report 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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age or have completed 15 years of service as a LEO and have reached age 50 or have completed five years of creditable service as a LEO and have reached age 55 or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Franklin employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Franklin's contractually required contribution rate for the year ended June 30, 2021 was 10.22% of compensation for law enforcement officers and 10.84% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Franklin were \$259,245 for the year ended June 30, 2021.

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.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

At June 30, 2021, the Town reported a liability of \$1,190,308 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020 (measurement date), the Town's proportion was 0.03331%, which was a decrease of 0.00458% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$397,637. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 150,315	\$ -
Changes of assumptions	88,582	-
Net difference between projected and actual earnings on pension plan investments	167,504	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	4,326	44,139
Town contributions subsequent to the measurement date	259,245	-
Total	<u>\$ 669,972</u>	<u>\$ 44,139</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

\$259,245 reported as deferred outflows of resources related to pensions resulting from the Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Total
2022	\$ 102,376
2023	138,479
2024	76,160
2025	49,573
Total	<u>\$ 366,588</u>

Actuarial Assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2019 valuation, with the exception of the discount rate, were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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, 2020 are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2020 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	<u>\$ 2,415,006</u>	<u>\$ 1,190,308</u>	<u>\$ 172,499</u>

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report for the State of North Carolina.

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer, defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the plan.

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

At December 31, 2019, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Active plan members	<u>17</u>
Total	<u>19</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Summary of Significant Accounting Policies

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

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

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2019 valuation. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increase	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	1.93 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20-Year High Grade Rate Index as of December 31, 2019.

The actuarial assumptions used in the December 31, 2019 valuation was based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ending December 31, 2019.

Mortality Assumption: All mortality rates use Pub-2010 amount-weighted tables.

Mortality Projection: All mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

Deaths after Retirement (Healthy): Mortality rates are based on the Safety Mortality Table for Retirees. Rates for all members are multiplied by 97% and Set Forward by 1 year.

Deaths after Retirement (Disabled members at Retirement): Mortality rates are based on the Non-Safety Mortality Table for Disabled Retirees. Rates are Set Back 3 years for all ages.

Deaths after Retirement (Survivors of Deceased Members): Mortality rates are based on the Below-median Teachers Mortality Table for Contingent Survivors. Rates for male members are Set Forward 3 years. Rates for female members are Set Forward 1 year. Because the contingent survivor tables have no rates prior to 45, the Below-median Teachers Mortality Table for Employees is used for ages less than 45.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Death Prior to Retirement: Mortality rates are based on the Safety Mortality Table for Employees.

Contributions. The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operation budget. There were no contributions made by the employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$53,432 as benefits came due.

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

At June 30, 2021, the Town reported a total pension liability of \$1,223,886. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was rolled forward to December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, the Town recognized pension expense of \$125,290.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 31,321	\$ 42,221
Changes of assumptions	239,521	13,223
Town benefit payments and plan administrative expense made subsequent to the measurement date	29,501	-
Total	<u>\$ 300,343</u>	<u>\$ 55,444</u>

\$29,501 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Total
2022	\$ 69,116
2023	62,160
2024	61,067
2025	23,055
Total	<u>\$ 215,398</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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 1.93%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.93%) or 1-percentage-point higher (2.93%) than the current rate:

	1% Decrease (0.93%)	Discount Rate (1.93%)	1% Increase (2.93%)
Total pension liability	\$ 1,305,892	\$ 1,223,886	\$ 1,147,683

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

	2021
Beginning balance	\$ 995,982
Service cost	26,191
Interest on the total pension liability	31,598
Differences between expected and actual experience in the measurement of the total pension liability	(51,442)
Changes of assumptions or other inputs	274,989
Benefit payments	(53,432)
Net changes	227,904
Ending balance of the total pension liability	\$ 1,223,886

Changes of Assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 3.26 percent at December 31, 2019 (measurement date) to 1.93 percent at December 31, 2020 (measurement date).

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 397,637	\$ 125,290	\$ 522,927
Pension liability	1,190,308	1,223,886	2,414,194
Proportionate share of the net pension liability	0.03331%	n/a	-

Deferred of Outflows of Resources

Differences between expected and actual experience	\$ 150,315	\$ 31,321	\$ 181,636
Changes of assumptions	88,582	239,521	328,103
Net difference between projected and actual earnings on pension plan investments	167,504	-	167,504
Changes in proportion and differences between contributions and proportionate share of contributions	4,326	-	4,326
Benefit payments and administrative costs paid subsequent to the measurement date	259,245	29,501	288,746
	<u>\$ 669,972</u>	<u>\$ 300,343</u>	<u>\$ 970,315</u>

Deferred of Inflows of Resources

Differences between expected and actual experience	\$ -	\$ 42,221	\$ 42,221
Changes of assumptions	-	13,223	13,223
Changes in proportion and differences between contributions and proportionate share of contributions	44,139	-	44,139
	<u>\$ 44,139</u>	<u>\$ 55,444</u>	<u>\$ 99,583</u>

Supplemental Retirement Income Plan for Law Enforcement Officers

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The Town made contributions of \$40,536 for the reporting year. No amounts were forfeited.

Defined Contribution 401(k) Plan

The Town sponsors a defined contribution 401(k) plan, in which the Town currently contributes 5% to each eligible employee. The Town's portion of contributions for the year ended June 30, 2021 was \$84,135. The employees' elected deferrals to the Plan were \$36,769 for the year ended June 30, 2021.

Other Post-Employment Benefits

Healthcare Benefits

Plan Description. According to a Town resolution, the Town allows employees who retire on or after July 1, 1999 from the Town with at least 15 years of Town service before the age of 65 under the provisions set forth in the North Carolina Local Government Retirement System (LGRS) to participate in the Town's healthcare plan upon retirement, until they become eligible for Medicare. The plan is a single employer defined benefit plan. The Town will pay 100% of the premium if the employee has at least 30 years of service with the Town or has at least 20 years of service with the Town and has attained age 62. The Town will pay 75% of the premium if the employee has at least 15 years of service with the Town and has attained age 57. The Town will pay 100% of the premium for employees retiring due to medical disability, provided they have at least 20 years of service, or 75% if they are age 57 with 15 years of service and retire due to medical disability.

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

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

Total OPEB Liability

The Town's total OPEB liability of \$1,835,854 was measured as of June 30, 2020 and was determined by an actuarial valuation as of June 30, 2019.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases, including wage inflation	
General employees	3.50% - 7.75%
Firefighters	3.50% - 7.75%
Law enforcement officers	3.50% - 7.35%
Municipal bond index rate	
Prior measurement date	3.50%
Measurement date	2.21%
Health care cost trend rates	
Pre-Medicare medical and Prescription Drug	7.00 % for 2019 decreasing to an ultimate rate of 4.50% by 2026

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

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2020	\$ 1,601,935
Changes for the year:	
Service cost	49,929
Interest	56,482
Differences between expected and actual experience	15,302
Changes of assumptions or other inputs	189,050
Benefit payments	<u>(76,844)</u>
Net changes	<u>233,919</u>
Balance at June 30, 2021	<u>\$ 1,835,854</u>

Changes in assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 3.50% to 2.21%.

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

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

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increase used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 - December 31, 2014, adopted by the LGERS board.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2019 valuation.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.21 percent) or one percentage point higher (3.21 percent) than the current discount rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Total OPEB liability	\$ 1,999,986	\$ 1,835,854	\$ 1,687,179

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

	1% Decrease	Current	1% Increase
Total OPEB liability	\$ 1,643,388	\$ 1,835,854	\$ 2,060,539

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

For the year ended June 30, 2021, the Town recognized OPEB expense of \$99,321. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,307	\$ 127,904
Changes of assumptions	191,750	72,700
Benefit payments and plan administrative expense made subsequent to the measurement date	106,062	-
Total	\$ 318,119	\$ 200,604

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

\$106,062 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending	
June 30	Total
2022	\$ (7,090)
2023	(7,090)
2024	(7,090)
2025	(4,459)
2026	5,944
Thereafter	31,238
Total	<u>\$ 11,453</u>

Other Employment Benefits

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

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources are comprised of the following:

	<u>Amount</u>
Benefit payments made and administration expenses for pension	\$ 288,746
Benefit payments made and administration expenses for OPEB	106,062
Differences between expected and actual experience - Pension	181,636
Differences between expected and actual experience - OPEB	20,307
Changes of assumptions - Pension	328,103
Changes of assumptions - OPEB	191,750
Net difference between projected and actual experience - Pension	167,504
Changes in proportion and differences between employer contributions and proportionate share - Pension	4,326
	<u>\$ 1,288,434</u>

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

	<u>Amount</u>
Taxes receivable (General Fund)	\$ 137,014
Prepaid taxes	3,483
Changes in assumptions - Pension	13,223
Changes in assumptions - OPEB	72,700
Differences between expected and actual experience - Pension	42,221
Differences between expected and actual experience - OPEB	127,904
Changes in proportion and differences between employer contributions and proportionate share - Pension	44,139
	<u>\$ 440,684</u>

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, destruction of assets, errors, omissions, injuries to employees, and natural disasters. The Town participates in risk-financing through Travelers Insurance and obtains workers' compensation coverage up to statutory limits. Specific information on the limits and of the insurance purchased can be obtained by contacting the Wayah Insurance Agency, 295 East Palmer Street, Franklin, North Carolina.

Commercial flood insurance is available within the Town limits since the Town participates in the National Flood Insurance Program. The Town has Commercial Property Insurance coverage on the utility property that is subject to flooding and also carried flood insurance on the police department property.

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

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

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

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

Claims, Judgments, and Contingent Liabilities

At June 30, 2021, the Town periodically is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits, if any, will not have a material adverse effect on the financial position of the Town.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Long-Term Obligations

Installment Purchases and Note Payable

Governmental Activities:

Municipal buildings, executed \$1,533,872 in September 2012, under an installment purchase contract, due in annual installments of of varying amounts, including interest of 2.32%, through June 2024 \$ 401,040

Construction of Fire Substation, executed \$214,074 in February 2021, under an installment purchase contract, due in annual installments of \$23,820, including interest of 1.990% through November 2030; this loan was approved for \$400,000 in February 2021 and will increase based upon drawdowns during project finalization in fiscal year 2022 as the construction project is complete. 214,074

Total Governmental Activities \$ 615,114

The Town's outstanding notes from direct placements related to governmental activities of \$401,040 are secured with the building. The Town's outstanding notes from direct borrowings related to governmental activities of \$401,040 contain provisions that an event of default would result in repayment of balance to become at once due and payable, regardless of the maturity date or other due date thereof.

The Town's outstanding notes from direct placements related to governmental activities of \$214,074 are secured with the mortgaged property and equipment. The Town's outstanding notes from direct borrowings related to governmental activities of \$214,074 contain provisions that an event of default would result in (1) declare the unpaid principal balance of Installment Payments immediately due and payable; 2) proceed by appropriate court action to enforce the Town's performance of the applicable covenants of this Agreement or to recover for the breach thereof; 3) pay over any balance remaining in the Project Fund to be applied against outstanding Required Payments in any manner UCB may reasonably deem appropriate; 4) avail itself of all available remedies under this Agreement, including execution and foreclosure as provided in Section 8.03 and 8.04, and recovery of attorney's fees and other expenses.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Business-Type Activities:

Water and Sewer Department, executed \$2,743,128 in September 2012,
under an installment purchase contract, due in annual installments
of varying amounts, including interest of 2.32%, through June 2024 \$ 712,960

Water and Sewer Department, executed \$2,619,500 in June 2010,
under an installment purchase contract, due in annual installments
of \$254,695, including interest of 5.11%, through June 2025 900,832

Water and Sewer Department, executed \$3,073,993 in October 2018,
under a Drinking Water State Revolving Fund loan, due in annual
installments of \$153,700, 0% interest, through May 2038 2,612,894

Water and Sewer Department, executed \$5,190,484 in June 2013,
under a Clean Water State Revolving Fund loan, due in annual
installments of \$259,524, plus interest of 2.445%, through May 2033 3,114,289

Total business-type activities \$ 7,340,975

The Town's outstanding notes from direct placements related to business-type activities of \$712,960 are secured with the building. The Town's outstanding notes from direct borrowings related to business-type activities of \$712,960 contain provisions that an event of default would result in repayment of balance to become at once due and payable, regardless of the maturity date or other due date thereof.

The Town's outstanding notes from direct placements related to business-type activities of \$900,832 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$900,832 contain provisions that an event of default would result in (1) declare the whole unpaid principal balance of Installment Payments due and thereafter to become at once due and payable; 2) exercise its rights as a secured party under the Uniform Commercial Code of the state and pursuant to the grant made in Section 3.2 of Agreement, including, but not limited to, taking possession of any part on all of the Equipment pursuant to this Agreement, with or without terminating this Agreement, excluding the Town from possession, and selling or leasing the Equipment for the account of the Town; or 3) proceed by appropriate court action to enforce performance by the Town of the applicable covenants of this Agreement or to recover for the breach thereof; provided, however, that nothing contained in the Agreement shall be deemed to allow any judgment for a deficiency or waive any provision of N.C.G.S. Section 160A-20 or any defense the Town may otherwise have.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

The Town's outstanding notes from direct borrowings related to business-type activities of \$2,612,894 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$2,612,894 contain provisions that an event of default would result in immediate repayment of note in whole and any further commitment of funds may be withdrawn.

The Town's outstanding notes from direct borrowings related to business-type activities of \$3,114,289 are secured with the equipment. The Town's outstanding notes from direct borrowings related to business-type activities of \$3,114,289 contain provisions that an event of default would result in immediate repayment of note in whole and any further commitment of funds may be withdrawn.

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 152,040	\$ 13,556	\$ 857,406	\$ 138,703
2023	153,509	10,096	869,989	116,236
2024	155,346	6,603	883,756	93,179
2025	20,751	3,069	655,537	69,490
2026	21,164	2,656	413,224	50,763
2027-2031	112,304	6,793	2,066,119	158,634
2032-2036	-	-	1,287,547	19,036
2037-2038	-	-	307,397	-
Total	<u>\$ 615,114</u>	<u>\$ 42,773</u>	<u>\$ 7,340,975</u>	<u>\$ 646,041</u>

At June 30, 2021, the Town had a legal debt margin of \$57,492,736.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

Changes in Long-Term Liabilities

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion
Governmental Activities:					
Notes from direct placements	\$ 532,440	\$ 214,074	\$ 131,400	\$ 615,114	\$ 152,040
Compensated absences	123,306	89,783	113,951	99,138	49,569
Total OPEB liability	1,058,559	164,723	-	1,223,282	-
Net pension liability (LGERS)	651,889	98,004	-	749,893	-
Total pension liability (LEOSSA)	995,982	227,904	-	1,223,886	-
Governmental activities long-term liabilities	<u>\$ 3,362,176</u>	<u>\$ 794,488</u>	<u>\$ 245,351</u>	<u>\$ 3,911,313</u>	<u>\$ 201,609</u>
Business-Type Activities:					
Notes from direct borrowings and direct placements	\$ 8,186,317	\$ -	\$ 845,342	\$ 7,340,975	\$ 857,406
Total OPEB liability	543,376	69,196	-	612,572	-
Net pension liability (LGERS)	382,857	57,558	-	440,415	-
Compensated absences	59,131	39,740	47,474	51,397	25,699
Business-type activities long-term liabilities	<u>\$ 9,171,681</u>	<u>\$ 166,494</u>	<u>\$ 892,816</u>	<u>\$ 8,445,359</u>	<u>\$ 883,105</u>

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

C. Revenues, Expenditures, and Expenses

On-Behalf Payments for Fringe Benefits and Salaries

The Town has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$9,482 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2021. Under state law the local board of trustees for the fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

D. Jointly Governed Organization

Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

remit to the state. The state passes these monies to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2021. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

Related Party Transactions

During fiscal year ended June 30, 2021, the Town of Franklin remitted \$138,689 to the Town of Franklin TDA, which is the collection fee of 3% of gross receipts derived from the rental of any room, lodging, or accommodation furnished by a hotel, motel, inn, tourist camp, or similar place within the Town. The Town of Franklin TDA also had an accounts receivable amount of \$17,314 owed from the Town of Franklin at year-end.

During fiscal year ended June 30, 2021, the Town of Franklin received \$70,994 from the ABC Board, \$70,000 was for Profit Distributions while \$994 was for law enforcement for public safety.

E. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

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

Coronavirus Disease (COVID-19)

During the fiscal year 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had significant effects on global markets, supply chains, businesses, and communities. Specific to the Town, COVID-19 is expected to impact various parts of its fiscal year 2021-22 operations and financial results. Management believes the Town is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the pandemic continue to develop.

TOWN OF FRANKLIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

F. Subsequent Events

The Town of Franklin was awarded \$1,308,254 from the Federal American Rescue Plan (ARP). Subsequent to year end the Town of Franklin received \$654,127 and the remaining amount of \$654,127 is expected to be received within the next 12 months.

In August 2021, the North Carolina Department of Environmental Quality approved the Town to receive a Drinking Water State Revolving Fund (DWSRF) loan for \$8,889,000, contingent upon the Local Government Commission's approval. No expenditures related to these projects were incurred in the current fiscal year. The loan will be used to finance the next phase of the Water Treatment Plant upgrade and expansion project.

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TOWN OF FRANKLIN, NORTH CAROLINA
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST FIVE FISCAL YEARS *

	Law Enforcement Officers' Special Separation Allowance				
	2021	2020	2019	2018	2017
Beginning balance	\$ 995,982	\$ 896,132	\$ 908,912	\$ 818,775	\$ 827,883
Service cost	26,191	27,875	27,316	24,311	24,957
Interest on the total pension liability	31,598	32,040	28,219	30,991	28,761
Differences between expected and actual experience in the measurement of the total pension liability	(51,442)	46,528	(5,964)	18,597	-
Changes of assumptions or other inputs	274,989	25,228	(30,530)	48,059	(18,311)
Benefit payments	(53,432)	(31,821)	(31,821)	(31,821)	(44,515)
Ending balance of the total pension liability	<u>\$ 1,223,886</u>	<u>\$ 995,982</u>	<u>\$ 896,132</u>	<u>\$ 908,912</u>	<u>\$ 818,775</u>

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

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

	Law Enforcement Officers' Special Separation Allowance				
	2021	2020	2019	2018	2017
Total pension liability	\$ 1,223,886	\$ 995,982	\$ 896,132	\$ 908,912	\$ 818,775
Covered payroll	849,120	918,185	852,645	843,148	818,843
Total pension liability as a percentage of covered payroll	144.14%	108.47%	105.10%	107.80%	99.99%

Notes to the Schedules:

The Town of Franklin has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

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

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF CHANGES IN THE TOTAL OPEB
LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION
LAST FOUR FISCAL YEARS ***

Schedule of Changes in Total OPEB Liability and Related Ratios				
	2021	2020	2019	2018
Total OPEB Liability:				
Service cost at end of year	\$ 49,929	\$ 58,829	\$ 60,931	\$ 66,072
Interest	56,482	64,131	58,376	50,421
Changes of benefit terms	15,302	(171,334)	-	-
Differences between expected and actual experience	-	-	11,533	(6,572)
Changes of assumptions or other inputs	189,050	39,045	(50,071)	(86,317)
Benefit payments and implicit subsidy credit	(76,844)	(73,980)	(70,015)	(48,113)
Net change in total OPEB liability	233,919	(83,309)	10,754	(24,509)
Total OPEB liability - beginning	1,601,935	1,685,244	1,674,490	1,698,999
Total OPEB liability - ending	<u>\$ 1,835,854</u>	<u>\$ 1,601,935</u>	<u>\$ 1,685,244</u>	<u>\$ 1,674,490</u>
Covered payroll	\$ 2,368,885	\$ 2,368,885	\$ 2,355,213	\$ 2,355,213
Total OPEB liability as a percentage of covered payroll	77.50%	67.62%	71.55%	71.10%

Notes to the Required Schedules:

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

Fiscal Year	Rate
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

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

TOWN OF FRANKLIN, NORTH CAROLINA

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

Local Government Employees' Retirement System				
	2021	2020	2019	2018
Proportion of the net pension liability (asset) (%)	0.03331%	0.03789%	0.03844%	0.04066%
Proportion of the net pension liability (asset) (\$)	\$ 1,190,308	\$ 1,034,746	\$ 911,928	\$ 621,172
Covered payroll	\$ 2,516,102	\$ 2,642,187	\$ 2,654,694	\$ 2,504,775
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	47.31%	39.16%	34.35%	24.80%
Plan fiduciary net position as a percentage of the total pension liability**	88.61%	90.86%	91.63%	94.18%

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

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

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

Local Government Employees' Retirement System				
	2017	2016	2015	2014
Proportion of the net pension liability (asset) (%)	0.03954%	0.03950%	0.04056%	0.04030%
Proportion of the net pension liability (asset) (\$)	\$ 839,171	\$ 177,274	\$ (239,201)	\$ 485,770
Covered payroll	\$ 2,396,096	\$ 2,239,266	\$ 2,267,471	\$ 2,186,680
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	35.02%	7.92%	-10.55%	22.21%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

TOWN OF FRANKLIN, NORTH CAROLINA

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

Local Government Employees' Retirement System				
	2021	2020	2019	2018
Contractually required contribution	\$ 259,245	\$ 232,644	\$ 212,390	\$ 206,822
Contributions in relation to the contractually required contribution	<u>259,245</u>	<u>232,644</u>	<u>212,390</u>	<u>206,822</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,486,839	\$ 2,516,102	\$ 2,642,187	\$ 2,654,694
Contributions as a percentage of covered payroll	10.42%	9.25%	8.04%	7.79%

This schedule is intended to show information for ten years.

Additional years' information will be displayed as it becomes available.

TOWN OF FRANKLIN, NORTH CAROLINA

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

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

TOWN OF FRANKLIN, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	Final Budget	Actual	Variance Over/Under
Revenues:			
Ad valorem taxes:			
Taxes	\$ 2,057,027	\$ 2,337,410	\$ 280,383
Penalties and interest	6,000	25,394	(6,000)
Total	<u>2,063,027</u>	<u>2,362,804</u>	<u>274,383</u>
Other Taxes and Licenses:			
Fire tax	845,106	894,090	48,984
Vehicle rental tax	20,000	36,792	16,792
Total	<u>865,106</u>	<u>930,882</u>	<u>65,776</u>
Unrestricted Intergovernmental Revenues:			
Local option sales tax	650,000	1,066,083	416,083
Utility franchise tax	450,000	442,431	(7,569)
Beer and wine tax	17,500	17,333	(167)
ABC profit distribution	70,000	70,994	994
On behalf of payments - Fire and Rescue	9,482	9,482	-
Occupancy tax	142,500	138,689	(3,811)
Total	<u>1,339,482</u>	<u>1,745,012</u>	<u>405,530</u>
Restricted Intergovernmental Revenues:			
Powell Bill allocation	125,000	116,842	(8,158)
Federal grant	125,681	186,219	60,538
Miscellaneous grants	25,550	22,235	(3,315)
Total	<u>276,231</u>	<u>325,296</u>	<u>49,065</u>
Permits and Fees:			
Zoning permits	3,000	4,217	1,217
Sign permits	500	975	475
Total	<u>3,500</u>	<u>5,192</u>	<u>1,692</u>
Investment Earnings	<u>5,000</u>	<u>1,018</u>	<u>(3,982)</u>
Miscellaneous	<u>63,156</u>	<u>91,416</u>	<u>28,260</u>
Total revenues	<u>4,615,502</u>	<u>5,461,620</u>	<u>820,724</u>

TOWN OF FRANKLIN, NORTH CAROLINA**GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	Final Budget	Actual	Variance Over/Under
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	34,500	31,649	2,851
Operating expenses	61,382	42,691	18,691
Professional services	74,288	70,140	4,148
Total	170,170	144,480	25,690
Administration:			
Salaries and employee benefits	273,696	235,160	38,536
Operating expenses	16,000	12,505	3,495
Professional services	8,270	8,025	245
Capital outlay	660	657	3
Total	298,626	256,347	42,279
Finance:			
Salaries and employee benefits	184,496	107,425	77,071
Operating expenses	11,605	9,484	2,121
Professional services	8,700	8,171	529
Total	204,801	125,080	79,721
Billing:			
Salaries and employee benefits	64,908	49,400	15,508
Operating expenses	8,500	4,850	3,650
Total	73,408	54,250	19,158
Legal and Election:			
Operating expenses	11,500	11,147	353
Professional services	70,848	70,845	3
Total	82,348	81,992	356
Facilities:			
Salaries and employee benefits	110,744	101,650	9,094
Operating expenses	219,724	209,833	9,891
Professional services	6,000	3,928	2,072
Total	366,158	315,411	50,747

TOWN OF FRANKLIN, NORTH CAROLINA

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2021

	Final Budget	Actual	Variance Over/Under
Information Technology:			
Operating expenses	32,040	28,923	3,117
Professional services	20,600	20,400	200
Capital outlay	48,125	38,520	9,605
Total	<u>100,765</u>	<u>87,843</u>	<u>12,922</u>
 Total general government	 <u>1,296,276</u>	 <u>1,065,403</u>	 <u>230,873</u>
Public Safety:			
Police:			
Salaries and employee benefits	1,351,557	1,304,036	47,521
Operating expenses	281,870	254,820	27,050
Capital outlay	261,908	244,400	17,508
Total	<u>1,895,335</u>	<u>1,803,256</u>	<u>92,079</u>
 Fire:			
Salaries and employee benefits	565,690	519,330	46,360
Operating expenses	332,544	266,397	66,147
Capital outlay	113,030	70,874	42,156
Total	<u>1,011,264</u>	<u>856,601</u>	<u>154,663</u>
 Total public safety	 <u>2,906,599</u>	 <u>2,659,857</u>	 <u>246,742</u>
 Transportation:			
Streets and Highways:			
Salaries and employee benefits	220,134	184,399	35,735
Operating expenses	307,462	174,550	132,912
Capital outlay	363,000	228,220	134,780
Total	<u>890,596</u>	<u>587,169</u>	<u>303,427</u>
 Total transportation	 <u>890,596</u>	 <u>587,169</u>	 <u>303,427</u>
 Planning and Economic Development:			
Salaries and employee benefits	100,140	92,521	7,619
Operating expenses	83,369	39,555	43,814
Organization contributions	140,000	134,500	5,500
Total	<u>323,509</u>	<u>266,576</u>	<u>56,933</u>

TOWN OF FRANKLIN, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	Final Budget	Actual	Variance Over/Under
Festivals and Events:			
Operating expenses	88,000	80,840	7,160
Total	88,000	80,840	7,160
Traffic:			
Salaries and employee benefits	15,600	7,376	8,224
Operating expenses	1,800	421	1,379
Total	17,400	7,797	9,603
Total planning and economic development	428,909	355,213	73,696
Debt Service:			
Principal retirement	131,400	131,400	-
Interest and fees	12,342	12,342	-
Total debt service	143,742	143,742	-
Contingency	10,395	-	10,395
Total expenditures	5,676,517	4,811,384	865,133
Revenues over (under) expenditures	(1,061,015)	650,236	(44,409)
Other Financing Sources (Uses):			
Appropriated fund balance	981,515	-	981,515
Transfer in	79,500	-	79,500
Sale of capital assets	-	780	(780)
Total other financing sources (uses)	1,061,015	780	1,060,235
Net change in fund balance	\$ -	651,016	\$ 651,016
Fund Balance:			
Beginning of year - July 1		4,295,758	
End of year - June 30		\$ 4,946,774	

TOWN OF FRANKLIN, NORTH CAROLINA

CONSTRUCTION OF FIRE SUBSTATION CAPITAL PROJECT FUND

SCHEDULE OF REVENUES AND EXPENDITURES-

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2021

		Actual			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Over/Under</u>
Expenditures:					
Construction	\$ 400,000	\$ -	\$ 214,074	\$ 214,074	\$ (185,926)
Revenues over (under) expenditures	(400,000)	-	(214,074)	(214,074)	185,926
Other Financing Sources (Uses):					
Proceeds from Debt	400,000	-	214,074	214,074	(185,926)
Net change in fund balance	\$ -	\$ -	\$ -	\$ -	\$ -

TOWN OF FRANKLIN, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER FUND SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP) FOR THE YEAR ENDED JUNE 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operating Revenues:			
Charges for services:			
Water and sewer charges	\$ 3,480,494	\$ 4,060,089	\$ 579,595
Water and sewer taps	27,080	74,670	47,590
Availability fees	13,800	124,100	110,300
Dumping fees	60,000	134,245	74,245
Reconnections	15,000	16,731	1,731
Total operating revenues	<u>3,596,374</u>	<u>4,409,835</u>	<u>813,461</u>
Non-Operating Revenues:			
Investment earnings	5,000	410	(4,590)
Macon County appropriations	39,000	45,638	6,638
CARES Act	34,369	34,369	-
Other revenues	1,800	15,495	13,695
Total non-operating revenues	<u>80,169</u>	<u>95,912</u>	<u>15,743</u>
Total revenues	<u>3,676,543</u>	<u>4,505,747</u>	<u>829,204</u>
Expenditures:			
Water and Sewer Operations:			
Salaries and employee benefits	1,473,374	1,296,567	176,807
Utilities	261,000	235,054	25,946
Supplies	323,619	280,471	43,148
Insurance and bonds	76,893	76,280	613
Professional services	238,113	233,217	4,896
Repairs and maintenance	239,897	209,204	30,693
Miscellaneous	175,672	119,453	56,219
Total water and sewer operations	<u>2,788,568</u>	<u>2,450,246</u>	<u>338,322</u>
Capital Outlay:			
Water extensions	180,000	71,704	108,296
Equipment	74,328	68,323	6,005
Vehicles	76,510	76,099	411
Total capital outlay	<u>330,838</u>	<u>216,126</u>	<u>114,712</u>

TOWN OF FRANKLIN, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Debt Service:			
Principal retirement	845,342	845,342	-
Interest	160,608	160,608	-
Total debt service	<u>1,005,950</u>	<u>1,005,950</u>	<u>-</u>
 Total expenditures	<u>4,125,356</u>	<u>3,672,322</u>	<u>453,034</u>
 Revenues over (under) expenditures	<u>(448,813)</u>	<u>833,425</u>	<u>1,282,238</u>
 Other Financing Sources (Uses):			
Transfers out	(33,752)	-	33,752
Appropriated fund balance	<u>482,565</u>	<u>-</u>	<u>(482,565)</u>
Total other financing sources (uses)	<u>448,813</u>	<u>-</u>	<u>(448,813)</u>
 Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 833,425</u>	<u>\$ 833,425</u>
 Reconciliation from Modified Accrual Basis to Full Accrual Basis:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 833,425	
Reconciling items:			
Change in accrued vacation		7,734	
Capital outlay		216,126	
Payment of debt principal		845,342	
Capital project revenues		26,249	
Net pension liability		(57,558)	
Deferred outflows of resources - pensions		21,936	
Deferred inflows of resources - pensions		(15,583)	
Change in accrued interest		1,467	
Change in deferred outflows of resources - OPEB		68,216	
Change in OPEB liability		(69,196)	
Change in deferred inflows of resources - OPEB		15,249	
Depreciation		<u>(697,499)</u>	
 Change in net position		<u>\$ 1,195,908</u>	

TOWN OF FRANKLIN, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2021

		Actual			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	<u>Variance Over/Under</u>
Revenues:					
Restricted intergovernmental	\$ -	\$ -	\$ 26,249	\$ 26,249	\$ 26,249
Expenditures:					
Water Treatment Plant upgrade and expansion	3,909,461	3,073,992	-	3,073,992	835,469
NCDOT - ROW Utility Re-location	33,752	87,248	26,249	113,497	(79,745)
Total expenditures	<u>3,943,213</u>	<u>3,161,240</u>	<u>26,249</u>	<u>3,187,489</u>	<u>755,724</u>
Revenues over (under) expenditures	<u>(3,943,213)</u>	<u>(3,161,240)</u>	<u>-</u>	<u>(3,161,240)</u>	<u>781,973</u>
Other Financing Sources (Uses):					
Transfer from other funds	33,752	121,000	-	121,000	87,248
Drinking Water State Revolving Fund loan	<u>3,909,461</u>	<u>3,073,992</u>	<u>-</u>	<u>3,073,992</u>	<u>(835,469)</u>
Total other financing sources (uses)	<u>3,943,213</u>	<u>3,194,992</u>	<u>-</u>	<u>3,194,992</u>	<u>(748,221)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 33,752</u>	<u>\$ -</u>	<u>\$ 33,752</u>	<u>\$ 33,752</u>

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE

JUNE 30, 2021

Fiscal Year	Uncollected Balance July 1, 2020	Additions	Collections and Credits	Uncollected Balance June 30, 2021
2020-2021	\$ -	\$ 2,324,314	\$ 2,250,566	\$ 73,748
2019-2020	77,222	-	28,010	49,212
2018-2019	71,292	-	18,376	52,916
2017-2018	35,270	-	9,916	25,354
2016-2017	14,092	-	2,775	11,317
2015-2016	8,473	-	1,946	6,527
2014-2015	7,817	-	1,181	6,636
2013-2014	6,209	-	1,088	5,121
2012-2013	5,099	-	1,089	4,010
2011-2012	4,273	-	1,088	3,185
2010-2011	4,326	-	4,326	-
Total	<u>\$ 234,073</u>	<u>\$ 2,324,314</u>	<u>\$ 2,320,361</u>	238,026
Less: Allowance for uncollectible ad valorem taxes receivable				<u>(101,012)</u>
Ad valorem taxes receivable - net				<u>\$ 137,014</u>
Reconcilement with Revenues:				
Taxes - ad valorem			\$ 2,362,804	
Releases, refunds, and other adjustments			(21,375)	
Amounts written off for tax years per statute of limitations			4,326	
Interest collected			<u>(25,394)</u>	
Total collections and credits			<u>\$ 2,320,361</u>	

TOWN OF FRANKLIN, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY

TOWN-WIDE LEVY

FOR THE YEAR ENDED JUNE 30, 2021

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 718,132,813	\$ 0.32	\$ 2,298,025	\$ 2,160,037	\$ 137,988
Discoveries	16,106,563	0.32	51,541	51,541	-
Releases	<u>(7,891,250)</u>	0.32	<u>(25,252)</u>	<u>(25,252)</u>	<u>-</u>
Total property valuation	<u>\$ 726,348,125</u>				
Net Levy			2,324,314	2,186,326	137,988
Uncollected taxes as of June 30, 2021			<u>73,748</u>	<u>73,748</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 2,250,566</u>	<u>\$ 2,112,578</u>	<u>\$ 137,988</u>
Current Levy Collection Percentage			<u>96.83%</u>	<u>96.63%</u>	<u>100.00%</u>

TOWN OF FRANKLIN, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
FRANKLIN TOURISM DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2021

	<u>Authority</u>
Assets:	
Cash and cash equivalents	\$ 224,901
Accounts receivable	<u>17,314</u>
Total assets	<u><u>\$ 242,215</u></u>
Fund Balance:	
Restricted for:	
Stabilization by state statute	17,314
Tourism	<u>224,901</u>
Total fund balance	<u><u>\$ 242,215</u></u>

TOWN OF FRANKLIN, NORTH CAROLINA

DISCRETELY PRESENTED COMPONENT UNIT
 FRANKLIN TOURISM DEVELOPMENT AUTHORITY
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Occupancy tax revenues	\$ 135,000	\$ 138,690	\$ 3,690
Interest	-	29	29
Refunds	-	441	441
Total revenues	<u>135,000</u>	<u>139,160</u>	<u>4,160</u>
Expenditures:			
Operating:			
Professional services	<u>140,000</u>	<u>101,436</u>	<u>38,564</u>
Revenues over (under) expenditures	(5,000)	37,724	42,724
Other Financing Sources (Uses):			
Fund balance appropriated	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>37,724</u>	<u>\$ 37,724</u>
Fund Balance:			
Beginning of year - July 1		<u>204,491</u>	
End of year - June 30		<u>\$ 242,215</u>	

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

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

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Franklin, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 25, 2021. Our report includes a reference to other auditors who audited the financial statements of the Town of Franklin ABC Board, as described in our report on the Town of Franklin's financial statements. The financial statements of the Town of Franklin ABC Board were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Town of Franklin ABC board.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

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

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 25, 2021

TOWN OF FRANKLIN, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Auditor's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Non-compliance material to financial
statements noted?

_____ Yes X No

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

None reported.

TOWN OF FRANKLIN, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2021**

None reported.