

FINANCIAL STATEMENTS
TOWN OF FRANKLINTON
FRANKLINTON, NORTH CAROLINA
JUNE 30, 2013

Town Council Members

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John Allers

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Administrative and Financial Staff

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Town of Franklinton, North Carolina
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June 30, 2013

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FINANCIAL SECTION

The Financial Section constitutes the formal portion of the report. The independent auditors' report related only to the combined, combining and individual fund statements within this section. These schedules are presented with summary statements shown first, followed by more detailed statements.

**PETWAY
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To the Honorable Mayor
and Members of the Board of Commissioners
Franklinton, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Franklinton, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Franklinton's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 Franklinton ABC Board which represents 2.34%, 2.19% and 23.43%, respectively, of the assets, net position, and revenues of the Town of Franklinton. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Franklinton ABC Board, is based solely on the report of another auditor. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free from material misstatement. The financial statements of the Town of Franklinton 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 auditors' 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Franklinton, North Carolina as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 Franklinton, North Carolina's basic financial statements. The combining and individual non-major fund financial statements, budgetary schedules, other schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by the *Government Auditing Standards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements, budgetary schedules, other schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards is the responsibility of management and was derived from and relates 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. In our opinion, the combining and individual non-major fund financial statements, budgetary schedules, other schedules, and the accompanying Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013 on our consideration of the Town of Franklinton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Franklinton's internal control over financial reporting and compliance.


PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

November 27, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Franklinton, we offer readers of the Town of Franklinton's financial statements this narrative overview and analysis of the financial activities of the Town of Franklinton for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

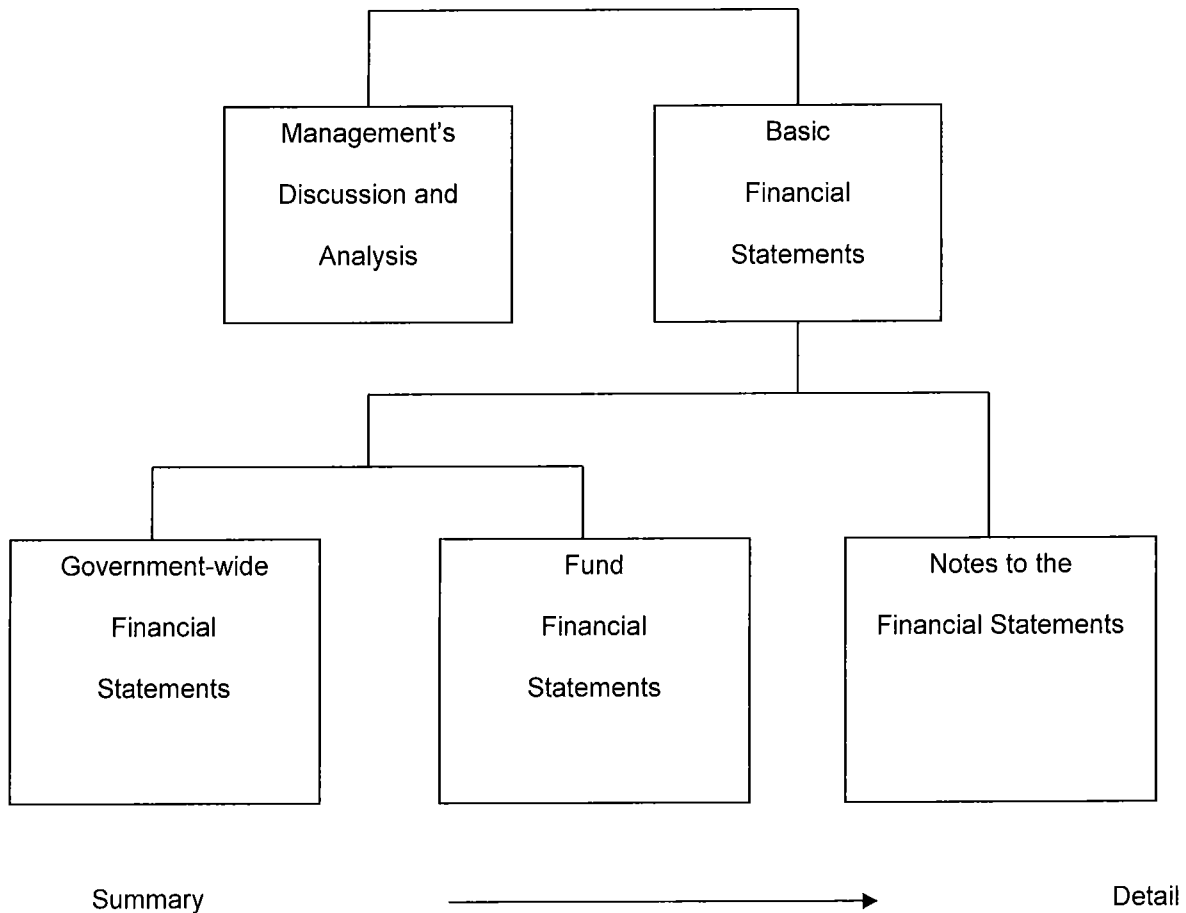
- The assets and deferred outflows of resources of Town of Franklinton exceeded its liabilities at the close of the fiscal year by \$4,366,700 (*net position*).
- The government's total net position decreased by \$106,305 primarily from the business-type activities net position.
- As of the close of the current fiscal year, the Town of Franklinton's governmental funds reported combined ending fund balances of \$645,970 with a net change of \$8,846 in fund balance. Approximately 45.36 percent of this total amount or \$293,032 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$425,691, or 24.15 percent of total general fund expenditures for the fiscal year.
- The Town of Franklinton's total debt decreased by \$29,507 (1.05%) during the current fiscal year. The key factors in this decrease were higher principal payments.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 10) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary 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 gage the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, cultural and recreation, and general administration. 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 Franklinton. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

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

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

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

Proprietary Funds – The Town of Franklinton has only one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Franklinton 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.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin after the exhibits of this report.

Town of Franklinton's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 766,671	\$ 724,275	\$ 226,960	\$ 708,015	\$ 993,631	\$ 1,432,290
Capital assets	601,378	598,927	5,962,609	6,106,310	6,563,987	6,705,237
Total assets and deferred Outflows of resources	<u>1,368,049</u>	<u>1 323 202</u>	<u>6,189,569</u>	<u>6,814,325</u>	<u>7,557,618</u>	<u>8,137,527</u>
Long-term liabilities						
Outstanding	153,874	82,389	2,689,027	2,732,183	2,842,901	2,814,572
Other liabilities	47,112	58,918	300,069	791,033	347,181	849,951
Deferred inflows of resources	836	-	-	-	836	-
Total liabilities	<u>201,822</u>	<u>141,307</u>	<u>2,989,096</u>	<u>3,523,216</u>	<u>3,190,918</u>	<u>3,664,523</u>
Net position:						
Net investments in						
In capital assets	495,680	516,538	3,283,242	3,291,109	3,778,922	3,807,647
Restricted	293,032	312,744	-	-	293,032	312,744
Unrestricted	<u>377,515</u>	<u>352,613</u>	<u>(82,769)</u>	<u>-</u>	<u>294,746</u>	<u>352,613</u>
Total net position	<u>\$ 1,166,227</u>	<u>\$ 1,181,895</u>	<u>\$ 3,200,473</u>	<u>\$ 3,291,109</u>	<u>\$ 4,366,700</u>	<u>\$ 4,473,005</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Franklinton exceeded liabilities and deferred inflows by \$4,366,700 as of June 30, 2013. The Town's net position decreased by \$106,305 for the fiscal year ended June 30, 2013. However, the largest portion (83.54%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Franklinton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Franklinton's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Franklinton's net position, \$293,032, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$425,691 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 95.29%, which is comparable to the statewide average of 97.42%.

**Town of Franklinton's Changes in Net Position
Figure 3**

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues						
Charges for services	\$ 209,909	\$ 201,558	\$ 1,232,132	\$ 1,322,423	\$ 1,442,041	\$ 1,523,981
Operating grants and contributions	63,924	70,042	-	-	63,924	70,042
Capital grants and contributions	-	-	24,020	-	24,020	-
General Revenues:						
Property taxes	708,816	723,490	-	-	708,816	723,490
Other taxes	388,722	384,299	-	-	388,722	384,299
Unrestricted investment earnings	262	467	234	842	496	1,309
Other	47,997	42,657	11,399	-	59,396	42,657
Total revenues	1,419,630	1,422,513	1,267,785	1,323,265	\$ 2,687,415	\$ 2,745,778
Expenses:						
General government	352,196	397,885	-	-	352,196	397,885
Public safety	609,895	554,864	-	-	609,895	554,864
Transportation	254,090	195,078	-	-	254,090	195,078
Environmental protection	167,634	188,961	-	-	167,634	188,961
Economic development	-	-	-	-	-	-
Culture and recreation	29,952	10,107	-	-	29,952	10,107
Cemetery	18,246	19,000	-	-	18,246	19,000
Interest expense	3,286	5,268	-	-	3,286	5,268
Water and sewer	-	-	1,358,421	1,434,559	1,358,421	1,434,559
Total expenses	1,435,299	1,371,163	1,358,421	1,434,559	2,793,270	2,805,722
Increase (decrease) in net position before transfer	(15,669)	51,350	(90,636)	(111,294)	(106,305)	(59,944)
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	(15,669)	51,350	(90,636)	(111,294)	(106,305)	(59,944)
Net position, July 1	1,181,896	1,130,545	3,291,109	3,895,321	4,473,005	5,025,866
Prior period adjustment	-	-	-	(492,918)	-	(492,918)
Net position, beginning as restated	1,181,896	1,130,545	3,291,109	3,402,403	4,473,005	4,532,948
Net position, June 30	\$ 1,166,227	\$ 1,181,896	\$ 3,200,473	\$ 3,291,109	\$ 4,366,700	\$ 4,473,005

Governmental activities. Governmental activities decreased the Town's net position by \$15,669. Key elements of this decrease are as follows:

- Decrease in property tax revenues.
- Decrease in ABC distributions.

Business-type activities: Business-type activities decreased the Town of Franklinton's net position by \$90,636. Key elements of this decrease are as follows:

- Decrease in water revenues.
- Decrease in capital grants and contributions.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Franklinton. At the end of the current fiscal year, fund balance available in the General Fund was \$425,691, while total fund balance reached \$645,970. The Town currently has an available fund balance of 27.76% of general fund expenditures, while total fund balance represents 42.12 percent of that same amount.

At June 30, 2013, the governmental funds of Town of Franklinton reported a combined fund balance of \$645,970, a decrease of \$8,846.

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.

- Revenues were less than budgeted because the Town expected to receive more revenues from unrestricted intergovernmental funds and expenditures were held in check to comply with its budgetary requirements.

Proprietary Funds. The Town of Franklinton'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 (\$82,769). The total change in net position for the Water and Sewer Fund was \$90,636. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Franklinton's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Franklinton's investment in capital assets for its governmental and business-type activities as of June 30, 2013 totals \$6,563,987 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, recreation and cultural facilities and vehicles.

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

- New computers for the Administration Department in the amount of \$6,250.
- Purchase of two 2013 Ford Sedans including upfit for the police totaling \$45,000.
- Installation of a new ATS for Controllers in the Water Sewer Fund for \$10,043.
- The Water Sewer Department purchased a JCB Backhoe Loader in the amount of \$65,363.
- Purchase of a golf cart in the amount of \$2,500 for the Water Department.
- No major demolitions were recorded this year.

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2013</u>	<u>2013</u>	<u>2013</u>
Land	\$ 115,597	\$ 74,159	\$ 189,756
Buildings and improvements	301,257	-	301,257
Plant and distribution systems	-	5,644,871	5,644,871
Machinery and equipment	46,095	216,358	262,453
Infrastructure	16,521	-	16,521
Vehicles and motorized equipment	98,831	1,561	100,392
Construction in progress	23,077	25,660	48,737
Total	<u>\$ 601,378</u>	<u>\$ 5,962,609</u>	<u>\$ 6,563,987</u>

Additional information on the Town's capital assets can be found in notes to the Basic Financial Statements.

Long-term Debt. As of June 30, 2013, the Town of Franklinton had total debt outstanding of \$2,785,065. Of this, \$1,323,000 is debt backed by the full faith and credit of the Town.

**Town of Franklinton's Outstanding Debt
General Obligation and Revenue Bonds**

Figure 5

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Installment purchases	\$ 105,698	\$ 82,389	\$ 1,356,367	\$ 1,376,683	\$ 1,462,065	\$ 1,459,072
General obligation bond	-	-	1,323,000	1,355,500	1,323,000	1,355,500
Total	<u>\$ 105,698</u>	<u>\$ 82,389</u>	<u>\$ 2,679,367</u>	<u>\$ 2,732,183</u>	<u>\$ 2,785,065</u>	<u>\$ 2,814,572</u>

The Town of Franklinton's total debt decreased by \$29,507 (1.05) during the past fiscal year, primarily due to increasing principle payments on interest bearing loans.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Franklinton is \$5,533,723.

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

Economic Factors and Next Year's Budgets and Rates

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

- The Town has a population of 1,745 (2000 Census) with about 822 housing units. The median age of the population is 36.8 years and has a median household income of \$28,971.
- The Town has about 123 business establishments with about 1,217 employees broken down as follows: Educational, health and social service 19.9%; Manufacturing 18.6%; and Retail trade 14.5%.
- The Town has in the past few years experienced a number of manufacturing closings mostly in the textile industry.
- The unemployment for the county in June 2013 was 8.6% compared to a statewide average of 8.8%.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities: Budgetary highlights for the General Fund include a health insurance reduction. The budget also reflects a reduction in the of property tax rate from \$0.70 to \$0.68 per \$100 in property value. There is no fund balance appropriation.

Business – type Activities: Budgetary highlights for the Water Sewer Fund include a decrease in water sewer rates for customers. There is no fund balance appropriation.

Request 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 request for additional information should be directed to the Director of Finance, Town of Franklinton, 7 West Mason Street, Franklinton, NC 27525.

BASIC FINANCIAL STATEMENTS

Town of Franklinton, North Carolina
Statement of Net Position
June 30, 2013

	Primary Government		Total	Component Unit
	Governmental Activities	Business Type Activities		
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 269,025	\$ -	\$ 269,025	\$ 54,285
Restricted cash and cash equivalents	125,619	-	125,619	-
Taxes receivables (net)	62,668	-	62,668	-
Accrued interest receivable on taxes	9,249	-	9,249	-
Accounts receivable (net)	49,060	142,679	191,739	3,925
Internal balances	140,861	(140,861)	-	-
Due from other governments	86,137	13,950	100,087	-
Due from Franklin County	12,180	-	12,180	-
Due from component unit	11,872	-	11,872	-
Prepaid Expense	-	-	-	2,405
Inventories	-	3,808	3,808	86,643
Total current assets	<u>766,671</u>	<u>19,576</u>	<u>786,247</u>	<u>147,258</u>
Capital assets: (Note 1):				
Land, non-depreciable improvements, construction in progress	138,674	99,818	238,492	-
Other capital assets, net of depreciation	462,704	5,862,791	6,325,495	24,484
Total capital assets	<u>601,378</u>	<u>5,962,609</u>	<u>6,563,987</u>	<u>24,484</u>
Total assets	<u>1,368,049</u>	<u>5,982,185</u>	<u>7,350,234</u>	<u>171,742</u>
DEFERRED OUTFLOWS OF RESOURCES				
	-	-	-	-
LIABILITIES				
Current liabilities:				
Accounts payable	47,948	20,517	68,465	64,217
Customer deposits	-	58,218	58,218	-
Due to component unit	-	-	-	11,872
Current portion of long-term liabilities	27,726	137,861	165,587	-
Payable from restricted assets	-	13,950	13,950	-
Long-term liabilities:				
Due in more than one year	126,148	2,551,166	2,677,314	-
Total liabilities	<u>201,822</u>	<u>2,781,712</u>	<u>2,983,534</u>	<u>76,089</u>
NET POSITION				
Net investment in capital assets	495,680	3,283,242	3,778,922	24,484
Restricted for:				
Restricted for stabilization by state statute	159,249	-	159,249	-
Working capital	-	-	-	24,170
Powell Bill	125,619	-	125,619	-
Unrestricted	385,679	(82,769)	302,910	46,999
Total net position	<u>\$ 1,166,227</u>	<u>\$ 3,200,473</u>	<u>\$ 4,366,700</u>	<u>\$ 95,653</u>

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

Town of Franklinton, North Carolina
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business-Type Activities	Total	
Primary government:							
Governmental Activities:							
General government	\$ 352,196	\$ 7,200	\$ -	\$ (344,996)	\$ -	\$ (344,996)	\$ -
Public safety	609,895	4,670	-	(605,225)	-	(605,225)	-
Transportation	254,090	-	63,924	(190,166)	-	(190,166)	-
Environmental protection	167,634	172,992	-	5,358	-	5,358	-
Culture and recreation	29,952	20,247	-	(9,705)	-	(9,705)	-
Cemetery	18,246	4,800	-	(13,446)	-	(13,446)	-
Interest expense	3,286	-	-	(3,286)	-	(3,286)	-
Total Governmental Activities (See Note 1)	1,435,299	209,909	63,924	(1,161,466)	-	(1,161,466)	-
Business-Type activities:							
Water and sewer	1,358,421	1,232,132	-	-	(102,269)	(102,269)	-
Total business-type activities	1,358,421	1,232,132	24,020	-	(102,269)	(102,269)	-
Total Primary Government	\$ 2,793,720	\$ 1,442,041	\$ 24,020	\$ (1,161,466)	\$ (102,269)	\$ (1,263,735)	\$ -
Component Units:							
ABC Board	\$ 625,403	\$ 628,395	\$ -	\$ -	\$ -	\$ -	2,992
Total Component Units	\$ 625,403	\$ 628,395	\$ -	\$ -	\$ -	\$ -	2,992
General Revenues							
Taxes:							
Property taxes, levied for general purpose				708,816	-	708,816	-
Other taxes				388,722	-	388,722	-
Unrestricted investment earnings				262	234	496	342
Miscellaneous				47,997	11,399	59,396	866
Total general revenues and transfers				1,145,797	11,633	1,157,430	1,208
Change in net position				(15,668)	(90,636)	(106,305)	4,200
Net position, beginning				1,181,896	3,291,109	4,473,005	91,453
Net position, ending				\$ 1,166,227	\$ 3,200,473	\$ 4,366,700	\$ 95,653

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

**Town of Franklinton, North Carolina
Balance Sheet
Governmental Funds
June 30, 2013**

	Major Funds General	Total Non-major Funds	Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 269,025	\$ -	\$ 269,025
Restricted cash	125,619	-	125,619
Receivables, net:			
Taxes	62,668	-	62,668
Accounts	49,060	-	49,060
Due from other governments	110,189	-	110,189
Due from other funds	140,861	-	140,861
Total assets	\$ 757,422	\$ -	\$ 757,422
LIABILITIES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 47,948	\$ -	\$ 47,948
Total liabilities	47,948	-	47,948
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	62,668	-	62,668
Prepaid taxes	836	-	836
Total deferred inflows of resources	63,504	-	63,504
FUND BALANCES			
Restricted			
Stabilization by State Statute	159,249	-	159,249
Powell Bill	125,619	-	125,619
Unassigned	361,102	-	361,102
Total fund balances	645,970	-	645,970
Total liabilities, deferred inflows of resources and fund balances	\$ 757,422		

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Gross capital assets at historical cost	1,555,927	
Accumulated depreciation	(954,549)	601,378

Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		9,249
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Consolidation of internal balances between governmental funds

Liabilities for earned revenues considered deferred inflows of resources in fund statements		
Taxes	62,668	
Prepaid Taxes	836	63,504

Other long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		(153,874)
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Net position of governmental activities		\$ 1,166,227
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The notes to the financial statements are an integral part of this statement

Town of Franklinton, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	<u>Major Funds</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES			
Ad valorem taxes	\$ 696,807	\$ -	\$ 696,807
Other taxes and licenses	37,488	-	37,488
Unrestricted intergovernmental	348,451	-	348,451
Restricted intergovernmental	66,708	35,723	102,431
Permits and fees	13,540	-	13,540
Sales and services	177,792	-	177,792
Investment earnings	262	-	262
Miscellaneous	66,573	36,233	102,806
Total revenues	<u>1,407,621</u>	<u>71,956</u>	<u>1,479,577</u>
EXPENDITURES			
Current:			
General government	344,243	-	344,243
Public safety	623,186	-	623,186
Transportation	253,545	-	253,545
Environment protection	167,635	-	167,635
Culture and recreation	29,952	-	29,952
Cemetery	17,929	-	17,929
Capital projects	-	71,956	71,956
Debt Service			
Principal	21,691	-	21,691
Interest	3,286	-	3,286
Total expenditures	<u>1,461,467</u>	<u>71,956</u>	<u>1,533,423</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from loan	45,000	-	45,000
Total other financing sources (uses)	<u>45,000</u>	<u>-</u>	<u>45,000</u>
Excess (deficiency) of revenues over expenditures	(8,846)	-	(8,846)
Fund balances, beginning	<u>654,816</u>	<u>-</u>	<u>654,816</u>
Fund balances, ending	<u>\$ 645,970</u>	<u>\$ -</u>	<u>\$ 645,970</u>

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

Town of Franklinton, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statements of Activities
For the Year Ended June 30, 2013

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

Net changes in fund balances - total governmental funds	\$ (8,846)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	
Capital outlays	54,813
Depreciation	(52,362)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Change in unavailable revenue for tax revenues	12,009
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	
New long-term debt issued	(45,000)
Principal payments on long term debt	21,691
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	2,026
Total changes in net position of governmental activities	\$ (15,669)

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

Town of Franklinton, North Carolina
General Fund and Annually Budgeted Major Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
For the Year Ended June 30, 2013

General Fund				
	Original	Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 761,500	\$ 761,500	\$ 696,807	\$ (64,693)
Other taxes and licenses	27,500	27,500	37,488	9,988
Unrestricted intergovernmental	329,575	349,515	348,451	(1,064)
Restricted intergovernmental	66,130	66,130	66,708	578
Permits and fees	8,000	8,000	13,540	5,540
Sales and services	178,560	178,560	177,792	(768)
Investment earnings	200	200	262	62
Miscellaneous	45,650	64,281	66,573	2,292
Total revenues	<u>1,417,115</u>	<u>1,455,686</u>	<u>1,407,621</u>	<u>(48,065)</u>
Expenditures:				
Current:				
General government	351,215	356,415	344,243	12,172
Public safety	640,009	640,009	623,186	16,823
Transportation	237,331	250,831	253,545	(2,714)
Environmental protection	178,560	178,560	167,635	10,925
Cemetery	17,000	18,200	17,929	271
Cultural and recreation	12,000	36,671	29,952	6,719
Debt Service				
Principal Payments	22,700	22,700	21,691	1,009
Interest and other charges	3,300	3,300	3,286	14
Total expenditures	<u>1,462,115</u>	<u>1,506,686</u>	<u>1,461,467</u>	<u>45,219</u>
Revenues over (under) expenditures	<u>(45,000)</u>	<u>(51,000)</u>	<u>(53,846)</u>	<u>(2,846)</u>
Other financing sources (uses):				
Proceeds from debt obligations	45,000	45,000	45,000	-
Total other financing sources (uses)	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Fund balance appropriated		6,000		(6,000)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(8,846)	<u>\$ (8,846)</u>
Fund balances, beginning			654,816	
Fund balances, ending			<u>\$ 645,970</u>	

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

Town of Franklinton, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2013

	Water and Sewer Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable (net)	142,679	142,679
Due from other funds	66,523	66,523
Due from other governments	13,950	13,950
Inventories	3,808	3,808
Total current assets	226,960	226,960
Capital assets		
Land and other non-depreciable assets	99,818	99,818
Other capital assets, net of depreciation	5,862,791	5,862,791
Capital assets (net)	5,962,609	5,962,609
Total non-current assets	5,962,609	5,962,609
Total assets	6,189,569	6,189,569
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	20,517	20,517
Due to other funds	207,384	207,384
Bonds payable – current	34,500	34,500
Installment payable - current	103,361	103,361
Liabilities payable from restricted assets		
Accounts payable	13,950	13,950
Customer deposits	58,218	58,218
Total current liabilities	437,930	437,930
Non-current liabilities:		
Compensated absences	9,660	9,660
Bonds payable – non-current	1,288,500	1,288,500
Installment purchases – non-current	1,253,006	1,253,006
Total non-current liabilities	2,551,166	2,551,166
Total liabilities	2,989,096	2,989,096
NET POSITION		
Net investment in capital assets	3,283,242	3,283,242
Unrestricted	(82,769)	(82,769)
Total net position	\$ 3,200,473	\$ 3,200,473

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

Town of Franklinton
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ 1,215,504	\$ 1,215,504
Water and sewer taps	5,500	5,500
Other operating revenues	11,128	11,128
Total operating revenues	1,232,132	1,232,132
OPERATING EXPENSES		
Water and sewer works	705,075	705,075
Water plant	303,197	303,197
Depreciation	252,050	252,050
Total operating expenses	1,260,322	1,260,322
Operating income (loss)	(28,190)	(28,190)
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	234	234
Interest and other charges	(98,099)	(98,099)
Total non-operating revenue (expenses)	(97,865)	(97,865)
Income (loss) before contributions and transfers	(126,055)	(126,055)
Capital contributions	24,020	24,020
Insurance Recovery	11,399	11,399
Change in net position	(90,636)	(90,636)
Total net position, beginning	3,291,109	3,291,109
Total net position, ending	\$ 3,200,473	\$ 3,200,473

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

Town of Franklinton, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,222,132	\$ 1,222,132
Cash paid for goods and services	(1,261,118)	(1,261,118)
Cash paid to or on behalf of employees for services	(184,241)	(184,241)
Other operating revenues	11,128	11,128
Net cash provided (used) by operating activities	(212,099)	(212,099)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Increase in due (from) other funds	41,931	41,931
Total cash flows from non-capital financing activities	41,931	41,931
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Installment proceeds	70,000	70,000
Acquisitions and construction of capital assets	(108,349)	(108,349)
Principal paid on bond payable	(90,316)	(90,316)
Principal paid on installment payable	(32,500)	(32,500)
Interest and other charges	(98,099)	(98,099)
Insurance Recovery	11,399	11,399
Capital contributions-State grant	24,020	24,020
Net cash provided (used) by capital and related financing activities	(223,845)	(223,845)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	234	234
Net increase (decrease) in cash and cash equivalents	(393,779)	(393,779)
Balances, beginning	393,779	393,779
Balances, ending	\$ -	\$ -
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (28,190)	\$ (28,190)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	252,050	252,050
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(8,866)	(8,866)
Increase (decrease) in allowance for doubtful accounts	(2,180)	(2,180)
(Increase) decrease in inventory	515	515
Increase (decrease) in accounts payable and accrued liabilities	(419,756)	(419,756)
Increase (decrease) in customer deposits	362	362
Increase (decrease) in accrued vacation pay	(6,034)	(6,034)
Total adjustments	(183,909)	(183,909)
Net cash provided by operating activities	\$ (212,099)	\$ (212,099)

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

**Town of Franklinton, North Carolina
Statement of Net Position
Fiduciary Fund
For the Year Ended June 30, 2013**

	Agency Fund
Assets	
Cash and cash equivalents	\$ 157
Liabilities	
Liabilities	
Intergovernmental payable	157
Total liabilities	\$ 157

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

Town of Franklinton, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Town of Franklinton ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at the Town of Franklinton ABC Board, Franklinton Square Shopping Center, Franklinton, N.C. 27525.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, inter-governmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a 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 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, including fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary*—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem tax receivables are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Franklin County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Franklinton. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Franklin County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2013 because they are intended to finance the Town's operations during the 2014 fiscal year.

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. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for all capital project funds which include the Water and Sewer Capital Projects for the Rehabilitation Fund, Hardees' Line Extension Fund, Water Filter Fund, Sewer Capital Project Fund, and the Water Dam Capital Project Fund. The Water and Sewer Capital Projects are consolidated with the operating funds 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 object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S.159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's and the ABC Board's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2012. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The inventories of the Town's enterprise funds and those of the ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when held for resale rather than when purchased.

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$5,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$5,000; furniture and equipment, \$1,000; vehicles; \$1,000 and computer equipment \$500. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General Fund 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and system	30
Infrastructure	50
Equipment and Furniture	10
Vehicles	6
Computer Equipment	3
Substations, lines	40
Other improvements	25

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

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town does not have any transactions that meets this criteria. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has only two items that meet the criterion for this category - prepaid taxes and property taxes receivable.

9. Long-Term Obligations

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

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

10. Compensated Absences

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

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it actually taken; no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Perpetual maintenance - Cemetery resources that are required to be retained in perpetuity for maintenance of the Town of Franklinton's Cemetery.

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

Restricted for Stabilization by State Statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

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

Restricted for Public Safety - portion of fund balance restricted by revenue source for certain emergency telephone systems expenditures.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Franklinton's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Assigned Fund Balance - portion of fund balance that the Town of Franklinton intends to use for specific purposes.

Assigned for Cultural and Recreation - portion of fund balance that has been budgeted by the Board for construction of a public park.

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds for up to \$2,500.

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

The Town of Franklinton has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the interest of the town.

II. Stewardship, Compliance, and Accountability

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

1. **Noncompliance with North Carolina General Statutes**
None noted.

2. **Contractual Violations**
None noted.

B. **Deficit in Fund Balance or Net Position of Individual Funds**
None noted.

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2013, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for the general government. The transportation department exceeded the authorized appropriations by \$2,714. Management and the board will more closely review the budget reports to ensure compliance in future years.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and the ABC Board under the Pooling method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and the ABC Board have no policy regarding custodial credit risk for deposits.

At June 30, 2013, the Town's deposits had a carrying amount of \$394,676 and a bank balance of \$407,273. Of the bank balances, \$250,000 was covered by the Federal Deposit Insurance Corporation and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$52,685 and the bank balance was \$67,830. All of the bank balance was covered by the Federal Deposit Insurance Corporation. At June 30, 2013, the Town's petty cash fund totaled \$125.

2. Investments

The Town has no formal investment policy regarding credit or any other related risk.

3. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2013 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes Receivable	\$ 7,661
Accounts Receivable	5,153
Total	<u>12,814</u>
Enterprise Funds	15,853
Total	<u>\$ 28,667</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2013, were as follows:

	Beginning Balances	Increase	Decrease	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 115,597	\$ -	\$ -	\$ 115,597
Construction in Progress	23,077	-	-	23,077
Total capital assets not being depreciated	<u>138,674</u>	<u>-</u>	<u>-</u>	<u>138,674</u>
Capital assets being depreciated:				
Building and improvements	485,835	-	-	485,835
Equipment	314,218	9,813	-	324,031
Vehicles and motorized equipment	531,887	45,000	-	576,887
Infrastructure	30,500	-	-	30,500
Total capital assets being depreciated	<u>1,362,440</u>	<u>54,813</u>	<u>-</u>	<u>1,417,253</u>
Less accumulated depreciation for:				
Buildings and improvements	172,474	12,104	-	184,578
Equipment	271,591	6,345	-	277,936
Vehicles and motorized equipment	445,668	32,388	-	478,056
Infrastructure	12,454	1,525	-	13,979
Total accumulated depreciation	<u>902,187</u>	<u>\$ 52,362</u>	<u>\$ -</u>	<u>954,549</u>
Total capital assets being depreciated, net	<u>460,253</u>			<u>462,704</u>
Governmental activity capital assets, net	<u>\$ 598,927</u>			<u>\$ 601,378</u>

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

General government	\$ 15,290
Public Safety	34,830
Transportation	1,925
Cemetery	317
Total depreciation expense	<u>\$ 52,362</u>

	Beginning Balances	Increase	Decrease	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 74,159	\$ -	\$ -	\$ 74,159
Construction in progress	747,840	25,660	747,840	25,660
Total capital assets not being depreciated	<u>821,999</u>	<u>25,660</u>	<u>747,840</u>	<u>99,819</u>
Capital assets being depreciated:				
Plant and distribution systems	8,635,056	747,840	-	9,382,896
Furniture and maintenance equipment	429,553	82,689	-	512,242
Vehicles	126,837	-	-	126,837
Total capital assets being depreciated	<u>9,191,446</u>	<u>830,529</u>	<u>-</u>	<u>10,021,975</u>
Less accumulated depreciation for:				
Plant and distribution systems	3,516,243	221,782	-	3,738,025
Furniture and maintenance equipment	266,988	28,896	-	295,884
Vehicles	123,904	1,372	-	125,276
Total accumulated depreciation	<u>3,907,135</u>	<u>\$ 252,050</u>	<u>\$ -</u>	<u>4,159,185</u>
Total capital assets being depreciated, net	<u>5,248,311</u>			<u>5,862,790</u>
Business-type activities capital assets, net	<u>\$ 6,106,310</u>			<u>\$ 5,962,609</u>

Construction commitments

The Town have no active construction projects as of June 30, 2013.

Component unit activities:	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balances</u>
Capital assets being depreciated:				
Equipment	\$ 52,440	\$ 22,925	\$ 12,331	\$ 63,034
Total capital assets being depreciated	<u>52,440</u>	<u>22,925</u>	<u>12,331</u>	<u>63,034</u>
Less accumulated depreciation for:				
Equipment	50,414	467	12,331	38,550
Total accumulated depreciation	<u>50,414</u>	<u>\$ 467</u>	<u>\$ 12,331</u>	<u>38,550</u>
ABC Board capital assets, net	<u>\$ 2,026</u>			<u>\$ 24,484</u>

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employee's Retirement System

Plan Description. The Town of Franklinton contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employee's Retirement System is included in the Comprehensive Annual Financial Report (CFAR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Franklinton is established and may be amended by the North Carolina General Assembly. The Town's contribution to LGERS for the years ended June 30, 2013, 2012, and 2011 was \$44,380, \$48,443, and \$56,450, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Franklinton administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. 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.

All full time law enforcement officers of the Town are covered by the Separation Allowance. At June 30, 2013, the Separation Allowance's membership consisted of

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>8</u>
Total	<u><u>9</u></u>

A separate report was not issued for the plan.

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.

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

The Town of Franklinton has not prepared the required actuarial study as of June 30, 2013.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$18,984 which consisted of \$14,786 from the Town and \$4,198 from the law enforcement officers.

d. Supplemental Retirement Income Plan for Regular Employees

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 regular employees 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.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of regular employee's salary, and all amounts contributed are vested immediately. Also, the regular employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$22,770 which consisted of \$18,890 from the Town and \$3,880 from the regular employees.

e. Other Employee Benefits

The Town has also 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. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2013, the Town did not make contributions to the State for death benefits. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .00% and .00% of covered payroll, respectively.

2. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ -	\$ 836
Taxes Receivable (General Fund), less penalties	62,688	-
Total	\$ 62,688	\$ 836

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to \$20 million per building per occurrence, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, and auto liability in excess of \$500,000, up to \$500,000 for property, and \$250,000 up to \$5 million for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit of \$1,000,000 for aggregate property losses in a single year.

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

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

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

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. All employees that have access to funds are bonded under a blanket bond for \$50,000. The Town's finance officer is also covered under a \$50,000 bond.

4. Long-Term Obligations

a. Installment Purchase

General Fund

In October 2009, the Town entered into an installment purchase to finance renovations that had been made to the Magistrate Building. The financing contract requires principal payments beginning in fiscal year 2012 with an interest rate of 4.890 percent.

The future minimum payments of the installment purchase as of June 30, 2013 including \$16,527 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 4,333	\$ 2,543
2015	4,333	2,331
2016	4,333	2,119
2017	4,333	1,907
2018	4,333	1,695
2019-2025	30,335	5,932
Total	<u>\$ 52,000</u>	<u>\$ 16,527</u>

In September 2010, the Town entered into an installment purchase agreement to finance a Chevrolet Tahoe. The financing contract requires principal payments beginning in fiscal year 2012 with an interest rate of 2.98 percent.

The future minimum payments of the installment purchase as of June 30, 2013 including \$259 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 8,698	\$ 259
Total	<u>\$ 8,698</u>	<u>\$ 259</u>

In July 2012, the Town entered into an installment purchase to finance police vehicles. The financing contract requires principal payments beginning in fiscal year 2014 with an interest rate of 2.390 percent.

The future minimum payments of the installment purchase as of June 30, 2013 including \$1,876 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 14,694	\$ 932
2015	14,998	627
2016	15,308	317
Total	<u>\$ 45,000</u>	<u>\$ 1,876</u>

Water and Sewer Fund

a. Installment Purchase

During 2006, the Town entered into a twenty-year Clean Water Revolving Loan with the N.C. Department of Environment, Health and Natural Resources to provide \$1,660,000 in funding to provide improvements to the Town's water treatment plant. The loan agreement provides for both principal and interest amounts over the term of the loan. At June 30, 2012, a balance of \$1,245,000 was outstanding on this loan. The interest rate is 2.405% per annum. All interest payments will be made semiannually on or before May 1 and November 1. The principal is to be repaid in not more than twenty annual installments of \$83,000.

Year Ending		
June 30	Principal	Interest
2014	\$ 83,000	\$ 29,942
2015	83,000	27,946
2016	83,000	25,950
2017	83,000	23,954
2018	83,000	21,958
2019-2023	415,000	79,846
2024-2027	332,000	28,944
Total	<u>\$ 1,162,000</u>	<u>\$ 238,540</u>

In July 2012, the Town entered into an installment purchase agreement to finance a backhoe. The financing contract requires principal payments beginning in fiscal year 2014 with an interest rate of 2.39 percent.

The future minimum payments of the installment purchase as of June 30, 2013 including \$5,404 of interest, are as follows:

Year Ending		
June 30	Principal	Interest
2014	\$ 13,045	\$ 2,035
2015	13,720	1,361
2016	14,048	1,033
2017	14,383	698
2018	14,804	277
Total	<u>\$ 70,000</u>	<u>\$ 5,404</u>

b. General Obligation Indebtedness

The Town's general obligation bonds serviced by the Enterprise fund were issued for the construction of facilities utilized in the operations of the water and sewer system. Those general obligation bonds which were issued to finance the construction of those facilities, and are being retired by its resources, are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2013 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the Water and Sewer Fund:

\$475,000 R-1 Water and Sewer bonds due in annual installments ranging from \$5,000 to \$20,000 through June 1, 2035; interest at 5.25% per annum.

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 11,500	\$ 9,684
2015	12,000	9,430
2016	12,500	9,172
2017	13,000	8,902
2018	14,000	8,000
2019	15,000	7,280
2020-2024	86,000	39,937
2025-2029	100,000	30,825
2030-2033	80,000	10,714
Total	<u>\$ 344,000</u>	<u>\$ 133,944</u>

\$1,208,000 R-1 Water and Sewer bonds due in annual installments ranging from \$14,000 to \$56,000 through June 1, 2038; interest at 4.75% per annum.

Year Ending June 30	Principal	Interest
2014	\$ 23,000	\$ 54,477
2015	23,000	54,231
2016	24,000	52,989
2017	25,500	51,259
2018	26,500	50,161
2019	28,000	48,381
2020-2024	160,000	207,368
2025-2029	201,500	160,987
2030-2034	247,500	93,622
2035-2038	220,000	-
Total	<u>\$ 979,000</u>	<u>\$ 773,475</u>

During 2010, the Town entered into a twenty-year Clean Water Revolving Loan with the N.C. Department of Environment, Health and Natural Resources to provide \$155,602 in funding to provide improvements to the Town's water treatment plant. The loan agreement provides for principal amounts over the term of the loan. The loan is non-interest bearing. All principal payments will be made annually beginning in Fiscal Year 2012. The principal is to be paid in 20 installments of \$7,316. At June 30, 2013, a balance of \$124,367 was outstanding on this loan.

At June 30, 2013, the Town of Franklinton had a legal margin of \$5,533,723.

c. Changes in Long-Term Liabilities

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 82,389	\$ 45,000	\$ 21,691	\$ 105,698	\$ 27,726
Compensated absences	50,202	-	2,026	48,176	-
Governmental activities Long – term liabilities	<u>\$ 132,591</u>	<u>\$ 45,000</u>	<u>\$ 23,717</u>	<u>\$ 153,874</u>	<u>\$ 27,726</u>
Business-type activities:					
Installment purchases	\$ 1,376,683	\$ 70,000	\$ 90,316	\$ 1,356,367	\$ 103,361
General obligation bonds	1,355,500	-	32,500	1,323,000	34,500
Compensated absences	15,694	-	6,034	9,660	-
Business type activities Long – term liabilities	<u>\$ 2,747,877</u>	<u>\$ 70,000</u>	<u>\$ 128,850</u>	<u>\$ 2,689,027</u>	<u>\$ 137,861</u>

Compensated absences typically have been liquidated in the general fund.

d. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2013 consist of the following:

	From	To	Total
General Fund:			
General Fund	\$ 207,384	\$ (66,523)	\$ 140,861
Water and Sewer Fund			
Water and Sewer Fund	66,523	(207,384)	(140,861)
Total	<u>\$ 273,907</u>	<u>\$ (273,907)</u>	<u>\$ -</u>

There were no transfers during the year.

V. Jointly Governed Organization

The Town, in conjunction with three other local governments, is a member of the Franklin County Water and Sewer Authority (Authority). The Authority was formed to enable municipalities that own water and sewer systems to finance, construct, own, operate, and maintain such facilities. Each participating government appoints two commissioners to the Authority's governing board. The three members, which receive water and sewer services from the Authority, with the exception of water and sewer sales purchase contracts, have no obligation, entitlement, or residual interest in the Authority. The Town's purchases of water and sewer services for the fiscal year ended June 30, 2013 were \$347,207.

The Town, in conjunction with five counties and fourteen other municipalities, established the Kerr-Tar Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and state agencies.

Each participating government appoints a total of thirty-two members to the Council's governing board. The Town paid membership fees of \$971 to the Council during the fiscal year ended June 30, 2013.

VI. Related Party Transactions

Wendy Gilliam, who is responsible for billing and collections of water/sewer and is the back-up person for payroll, is married to Ray Gilliam, a commissioner.

VII. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

VIII. Subsequent Events

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

IX. Change in Accounting Principles

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

Individual Fund Statements and Schedules

Town of Franklinton, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance – Budget and Actual
For the Fiscal Year ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Ad valorem taxes:			
Taxes		\$ 690,422	
Penalties and interest		6,385	
Total	761,500	696,807	(64,693)
Other taxes and licenses:			
Vehicle tags		15,397	
Privilege licenses		22,091	
Total	27,500	37,488	9,988
Unrestricted intergovernmental:			
Local option sales taxes		219,044	
Utility franchise tax		88,574	
Motor fuel tax refund		2,870	
CATV franchise fee		3,745	
Beer and wine tax		8,184	
ABC profit distribution		26,034	
Total	349,515	348,451	(1,064)
Restricted intergovernmental			
Powell Bill allocation		63,925	
ABC Revenue for law enforcement		1,507	
Solid Waste Disposal Tax		1,276	
Total	66,130	66,708	578
Permits and fees:			
Building permits		3,540	
CSX permit		10,000	
Total	8,000	13,540	5,540
Sales and services:			
Sanitation fees		172,992	
Cemetery revenues		4,800	
Total	178,560	177,792	(768)
Investment earnings	200	262	62

Town of Franklinton, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance – Budget and Actual
For the Fiscal Year ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
Miscellaneous:			
Police report revenues		204	
Officer fee revenue		2,675	
Parking violations		1,995	
Code violations		2,270	
Donations		-	
Special events		20,247	
Rent		7,200	
Other		31,982	
Total	<u>64,281</u>	<u>66,573</u>	<u>2,292</u>
Total Revenues	<u>1,455,686</u>	<u>1,407,621</u>	<u>(48,065)</u>
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits		25,486	
Other operating expenditures		13,648	
Total		<u>39,134</u>	
Administration:			
Salaries and employee benefits		204,211	
Other operating expenditures		39,972	
Capital Outlay		7,313	
Total		<u>251,496</u>	
Code enforcement:			
Other operating expenditures		22,240	
Total		<u>22,240</u>	
Legal:			
Professional services		31,373	
Total		<u>31,373</u>	
Total general government	<u>356,415</u>	<u>344,243</u>	<u>12,172</u>
Public safety:			
Police:			
Salaries and employee benefits		476,802	
Vehicle maintenance, gas, tires		11,589	
Other operating expenditures		87,295	
Capital Outlay		47,500	
Total public safety	<u>640,009</u>	<u>623,186</u>	<u>16,823</u>

**Town of Franklinton, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance – Budget and Actual
For the Fiscal Year ended June 30, 2013**

	2013		Variance Positive (Negative)
	Budget	Actual	
Transportation:			
Streets and highways:			
Salaries and employee benefits		166,028	
Paving and patching		8,534	
Street lights		19,367	
Other operating expenditures		888	
Powell Bill Expenditures		58,728	
Total transportation	<u>250,831</u>	<u>253,545</u>	<u>(2,714)</u>
Environmental protection:			
Solid waste:			
Administration		165,390	
Other operating expenditures		2,245	
Total environmental protection	<u>178,560</u>	<u>167,635</u>	<u>10,925</u>
Cemetery:			
Maintenance		17,929	
Total cemetery	<u>18,200</u>	<u>17,929</u>	<u>271</u>
Culture and recreation:			
Parks and recreation:			
One Franklinton		28,647	
Other operating expenditures		1,305	
Total parks and recreation:	<u>36,671</u>	<u>29,952</u>	<u>6,719</u>
Debt Service:			
Principal Payments	22,700	21,691	1,009
Interest and other charges	<u>3,300</u>	<u>3,286</u>	<u>14</u>
Total debt service	<u>26,000</u>	<u>24,977</u>	<u>1,023</u>
Total expenditures	<u>1,506,686</u>	<u>1,461,467</u>	<u>45,219</u>
Revenues over (under) expenditures	<u>(51,000)</u>	<u>(53,846)</u>	<u>(2,846)</u>
Other financing sources (uses)			
Capital obligations issued	<u>45,000</u>	<u>45,000</u>	
Total	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Fund balance appropriated	6,000	-	(6,000)
Net Change in Fund Balance	<u>\$ -</u>	<u>(8,846)</u>	<u>\$ (8,846)</u>
Fund balance, July 1, 2012		654,816	
Fund balance, June 30, 2013		<u>\$ 645,970</u>	

Town of Franklinton, North Carolina
Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year ended June 30, 2013

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Restricted intergovernmental					
State Grant - Rural Center	\$ 40,000	\$ -	\$ 33,723	\$ 33,723	\$ (6,277)
State Grant - Other	2,000	-	2,000	2,000	-
Total revenues	<u>42,000</u>	<u>-</u>	<u>35,723</u>	<u>35,723</u>	<u>(6,277)</u>
Expenditures					
Construction	83,065	-	71,956	71,956	11,109
Total expenditures	<u>83,065</u>	<u>-</u>	<u>71,956</u>	<u>71,956</u>	<u>11,109</u>
Revenues over (under) expenditures	(41,065)	-	(36,233)	(36,233)	4,832
Other financing sources:					
Private Contributions	41,065	-	36,233	36,233	(4,832)
Total other sources	<u>41,065</u>	<u>-</u>	<u>36,233</u>	<u>36,233</u>	<u>(4,832)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Franklinton, North Carolina
Water and Sewer Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP)
For the Fiscal Year ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Charges for services:			
Water sales		\$ 737,951	
Sewer charges		477,553	
Total	<u>1,233,589</u>	<u>1,215,504</u>	<u>(18,085)</u>
Water and sewer taps	6,500	5,500	(1,000)
Other operating revenues	37,824	11,128	(26,696)
Total operating revenues	<u>1,277,913</u>	<u>1,232,132</u>	<u>(45,781)</u>
Nonoperating revenues:			
Interest earnings	-	234	234
Total revenues	<u>1,277,913</u>	<u>1,232,366</u>	<u>(45,547)</u>
Expenditures:			
Water and sewer works department:			
Water and sewer works:			
Salaries and employee benefits		184,241	
Supplies		2,951	
Contracted services		39,000	
FWASA expenditures		347,207	
Other operating expenditures		137,710	
Total water and sewer works	<u>711,670</u>	<u>711,109</u>	<u>561</u>
Water plant:			
Water plant:			
Chemicals		32,265	
Contracted services		87,873	
Other operating expenditures		183,059	
Total water plant	<u>328,085</u>	<u>303,197</u>	<u>24,888</u>
Debt service:			
Principal retirement	126,000	122,816	3,184
Interest and other charges	99,158	98,099	1,059
Total Debt service	<u>225,158</u>	<u>220,915</u>	<u>4,243</u>
Capital outlay:			
Water and sewer works		26,977	
Water plant		81,372	
Total capital outlay	<u>108,660</u>	<u>108,349</u>	<u>311</u>
Total expenditures	<u>1,373,573</u>	<u>1,343,570</u>	<u>30,003</u>

Town of Franklinton, North Carolina
Water and Sewer Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP)
For the Fiscal Year ended June 30, 2013

	2013		Variance Positive (Negative)
	Budget	Actual	
Other financing sources (uses):			
Capital Obligations		70,000	
Insurance Recovery		11,399	
Capital Contributions		24,020	
Total other financing sources (uses)	<u>95,660</u>	<u>105,419</u>	<u>9,759</u>
Fund Balance Appropriations	<u>250</u>	<u>-</u>	<u>(250)</u>
Revenues, other financing sources, and appropriated fund balances over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ (5,785)</u>	<u>\$ (5,785)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ (5,785)	
Reconciling items:			
Principal retirement		122,816	
Capital outlay		108,349	
Loan Proceeds		(70,000)	
Depreciation		(252,050)	
Decrease in accrued vacation pay		6,034	
Total reconciling items		<u>(84,851)</u>	
Change in net position		<u>\$ (90,636)</u>	

Town of Franklinton, North Carolina
Fines and Forfeitures Agency Fund
Statement of Changes in Assets and Liabilities
For the Year ended June 30, 2013

	Beginning Balance	Additions	Deductions	Ending Balance
Assets:				
Cash and cash equivalents	\$ 1,115	\$ 153	\$ 1,111	\$ 157
Liabilities:				
Intergovernmental payable	\$ 1,115	\$ 153	\$ 1,111	\$ 157

Other Schedules

This section contains additional information required on property taxes

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

**Town of Franklinton, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2013**

Fiscal Year	Uncollected Balance June 30, 2012	Additions	Collections and Credits	Uncollected Balance June 30, 2013
2012-2013	\$ -	\$ 707,097	\$ 673,811	\$ 33,286
2011-2012	24,098	-	14,744	9,354
2010-2011	8,344	-	1,774	6,570
2009-2010	6,956	-	1,553	5,403
2008-2009	4,728	-	318	4,410
2007-2008	3,986	-	341	3,645
2006-2007	2,969	-	106	2,863
2005-2006	2,226	-	260	1,966
2004-2005	2,922	-	90	2,832
2003-2004	2,199	-	2,199	-
	<u>\$ 58,428</u>	<u>\$ 707,097</u>	<u>\$ 695,196</u>	<u>\$ 70,329</u>

Less allowance for uncollectible accounts:
General Fund

\$ 7,661

Ad valorem taxes receivable – net

\$ 62,668

Reconciliation with revenues:

Ad valorem taxes – General Fund

\$ 696,807

Penalties collected on ad valorem taxes – Agency Fund

153

Reconciling items:

Interest collected

(6,385)

Discounts allowed

2,422

Taxes written off

2,199

Subtotal

(1,764)

Total collections and credits

\$ 695,196

**Town of Franklinton, North Carolina
 Analysis of Current Tax Levy
 Town – Wide Levy
 For the fiscal Year Ended June 30, 2013**

	Town-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 104,429,500	0.70	\$ 710,121	\$ 638,418	\$ 71,703
Registered motor vehicles taxed at prior year's rate	377,400	0.70	2,566	-	2,566
Penalties	-		-	-	-
Total	104,806,900		712,687	638,418	74,269
Discoveries:					
Current year taxes	3,850	0.70	26	-	26
Prior year taxes			-	-	-
Penalties			-	-	-
Abatements	(825,900)	0.70	(5,616)	(5,616)	-
Total property valuation	\$ 103,984,850				
Net levy			707,097	632,802	74,295
Uncollected taxes June 30, 2013			(33,286)	(18,262)	(15,024)
Current year's taxes collected			\$ 673,811	\$ 614,540	\$ 59,271
Current levy collection %			95.29%	97.11%	79.78%

Town of Franklinton, North Carolina
Schedule of Net Position
Water and Sewer Fund by Function
June 30, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable (net)	107,009	35,670	142,679
Internal balances	66,523	-	66,523
Due from other governments	13,950	-	13,950
Inventories	3,808	-	3,808
Restricted cash and cash equivalents	-	-	-
Total current assets	<u>191,290</u>	<u>35,670</u>	<u>226,960</u>
Capital assets: (Note 1):			
Land, non-depreciable improvements, and construction in progress	99,818	-	99,818
Other capital assets, net of depreciation	2,844,719	3,018,072	5,862,791
Total capital assets	<u>2,944,537</u>	<u>3,018,072</u>	<u>5,962,609</u>
Total assets	<u>\$ 3,135,827</u>	<u>\$ 3,053,742</u>	<u>\$ 6,189,569</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 7,211	\$ 13,306	\$ 20,517
Due to other funds	207,384	-	207,384
Current portion of long-term liabilities	127,281	10,580	137,861
Liabilities payable from restricted assets:			-
Accounts Payable	13,950	-	13,950
Customer Deposits	58,218	-	58,218
Noncurrent liabilities:			-
Compensated absences	2,375	7,285	9,660
Due in more than one year	2,099,366	442,140	2,541,506
Total liabilities	<u>2,515,785</u>	<u>473,311</u>	<u>2,989,096</u>
NET POSITION			
Net investment in capital assets	717,890	2,565,352	3,283,242
Restricted for:			
Unrestricted	(97,848)	15,079	(82,769)
Total net position	<u>\$ 620,042</u>	<u>\$ 2,580,431</u>	<u>\$ 3,200,473</u>

Town of Franklinton
Schedule of Revenues, Expenditures, and Changes in Fund Net Position
Water and Sewer by Function
For the Year Ended June 30, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 737,951	\$ 477,553	\$ 1,215,504
Water and sewer taps	-	5,500	5,500
Other operating revenues	-	11,128	11,128
Total operating revenues	<u>737,951</u>	<u>494,181</u>	<u>1,232,132</u>
OPERATING EXPENSES			
Water and sewer works	202,645	447,760	650,405
Water plant	357,867	-	357,867
Depreciation	127,320	124,730	252,050
Total operating expenses	<u>687,832</u>	<u>572,490</u>	<u>1,260,322</u>
Operating income (loss)	<u>50,119</u>	<u>(78,309)</u>	<u>(28,190)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	176	58	234
Interest and other charges	(76,238)	(21,861)	(98,099)
Capital Contributions	24,020	-	24,020
Insurance Recovery	11,399	-	11,399
Total non-operating revenue (expenses)	<u>(40,643)</u>	<u>(21,803)</u>	<u>(62,446)</u>
Change in net position	9,476	(100,112)	(90,636)
Total net position, beginning	<u>610,566</u>	<u>2,680,543</u>	<u>3,291,109</u>
Total net position, ending	<u>\$ 620,042</u>	<u>\$ 2,580,431</u>	<u>\$ 3,200,473</u>

Town of Franklinton, North Carolina
Statement of Cash Flows
Water and Sewer by Function
For the Year Ended June 30, 2013

	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 761,359	\$ 460,773	\$ 1,222,132
Cash paid for goods and services	(821,766)	(439,352)	(1,261,118)
Cash paid to or on behalf of employees for services	(184,241)	-	(184,241)
Other operating revenues	-	11,128	11,128
Net cash provided (used) by operating activities	<u>(244,648)</u>	<u>32,549</u>	<u>(212,099)</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Due to (from) other funds	41,931	-	41,931
Total cash flows from non-capital financing activities	<u>41,931</u>	<u>-</u>	<u>41,931</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Installment proceeds	70,000	-	70,000
Acquisitions and construction of capital assets	(108,349)	-	(108,349)
Principal paid on bond payable	(80,426)	(9,890)	(90,316)
Principal paid on installment payable	(32,500)	-	(32,500)
Interest and other charges	(76,238)	(21,861)	(98,099)
Capital Contributions	24,020	-	24,020
Insurance Recovery	11,399	-	11,399
Net cash provided (used) by capital and related financing activities	<u>(192,094)</u>	<u>(31,751)</u>	<u>(223,845)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	176	58	58
Net increase (decrease) in cash and cash equivalents	(394,635)	856	(393,779)
Balances, beginning	164,626	229,153	393,779
Balances, ending	<u>\$ (230,009)</u>	<u>\$ 230,009</u>	<u>\$ -</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ 50,119	\$ (78,309)	\$ (28,190)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	127,320	124,730	252,050
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(6,649)	(2,217)	(8,866)
Increase (decrease) in allowance for doubtful accounts	(2,180)	-	(2,180)
(Increase) decrease in inventory	515	-	515
Increase (decrease) in accounts payable and accrued liabilities	(411,977)	(7,779)	(419,756)
Increase in customer deposits	362	-	362
Increase (decrease) in accrued vacation pay	(2,158)	(3,876)	(6,034)
Total adjustments	<u>(294,767)</u>	<u>110,858</u>	<u>(183,909)</u>
Net cash provided by operating activities	<u>\$ (244,648)</u>	<u>\$ 32,549</u>	<u>\$ (212,099)</u>

SUPPLEMENTARY INFORMATION

COMPLIANCE SECTION

**PETWAY
MILLS &
PEARSON, PA***CERTIFIED PUBLIC ACCOUNTANTS*

To the Honorable Mayor
and members of the Board of Commissioners
Town of Franklinton
Franklinton, North Carolina

C. Briggs Petway, Jr.
Roger G. Mills
Phyllis M. Pearson

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Town of Franklinton, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Franklinton's basic financial statements, and have issued our report thereon dated November 27, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

Compliance and Other Matters

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

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

Petway Mills & Pearson, PA
PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

November 27, 2013

**Town of Franklinton
Schedule of Findings and Responses
For the Year Ended June 30, 2013**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes x no

Significant deficiencies identified
that are not considered to be
material weaknesses? yes x none reported

Noncompliance material to financial
statements noted yes x no

**Town of Franklinton
Schedule of Findings and Responses
For the Year Ended June 30, 2013**

Section II - Financial Statements

None reported.

**Town of Franklinton
Corrective Action Plan
For the Year Ended June 30, 2013**

Section III - Financial Statements

None reported.

Town of Franklinton
Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2013

Finding 12-1 The Town overspent its operating budget by \$11,768 in general government, \$5,618 in environmental protection and \$7,279 in debt service in the General Fund. The Town also overspent its operating budget by \$50,141 in the Water and Sewer Fund. This finding has been resolved in the Water and Sewer Fund. It remains a finding in the General Fund, the amount for the fiscal year ended is immaterial and reported in the management letter.

Town of Franklinton
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2013

Grantor/Pass-through Grantor-Program Title	<u>State Expenditures</u>	<u>Local Expenditures</u>
State Grants:		
Cash Assistance		
<u>NC Department of Environmental and Natural Resources</u> Clean Water Management Trust Fund Reuse Systems	\$ 24,020	\$ -
<u>NC Department of Rural Economic Center, Inc.</u> Building Reuse Grant Fund	33,723	2,000
<u>NC Department of Transportation</u> Powell Bill	58,728	-
Total assistance	<u>\$ 116,471</u>	<u>\$ 2,000</u>

Note to the Schedule of Expenditures of State Awards:

Basis of Presentation

The accompanying schedule of expenditures of State awards includes the State grant activity of the Town of Franklinton and is presented on the modified accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of *Government Auditing Standards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.