

**TOWN OF DREXEL
DREXEL, NORTH CAROLINA**

**BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

Boggs, Crump & Brown, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Morganton, North Carolina

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Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Drexel, North Carolina as of June 30, 2019, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on Pages 4 through 12, the Local Government Employees' Retirement Systems schedules of the proportionate share of the net pension asset and contributions on Pages 50 and 51, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension liability and Total Pension Liability as a Percentage of Covered Payroll on Pages 52 and 53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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

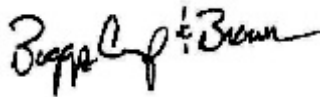
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Drexel, North Carolina. The introductory information, combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules and other schedules are the responsibility of management and were 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 fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information and the statistical sections have not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2019 on our consideration of the Town of Drexel's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Drexel's internal control over financial reporting and compliance.



Boggs, Crump & Brown, P.A.
Certified Public Accountants

August 2, 2019
Morganton, North Carolina

Management's Discussion and Analysis

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

Financial Highlights

- The assets and deferred outflows of resources of the Town of Drexel *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$6,871,803.
- The government's total net position increased by \$133,420, primarily due to *increases* in the business type activities net position.
- As of the close of the current fiscal year, the Town of Drexel's governmental funds reported combined ending fund balances of \$1,732,194 an *increase* of \$33,623 in comparison with the prior year. Approximately 73% of this total amount, or \$1,268,939 is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,268,939 or 105% of total general fund expenditures for the fiscal year.
- The Town of Drexel's total debt *decreased* by \$50,616 during the current fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

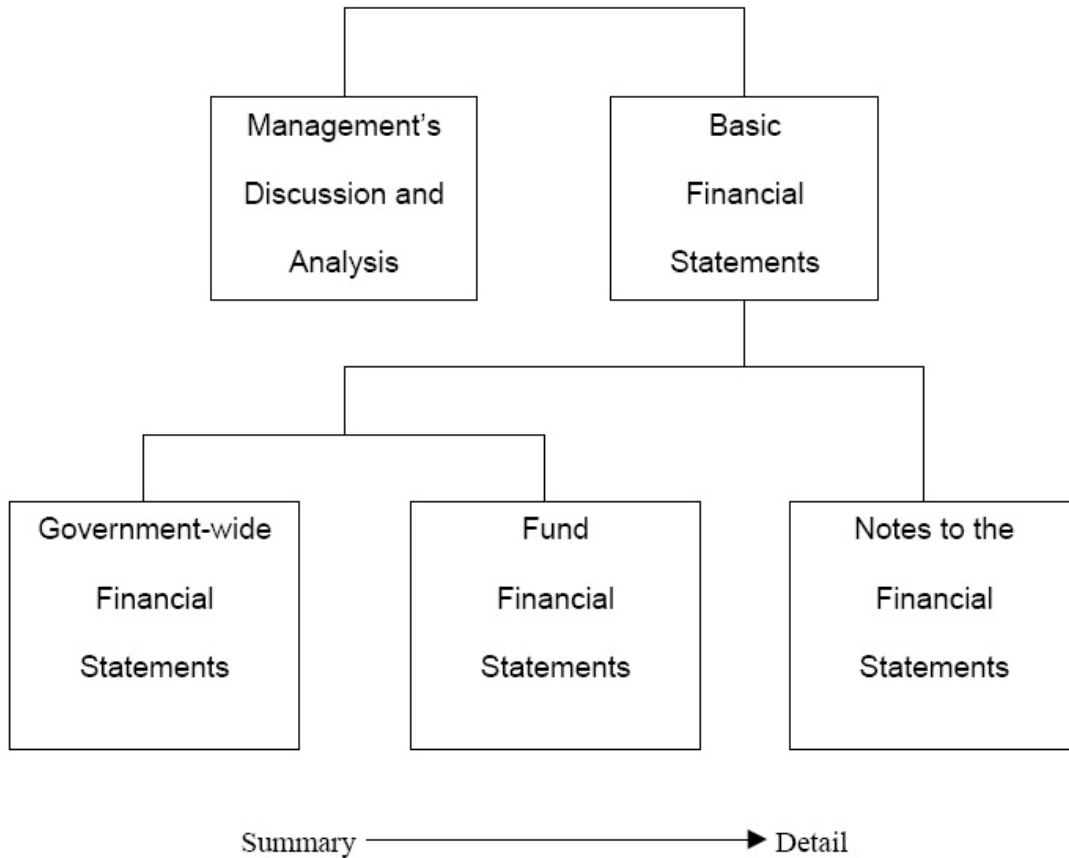


Figure 1

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 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, 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 and electric services offered by the Town of Drexel.

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

Fund Financial Statements

The fund financial statements (see Figure 2) 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 Drexel, 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 Town of Drexel can be divided into two categories: governmental funds and proprietary funds.

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

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on Pages 23 - 49 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Drexel’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on Page 50 of this report.

Government-Wide Financial Analysis

**The Town of Drexel’s Net Position
Figure 2**

	Governmental Activities		Business-type Activities		Total	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Current assets	\$1,753,422	\$1,721,960	\$3,848,556	\$3,569,807	\$5,601,978	\$5,291,767
Other assets						
Capital assets	1,510,325	1,578,035	881,139	988,608	2,391,464	2,566,643
Deferred outflows of resources	<u>158,847</u>	<u>88,110</u>	<u>96,043</u>	<u>61,817</u>	<u>254,890</u>	<u>149,927</u>
Total assets and deferred outflows of resources	<u>3,422,594</u>	<u>3,388,105</u>	<u>4,825,738</u>	<u>4,620,232</u>	<u>8,248,332</u>	<u>8,008,337</u>
Long-term debt outstanding	69,809	85,565	385,361	376,869	455,170	462,434
Other liabilities	351,468	231,323	441,013	448,425	792,481	679,748
Deferred inflows of resources	<u>121,164</u>	<u>121,339</u>	<u>7,714</u>	<u>6,433</u>	<u>128,878</u>	<u>127,772</u>
Total liabilities and deferred inflows of resources	<u>542,441</u>	<u>438,227</u>	<u>834,088</u>	<u>831,727</u>	<u>1,376,529</u>	<u>1,269,954</u>
Net position:						
Net Investment in capital assets	1,424,760	1,465,408	504,270	588,185	1,929,030	2,053,593
Restricted	333,260	416,590			333,260	416,590
Unrestricted	<u>1,122,133</u>	<u>1,067,880</u>	<u>3,487,380</u>	<u>3,200,320</u>	<u>4,609,513</u>	<u>4,268,200</u>
Total net position	<u>\$2,880,153</u>	<u>\$2,949,878</u>	<u>\$3,991,650</u>	<u>\$3,788,505</u>	<u>\$6,871,803</u>	<u>\$6,738,383</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 Drexel exceeded liabilities and deferred inflows by \$6,871,803 as of June 30, 2019. The Town's net position *increased* by \$133,420 for the fiscal year ended June 30, 2019. A large portion (28%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Drexel uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Drexel's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Drexel's net position (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,609,513 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.8%, which is above the statewide average.
- Diligence in keeping expenditures as low as possible.

**Town of Drexel Changes in Net Position
Figure 3**

	Governmental Activities		Business-type Activities		Total	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenues:						
Program revenues:						
Charges for services	\$ 69,749	\$ 69,132	\$3,032,168	\$3,026,972	\$3,101,917	\$ 3,096,104
Other operating funds	122,055	84,211			122,055	84,211
General revenues:						
Property taxes	363,517	352,594			363,517	352,594
Other taxes	602,355	563,129			602,355	563,129
Other Revenue	88,771	196,182	153,466	1,331	242,237	197,513
Total revenues	1,246,447	1,265,248	3,185,634	3,028,303	4,432,081	4,293,551
Expenses:						
General government	129,994	149,892			129,994	149,892
Public safety	615,162	539,582			615,162	539,582
Streets	337,233	228,082			337,233	228,082
Sanitation	78,904	77,388			78,904	77,388
Culture and recreation	151,894	142,485			151,894	142,485
Interest on long-term debt	2,985	3,771			2,985	3,771
Electric			2,151,882	2,361,936	2,151,882	2,361,936
Water and sewer			830,607	787,813	830,607	787,813
Total expenses	1,316,172	1,141,200	2,982,489	3,149,749	4,298,661	4,290,949
Increase (decrease) in net position before transfers	(69,725)	124,048	203,145	(121,446)	133,420	2,602
Transfers						
Increase (Decrease) in Net position	(69,725)	124,048	203,145	(121,446)	133,420	2,602
Net position, beginning	2,949,878	2,825,830	3,788,505	3,909,951	6,738,383	6,735,781
Net position, June 30	\$2,880,153	\$2,949,878	\$3,991,650	\$3,788,505	\$6,871,803	\$6,738,383

Governmental activities. Governmental activities decreased the Town's net position by \$69,725. Key elements of this decrease as compared to prior years are as follows:

- Alcohol beverage tax
- Continued activities at R.O. Huffman Center
- Increased sales tax distribution
- Tax collection remained steady
- Solid waste fees offset operational expenditures

Business-type activities: Business-type activities increased the Town of Drexel's net position by \$203,145. Key elements of this increase are as follows:

- Water and sewer rates were not increased to accommodate operational cost increases
- Investment earnings remain low due to interest rates
- Electric rate decrease to Town of 7% was passed to customers at 3.5%
- AIA Wastewater Grant reimbursement

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Drexel'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 Drexel's financing requirements. Specifically, unassigned 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 Drexel. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,268,939 while total fund balance reached \$1,732,194. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 105% of total General Fund expenditures.

At June 30, 2019, the governmental funds of Town of Drexel reported a combined fund balance of \$1,732,194, a 2% increase over last year.

General Fund Budgetary Highlights: During the fiscal year, the Town had two budget amendments. Generally, budget amendments fall into these categories: 1) increases in appropriations that become necessary to maintain services; 2) amendments to transfer expenditures between departments, and 3) amendments to record government revenues which were not budgeted.

Proprietary Funds. The Town'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 Funds at the end of the fiscal year amounted to \$211,768, and those for the Electric Fund amounted to \$2,898,743. The Water and Sewer Fund net position increased by \$606 while the Electric Fund increased by \$202,539. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Drexel's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$2,391,463 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

- There was one major capital asset transaction during the year.

Town of Drexel's Capital Assets
Figure 4

	<u>Governmental Activities</u> <u>2019</u>	<u>Business-type Activities</u> <u>2019</u>	<u>Total Primary Government</u> <u>2019</u>
Land	\$1,120,025	\$ -	\$1,120,025
Building and systems	169,022	134,224	303,246
Vehicles and equipment	206,240	137,649	343,889
Infrastructure	<u>15,038</u>	<u>609,265</u>	<u>624,303</u>
Total	<u>\$1,510,325</u>	<u>\$ 881,138</u>	<u>\$2,391,463</u>

Additional information on the Town's capital assets can be found in notes 4 and 5 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2019, the Town of Drexel had total bonded debt outstanding of \$- 0 - .

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Installment debt	\$85,565	\$112,627	\$376,869	\$400,423	\$462,434	\$513,050
General obligation bonds	_____	_____	_____	_____	_____	_____
Total	<u>\$85,565</u>	<u>\$112,627</u>	<u>\$376,869</u>	<u>\$400,423</u>	<u>\$462,434</u>	<u>\$513,050</u>

The Town of Drexel's total debt decreased by \$50,617 during the past fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue up to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Drexel is \$6,310,012.

Additional information regarding the Town of Drexel's long-term debt can be found in Note 3 beginning on Page 45 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the slower than average growth of the Town.

- Increased cost of providing services
- Lack of affordable housing for mid-income families

The following key factors reflect the potential for higher future growth of the Town.

- Regional Partnership. The Town of Drexel has partnered with Burke County and the surrounding municipalities to invest in an industrial park and set up a revenue sharing model to distribute tax revenues.
- Healthy fund balances for investment purposes.
- Working with WPCOG and ElectriCities on economic development possibilities for Drexel Properties (formerly Drexel Heritage). Continue to pursue grant opportunities to assist in the cleanup and redevelopment.
- \$2 billion bond package for NC that includes monies for several projects in Burke County that will positively impact all municipalities in the county. (NC School of Science and Math; National Guard Training Center)

Budget Highlights for the Fiscal Year Ending June 30, 2020

Budgeted expenditures in the General Fund are expected to increase by .6% over this year's amended budget to \$1,381,445.

Business-type Activities: Electric rates and water and sewer rates will remain the same for the 2019-2020 fiscal year. The Town of Drexel purchases water from the City of Morganton and purchases sewer treatment from the Town of Valdese, as their costs increase the higher cost is passed to the Town of Drexel. Drexel is a member of the North Carolina Municipal Power Agency.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Sherri Bradshaw, Town Manager, at (828) 437-7421.

**TOWN OF DREXEL, NORTH CAROLINA
STATEMENT OF NET POSITION
JUNE 30, 2019**

	PRIMARY GOVERNMENT		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	1,420,162	3,330,408	4,750,570
Taxes receivable (net)	7,154	-	7,154
Accounts receivable (net)	105,246	393,975	499,221
Inventories	-	124,173	124,173
Restricted cash and cash equivalents	220,860	-	220,860
Net pension asset	-	-	-
Total current assets	1,753,422	3,848,556	5,601,978
Capital assets (Note 1):			
Land, non-depreciable improvements, and construction in progress	1,120,025	-	1,120,025
Other capital assets, net of depreciation	390,300	881,139	1,271,439
Total capital assets	1,510,325	881,139	2,391,464
Total assets	3,263,747	4,729,695	7,993,442
DEFERRED OUTFLOWS OF RESOURCES			
Pension Deferrals	158,847	96,043	254,890
Total current outflows of resources	158,847	96,043	254,890
LIABILITIES			
Current liabilities:			
Accounts payable	14,074	150,489	164,563
Customer deposits	-	95,515	95,515
Long-term liabilities:			
Due within one year	32,779	29,554	62,333
Net pension liability	177,560	-	177,560
Total Pension Liability	127,055	165,455	292,510
Due in more than one year	69,809	385,361	455,170
Total liabilities	421,277	826,374	1,247,651
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	121,164	7,714	128,878
Total current inflows of resources	121,164	7,714	128,878
NET POSITION			
Net investment in capital assets	1,424,760	504,270	1,929,030
Restricted for:			
Stabilization by State Statute	112,400	-	112,400
Public Safety	-	-	-
Transportation	220,860	-	220,860
Unrestricted	1,122,133	3,487,380	4,609,513
Total net position	2,880,153	3,991,650	6,871,803

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

**TOWN OF DREXEL, NORTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	(117,636)	875	-	-	(116,761)	-	(116,761)
Public safety	(615,162)	624	25,315	-	(589,223)	-	(589,223)
Transportation	(337,233)	-	55,240	-	(281,993)	-	(281,993)
Special appropriations	(12,358)	-	-	-	(12,358)	-	(12,358)
Environmental protection	(78,904)	68,250	-	-	(10,654)	-	(10,654)
Cultural and recreation	(151,894)	-	41,500	-	(110,394)	-	(110,394)
Interest on long term debt	(2,985)	-	-	-	(2,985)	-	(2,985)
Total governmental activities	<u>(1,316,172)</u>	<u>69,749</u>	<u>122,055</u>	<u>-</u>	<u>(1,124,368)</u>	<u>-</u>	<u>(1,124,368)</u>
Business-type activities:							
Water and sewer	(830,607)	682,747	148,466	-	-	606	606
Electric	<u>(2,151,882)</u>	<u>2,349,421</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>202,539</u>	<u>202,539</u>
Total business-type activities	<u>(2,982,489)</u>	<u>3,032,168</u>	<u>153,466</u>	<u>-</u>	<u>-</u>	<u>203,145</u>	<u>203,145</u>
Total primary government	<u>(4,298,661)</u>	<u>3,101,917</u>	<u>275,521</u>	<u>-</u>	<u>(1,124,368)</u>	<u>203,145</u>	<u>(921,223)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purpose					363,517	-	363,517
Other taxes					-	-	-
Unrestricted Intergovernmental revenues					622,255	-	622,255
Grants and contributions not restricted to specific programs					-	-	-
Unrestricted investment earnings					28,074	-	28,074
Miscellaneous					40,797	-	40,797
Transfers					-	-	-
Total general revenues, special items, and transfers					<u>1,054,643</u>	<u>-</u>	<u>1,054,643</u>
Change in net position					(69,725)	203,145	133,420
Net Position- Beginning Previously Reported					<u>2,949,878</u>	<u>3,788,505</u>	<u>6,738,383</u>
Net position - ending					<u>2,880,153</u>	<u>3,991,650</u>	<u>6,871,803</u>

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

**TOWN OF DREXEL, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	Major Funds General	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 1,420,162	\$ 1,420,162
Restricted cash	220,860	220,860
Receivables, net		
Taxes	7,154	7,154
Accounts	105,246	105,246
Total assets	1,753,422	1,753,422
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	14,074	14,074
Total liabilities	14,074	14,074
Deferred inflows of resources:		
Property taxes receivable	7,154	7,154
Total deferred inflows of resources	7,154	7,154
Fund balances:		
Restricted:		
Stabilization by State Statute	112,400	112,400
Streets	220,860	220,860
Assigned:		
Subsequent years expenditures	129,995	129,995
Unassigned	1,268,939	1,268,939
Total fund balances	1,732,194	1,732,194
Total liabilities, deferred inflows of resources and fund balances	\$ 1,753,422	

Amounts reported in 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.	1,510,325
Earned revenues considered deferred inflows of Resources in fund statements	7,154
Net pension liability	(177,560)
Total Pension Liability	(127,055)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	-
Pension related deferrals	37,683
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds	(102,588)
Net position of governmental activities	\$ 2,880,153

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

**TOWN OF DREXEL, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Major Funds	Total
	General	Governmental
	Funds	Funds
REVENUES		
Ad valorem taxes	\$ 363,517	\$ 363,517
Unrestricted intergovernmental	622,255	622,255
Restricted intergovernmental	122,055	122,055
Permits and fees	69,125	69,125
Sales and services	624	624
Investment earnings	28,074	28,074
Miscellaneous	40,797	40,797
Total revenues	1,246,447	1,246,447
EXPENDITURES		
Current:		
General government	110,019	110,019
Public safety	513,344	513,344
Transportation	316,258	316,258
Environmental protection	78,904	78,904
Culture and recreation	151,894	151,894
Special appropriations	12,358	12,358
Debt Service:		
Principal retirement	27,062	27,062
Interest	2,985	2,985
Total expenditures	1,212,824	1,212,824
Excess (deficiency) of revenues over expenditures	33,623	33,623
OTHER FINANCING SOURCES (USES)		
Transfers from other funds		
Transfers to other funds		
Proceeds from capital lease	-	-
Total other financing sources (uses)	-	-
Net changes in fund balance	33,623	33,623
Fund balances - beginning	1,698,571	1,698,571
Fund Balances - Ending	\$ 1,732,194	\$ 1,732,194

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

**TOWN OF DREXEL, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

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

Net changes in fund balances - total governmental funds	\$ 33,623
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 depreciation exceeded capital outlay in the current period	(67,710)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	58,361
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	7,154
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities.	14,701
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. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	25,599
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.	<u>(141,453)</u>
Total changes in net position of governmental activities	<u>\$ (69,725)</u>

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

**TOWN OF DREXEL, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN
FUND BALANCE- BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>General Fund</u>			Variance With Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Ad valorem taxes	\$ 354,950	\$ 366,150	\$ 363,517	\$ (2,633)
Unrestricted intergovernmental	612,000	612,000	622,255	10,255
Restricted intergovernmental	76,500	123,000	122,055	(945)
Permits and fees	69,250	68,500	69,125	625
Sales and services	150	150	624	474
Investment earnings	4,000	28,000	28,074	74
Miscellaneous	54,500	54,500	40,797	(13,703)
Total Revenues	<u>1,171,350</u>	<u>1,252,300</u>	<u>1,246,447</u>	<u>(5,853)</u>
Expenditures:				
Current:				
General government	148,917	149,907	110,019	39,888
Public safety	549,749	551,249	513,344	37,905
Transportation	313,356	345,916	316,258	29,658
Environmental protection	76,600	79,900	78,904	996
Cultural and recreation	157,260	199,860	151,894	47,966
Special Appropriations	16,000	16,000	12,358	3,642
Debt Service:				
Principal retirement	27,062	27,062	27,062	-
Interest	2,985	2,985	2,985	-
Total expenditures	<u>1,291,929</u>	<u>1,372,879</u>	<u>1,212,824</u>	<u>160,055</u>
Revenues over (under) expenditures	<u>(120,579)</u>	<u>(120,579)</u>	<u>33,623</u>	<u>154,202</u>
Other financing sources (uses):				
Transfers from other funds				
Transfers to other funds				
Proceeds from capital lease	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance Appropriated	120,579	120,579	-	\$ (120,579)
Net Change In Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>33,623</u>	<u>\$ 33,623</u>
Fund balances, beginning of year			<u>1,698,571</u>	
Fund balances, end of year			<u>\$ 1,732,194</u>	

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

**TOWN OF DREXEL, NORTH CAROLINA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019**

	Enterprise Fund		
	Electric Fund	Water and Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,926,556	\$ 403,852	\$ 3,330,408
Accounts receivable (net) - billed	187,573	206,402	393,975
Inventories	79,688	44,485	124,173
Total current assets	3,193,817	654,739	3,848,556
Capital assets:			
Other capital assets, net of depreciation	232,503	648,636	881,139
Capital assets, net	232,503	648,636	881,139
Total assets	\$ 3,426,320	\$ 1,303,375	\$ 4,729,695
DEFERRED OUTFLOWS OF RESOURCES			
Pension Deferrals	\$ 61,610	\$ 34,433	\$ 96,043
Total deferred outflows of resources	61,610	34,433	96,043
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	148,254	2,235	150,489
Customer deposits	69,450	26,065	95,515
Compensated absences	4,000	2,000	6,000
Installment purchase obligations payable - current	-	23,554	23,554
Total current liabilities	221,704	53,854	275,558
Noncurrent liabilities:			
Liabilities payable from restricted assets:			
Other noncurrent liabilities:			
Compensated absences	20,279	11,767	32,046
Net pension liability	109,429	56,026	165,455
Installment purchase obligation payable - noncurrent (net)	-	353,315	353,315
Total noncurrent liabilities	129,708	421,108	550,816
Total liabilities	351,412	474,962	826,374
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	5,272	2,442	7,714
NET POSITION			
Net investment in capital assets	232,503	271,767	504,270
Unrestricted	2,898,743	588,637	3,487,380
Total net position	\$ 3,131,246	\$ 860,404	3,991,650
Net position of business-type activities			\$ 3,991,650

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

**TOWN OF DREXEL, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Enterprise Fund		
	Electric Fund	Water and Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$ 2,305,872	\$ 664,415	\$ 2,970,287
Other operating revenues	43,549	18,332	61,881
 Total operating revenues	 <u>2,349,421</u>	 <u>682,747</u>	 <u>3,032,168</u>
OPERATING EXPENSES			
Administration	378,519	24,000	402,519
Electric operations	253,898	-	253,898
Electric power purchases	1,494,315	-	1,494,315
Water treatment and distribution	-	129,653	129,653
Waste collection and treatment	-	337,184	337,184
Water and sewer maintenance	-	215,927	215,927
Depreciation	25,150	123,843	148,993
 Total operating expenses	 <u>2,151,882</u>	 <u>830,607</u>	 <u>2,982,489</u>
 Operating income (loss)	 <u>197,539</u>	 <u>(147,860)</u>	 <u>49,679</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	-		-
Grants	5,000	148,466	153,466
Interest and other charges	-		-
Insurance Refund	-		-
 Total nonoperating revenue (expenses)	 <u>5,000</u>	 <u>\$ 148,466</u>	 <u>153,466</u>
 Income (loss) before contributions and transfers	 202,539	 606	 203,145
Transfers from other funds			
 Change in net position	 202,539	 606	 203,145
Total net position, beginning	<u>2,928,707</u>	<u>859,798</u>	<u>3,788,505</u>
 Total net position - ending	 <u>\$ 3,131,246</u>	 <u>\$ 860,404</u>	 <u>3,991,650</u>
 Net position - business-type activities			 <u>\$ 3,991,650</u>

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

**TOWN OF DREXEL, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	Business-Type Activities		
	Enterprise Fund		
	Electric Fund	Water and Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 2,350,842	\$ 685,232	\$ 3,036,074
Cash paid for goods and services	2,136,917	694,287	2,831,204
Net cash provided (used) by operating activities	<u>213,925</u>	<u>(9,055)</u>	<u>204,870</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from long term borrowings	-	-	-
Acquisition of capital assets	(33,177)	(8,347)	(41,524)
Insurance refund	-	-	-
Grant Revenue	-	-	-
Principal paid on bond maturities and equipment contracts	-	(23,554)	(23,554)
Interest paid on bond maturities and equipment contracts	-	-	-
Net cash provided (used) by capital and related financing activities	<u>(33,177)</u>	<u>(31,901)</u>	<u>(65,078)</u>
Net increase (decrease) in cash and cash equivalents	180,748	(40,956)	139,792
Balances - beginning of year	<u>2,745,808</u>	<u>444,808</u>	<u>3,190,616</u>
Balances - end of year	<u>\$ 2,926,556</u>	<u>\$ 403,852</u>	<u>\$ 3,330,408</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	<u>\$ 197,539</u>	<u>\$ (147,860)</u>	<u>\$ 49,679</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	25,150	123,843	148,993
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(1,421)	2,485	1,064
(Increase) decrease in inventory	1,877	8,706	10,583
Decrease in deferred outflows of resources- pension	(17,103)	(17,123)	(34,226)
Decrease in net pension liability	22,192	22,100	44,292
Decrease in deferred inflows - pensions	640	640	1,280
Increase (decrease) in accounts payable and accrued liabilities	(17,425)	(1,170)	(18,595)
Increase (decrease) in customer deposits	<u>2,476</u>	<u>(676)</u>	<u>1,800</u>
Total adjustments	<u>16,386</u>	<u>138,805</u>	<u>155,191</u>
Net cash provided (used) by operating activities	<u>\$ 213,925</u>	<u>\$ (9,055)</u>	<u>\$ 204,870</u>

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

**TOWN OF DREXEL
NOTES TO THE BASIC FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

I. Summary of Significant Accounting Policies:

The accounting policies of the Town of Drexel 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 Drexel is a municipal corporation which is governed by an elected mayor and a four member Council.

B. Basis of Presentation:

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

I. Summary of Significant Accounting Policies - (Continued):

B. Basis of Presentation - (Continued):

The Town reports the following major governmental fund:

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 public safety, street maintenance and construction, sanitation services, and buildings and grounds.

The Town reports the following major enterprise funds:

Electric Fund. This fund is used to account for the Town's electric fund operations.

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

C. Measurement Focus and Basis of Accounting:

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

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange 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 nonoperating 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.

I. Summary of Significant Accounting Policies - (Continued):

C. Measurement Focus and Basis of Accounting - (Continued):

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 nonoperating 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 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a 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 September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts including the Town of Drexel. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues such as the utilities franchise tax collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Drexel because the tax is levied by Burke County and then remitted to and distributed by the State. Most 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.

I. Summary of Significant Accounting Policies - (Continued):

C. Measurement Focus and Basis of Accounting - (Continued):

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. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. The Town Manager is authorized by the budget ordinance to transfer appropriations within a department and also to transfer up to 10% of expenditures between departments. However, any revisions that alter total expenditures of any department by more than 10% must be approved by the governing board. During the year two 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 are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town 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 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).

I. Summary of Significant Accounting Policies - (Continued):

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity - (Continued):

1. Deposits and Investments -(Continued)

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

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

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.

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, 2018. 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.

I. Summary of Significant Accounting Policies - (Continued):

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity - (Continued):

6. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market.

The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed 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, \$2,500; Buildings, improvements, substations, lines, and other plant and distribution systems, \$2,000; infrastructure, \$5,000; furniture and equipment, \$1,000; and vehicles, \$2,500. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

I. Summary of Significant Accounting Policies - (Continued):

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity - (Continued):

8. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has items that meet the criterion for this category deferrals of pension expense that result from the implementation of GASB Statement 68 and GASB Statement 73.

9. Long-Term Obligations:

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

I. Summary of Significant Accounting Policies - (Continued):

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity - (Continued):

10. Compensated Absences - (Continued):

The Town's sick leave policies provide 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 has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances:

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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 unexpended Powell Bill funds.

I. Summary of Significant Accounting Policies - (Continued):

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity - (Continued):

11. Net Position/Fund Balances - (Continued):

Fund Balances - (Continued):

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Drexel's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Any changes or removal of specific purpose requires majority action by the governing body.

Assigned fund balance - portion of fund balance that Town of Drexel intends to use for specific purposes.

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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

12. Defined Benefit Cost-Shared Plans:

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position

I. Summary of Significant Accounting Policies - (Continued):

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity - (Continued):

12. Pensions - (Continued):

have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Drexel's employer contributions are recognized when due and the Town of Drexel has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

II. Detail Notes on All Funds:

A. Assets:

1. Deposits:

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

At June 30, 2019, the Town's deposits had a carrying amount of \$4,970,430 and a bank balance of \$5,130,733. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2019 the Town's petty cash fund totaled \$1,000.

2. Investments:

At June 30, 2019, the Town of Drexel had \$162,613 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's as of June 30, 2019.

II. Detail Notes on All Funds - (Continued):

A. Assets - (Continued):

3. Receivables:

Receivables at the government-wide level at June 30, 2019, were as follows:

	<u>Accounts</u>	<u>Taxes Receivable</u>	<u>Grant Receivable</u>	<u>Total</u>
Government Activities:				
General	\$ 2,491	\$109,909	\$	\$112,400
Total receivables	<u>2,491</u>	<u>109,909</u>		<u>112,400</u>
Allowance for doubtful accounts		<u>7,154</u>		<u>7,154</u>
Total-governmental activities	<u>2,491</u>	<u>102,755</u>		<u>105,246</u>
Business-type Activities				
Electric	187,573			187,573
Water and Sewer	<u>57,936</u>		148,466	<u>206,402</u>
Total receivables	<u>245,509</u>		<u>148,466</u>	<u>393,975</u>
Allowance for doubtful accounts				
Total-business-type activities	<u>\$ 245,509</u>		<u>\$148,466</u>	<u>\$393,975</u>

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

Local Option Sales Tax	\$ 74,900
Sales Tax Refund	19,900
Alcohol Beverage Tax	<u>7,955</u>
Total	<u>\$ 102,755</u>

4. Capital Assets:

Capital asset activity for the primary government for the year ended June 30, 2019 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$1,120,025	\$	\$	\$1,120,025
Total capital assets not being depreciated	<u>1,120,025</u>	<u> </u>	<u> </u>	<u>1,120,025</u>
Capital assets being depreciated:				
Buildings	564,603			564,603
Vehicles and motorized equipment	1,470,050	35,529		1,505,579
Infrastructure	<u>487,471</u>	<u> </u>	<u> </u>	<u>487,471</u>
Total capital assets being depreciated	<u>2,522,124</u>	<u>35,529</u>	<u> </u>	<u>2,557,653</u>
Less accumulated depreciation for:				
Buildings	379,649	15,932		395,581
Vehicles and motorized equipment	1,214,902	84,437		1,299,339
Infrastructure	<u>469,563</u>	<u>2,870</u>	<u> </u>	<u>472,433</u>
Total accumulated depreciation	<u>2,064,114</u>	<u>103,239</u>	<u> </u>	<u>2,167,353</u>
Total capital assets being Depreciated, net	<u>\$ 458,010</u>	<u>(\$ 67,710)</u>	<u>\$</u>	<u>\$ 390,300</u>

II. Detail Notes on All Funds - (Continued):

A. Assets - (Continued):

4. Capital Assets - (Continued):

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

General government	\$ 15,932
Public safety	60,818
Transportation	<u>26,489</u>
Total depreciation expense	<u>\$103,239</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Electric Fund</i>				
Capital assets not being depreciated:				
Land	\$	\$	\$	\$
Capital assets being depreciated:				
Buildings	211,866			211,866
Substations, lines, and related equipment	810,071			810,071
Furniture and maintenance equipment	10,129			10,129
Vehicles	<u>382,579</u>	<u>33,177</u>		<u>415,756</u>
Total capital assets being depreciated	<u>1,414,645</u>	<u>33,177</u>		<u>1,447,822</u>
Less accumulated depreciation for:				
Buildings	67,049	10,593		77,642
Substations, lines, and related equipment	808,728	2,126		810,854
Furniture and maintenance equipment	7,815			7,815
Vehicles	<u>306,577</u>	<u>12,431</u>		<u>319,008</u>
Total accumulated depreciation	<u>1,190,169</u>	<u>\$ 25,150</u>	<u>\$</u>	<u>1,215,319</u>
Total capital assets being depreciated, net	<u>224,476</u>			<u>232,503</u>
Electric fund capital assets, net	<u>\$ 224,476</u>			<u>\$ 232,503</u>
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$	\$	\$	\$
Construction in progress	_____	_____	_____	_____
Total capital assets not being depreciated	_____	_____	_____	_____
Capital assets being depreciated:				
Plant and distribution systems	4,714,281	8,347		4,722,628
Furniture and maintenance equipment	159,830			159,830
Vehicles	<u>42,090</u>			<u>42,090</u>
Total capital assets being depreciated	<u>\$4,916,201</u>	<u>\$ 8,347</u>		<u>\$4,924,548</u>

II. Detail Notes on All Funds - (Continued):

A. Assets - (Continued):

4. Capital Assets - (Continued):

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Less accumulated depreciation for:				
Plant and distribution systems	\$3,996,774	\$ 115,806	\$	\$4,112,580
Furniture and maintenance equipment	113,205	8,038		121,243
Vehicles	<u>42,090</u>	<u> </u>	<u> </u>	<u>42,090</u>
Total accumulated depreciation	<u>4,152,069</u>	<u>\$ 123,844</u>	<u>\$</u>	<u>4,275,913</u>
Total capital assets being depreciated, net	<u>764,132</u>			<u>648,635</u>
Water and Sewer fund capital assets, net	<u>764,132</u>			<u>648,635</u>
Business-type activities capital assets, net	<u>\$ 988,608</u>			<u>\$ 881,138</u>

B. Liabilities:

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System:

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

1. Pension Plan Obligations - (Continued):

a. Local Governmental Employees' Retirement System - (Continued):

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Drexel employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Drexel's contractually required contribution rate for the year ended June 30, 2019, was 8.25% of compensation of law enforcement officers and 7.56% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Drexel were \$58,359 for the year ended June 30, 2019.

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

1. Pension Plan Obligations - (Continued):

a. Local Governmental Employees' Retirement System - (Continued):

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

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

At June 30, 2019, the Town reported a liability of \$292,510 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing updated procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was .01233%, which was a decrease of .00103% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$80,915. At June 30, 2019 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 45,127	\$ 1,514
Changes of assumptions	77,621	-
Net difference between projected and actual earnings on pension plan investments	40,153	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	981	13,939
Town contributions subsequent to the measurement date	<u>58,361</u>	<u>-</u>
Total	<u>\$222,243</u>	<u>\$ 15,453</u>

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

1. Pension Plan Obligations - (Continued):

a. Local Governmental Employees' Retirement System - (Continued):

\$58,361 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an decrease of the net pension asset in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	73,310
2020	46,967
2021	7,222
2022	20,931
2023	-
Thereafter	-
	<u>\$148,430</u>

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

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

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2011 through December 31, 2015.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies.

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

1. Pension Plan Obligations - (Continued):

a. Local Governmental Employees' Retirement System - (Continued):

Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u>100%</u>	

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

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

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

1. Pension Plan Obligations - (Continued):

a. Local Governmental Employees' Retirement System - (Continued):

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

	1% Decrease <u>(6.00%)</u>	Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$702,634	\$292,510	(\$50,196)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers Special Separation Allowance:

1. *Plan Description:*

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

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

Inactive members receiving benefits	1
Terminated plan members entitled to but not receiving benefits	0
Active plan members	<u>5</u>
Total	<u>6</u>

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

1. Pension Plan Obligations - (Continued):

b. Law Enforcement Officers Special Separation Allowance - (Continued):

2. *Summary of Significant Accounting Policies:*

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

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

3. *Actuarial Assumptions:*

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

Inflation	2.5%
Salary increases	3.50 to 7.35%, including inflation and productivity factor
Discount rate	3.64%

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality Improvements based on Scale AA.

4. *Contributions:*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$14,701 as benefits came due for the reporting period.

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

On June 30, 2019, the Town reported a total pension liability of \$177,760. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$8,757.

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

1. Pension Plan Obligations - (Continued):

b. Law Enforcement Officers Special Separation Allowance - (Continued):

	<u>Deferred Outflows Of</u>	<u>Deferred Inflows Of</u>
Differences between expected and actual experiences	\$78,435	\$87,790
Changes of assumptions	6,286	8,182
County benefit payments and plan administrative expense made subsequent to the measurement date	_____	_____
Total	<u>\$84,721</u>	<u>\$95,972</u>

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	18,929
2021	18,929
2022	18,929
2023	18,469
2024	17,996
Thereafter	2,720

Sensitivity of the Town's pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.64%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.64%) or 1-percentage point higher (4.64%) than the current rate:

1% Decrease	Current Discount Rate	1% Increase
<u>2.64%</u>	<u>3.64%</u>	<u>4.64%</u>
\$191,853	\$177,760	\$164,866

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

	<u>2019</u>
Beginning Balance	\$ 94,488
Service Cost	7,290
Interest on the Total Pension Liability	2,754
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience in the Measurement of the Total Pension Liability	94,541
Changes of Assumptions or Other Inputs	(6,612)
Benefit Payments	(14,701)
Other Changes	-
Ending Balance of the Total Pension Liability	<u>\$177,760</u>

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

1. Pension Plan Obligations - (Continued):

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the five-year period ended December 31, 2014.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the plan.

The Town made contributions of \$11,207 for the reporting year. No amounts were forfeited.

d. Other Employment Benefits:

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

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

2. 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 \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Medical stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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 carries flood insurance through the National Flood Issuance Plan (NFIP). Because the Town is an area of the State that has been mapped and designated an "X" area (an area of 0.2% annual chance of flood) the Town is not required to purchase coverage through the NFIP. Through the IRFFNC the Town is eligible and has purchased commercial flood insurance for \$5,000,000 per occurrence.

II. Detail Notes on All Funds - (Continued):

2. Risk Management - (Continued):

B. Liabilities - (Continued):

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

3. Long-Term Obligations:

a. Installment Purchases:

In May 2017 the Town entered into an installment purchase obligation to finance a Public Works Grapple Truck. The financing contract requires principal payments beginning in May 2018 with an interest rate of 2.09%.

Annual debt service payments of these installment purchases as of June 30, 2019 including \$4,574 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	27,779	2,267
2021	28,515	1,531
2022	<u>29,271</u>	<u>776</u>
Total	<u>\$ 85,565</u>	<u>\$ 4,574</u>

II. Detail Notes on All Funds - (Continued):

B. Liabilities - (Continued):

3. Long-Term Obligations - (Continued):

b. NC Clean Water State Revolving Loan

In July 2014, the Town entered into an agreement with the State of North Carolina department of Environmental and Natural Resources to finance the Town's wastewater pump station and additional improvements. The financing contract requires principal payments beginning in fiscal year 2018 with no interest.

Annual debt service payment of this contract as of June 30, 2019 are as follows:

	<u>Year Ending June 30</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
2020		23,554	23,554
2021		23,554	23,554
2022		23,554	23,554
2023		23,554	23,554
2024		23,554	23,554
2025-2029		117,772	117,772
2030-2034		117,772	117,772
2035		<u>23,555</u>	<u>23,555</u>
	Total	<u>\$ 376,869</u>	<u>\$ 376,869</u>

At June 30, 2019 the Town had no bonds authorized but unissued and a legal debt margin of \$6,310,012.

c. Changes in Long-Term Liabilities:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>	<u>Current Portion Of Balance</u>
Governmental Activities:					
Installment purchase obligations	\$112,627	\$	\$27,062	\$ 85,565	\$27,779
Compensated absences	15,560	20,494	19,031	17,023	5,000
Net pension liability (LGRS)	82,940	44,115		127,055	-
Total Pension Liability (LEO)	<u>94,488</u>	<u>83,072</u>	<u> </u>	<u>177,560</u>	<u> </u>
Governmental activity long-term liabilities	<u>\$305,615</u>	<u>\$147,681</u>	<u>\$46,093</u>	<u>\$407,203</u>	<u>\$32,779</u>
Business-type activities:					
NC DENR revolving loan	\$400,423	\$	\$23,555	\$376,869	\$23,554
Net pension liability (LGRS)	121,163	44,292		165,455	-
Compensated absences	<u>34,958</u>	<u>28,596</u>	<u>25,507</u>	<u>38,047</u>	<u>6,000</u>
Business-type activity long-term liabilities	<u>\$556,544</u>	<u>\$ 72,888</u>	<u>\$49,062</u>	<u>\$580,371</u>	<u>\$29,554</u>

Compensated absences typically have been liquidated in the general fund.

II. Detail Notes on All Funds - (Continued):

C. Revenues, Expenditures, and Expenses:

On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2019, the Town of Drexel has recognized no payments for pension contributions made by the state as a revenue and an expenditure of \$0 for the 25 volunteer firemen who perform firefighting duties for the town's fire department. The volunteers elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Also, the Town has recognized as a revenue and an expenditure on - behalf of payments for fringe benefits and salaries of \$0 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2019. Under State law the local board of trustees for the Fund receives an amount each year which the board may use at its own discretion for eligible firemen or their dependents.

D. Fund Balance:

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

<i>Total fund balance - General Fund</i>	\$1,732,194
Less:	
Stabilization by State Statute	112,400
Streets - Powell Bill	220,860
Appropriated Fund Balance in 2019 budget	129,995
Working Capital/Fund Balance Policy	
Remaining Fund Balance	\$1,268,939

III. Segment Information for Enterprise Funds:

The accompanying financial statements include two enterprise funds which provide electric, and water and sewer services. Segment information for the fiscal year ended June 30, 2019, is as follows:

	<u>Electric Fund</u>	<u>Water Sewer Fund</u>	<u>Total Funds</u>
Operating Revenues	\$2,349,421	\$ 682,747	\$3,032,168
Depreciation Expense	25,150	123,843	148,993
Operating Income (Loss)	197,539	(147,860)	49,679
Net Income (Loss)	202,539	606	203,145
Plant, Property and Equipment:			
Additions	33,177	8,347	41,524
Net Working Capital CA-CL	2,972,113	600,885	3,572,998
 Total Assets	 \$3,426,320	 \$1,303,375	 \$4,729,695
 Bonds and Other Long-Term Liabilities:			
Payable from Operating Revenues		390,636	390,636
 Total Equity	 \$3,131,246	 \$860,404	 \$3,991,650

IV. Jointly Governed Organization:

The Town, in conjunction with twenty other local governments, is a member of the North Carolina Town Electric Agency (Electric Agency). The Electric Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency's governing board. The twenty-one members, which receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The Town's purchase of power for the fiscal year ended June 30, 2019 were \$1,494,315.

V. Summary Disclosure of Significant Contingencies:

Federal and State Assisted Programs:

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

VI. Significant Effects of Subsequent Events:

The Town has evaluated subsequent events through August 2, 2019, the date which the financial statements were available to be issued.

**Town of Drexel, North Carolina
Proportionate Share Of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years***

Local Government Employee's Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Drexel's proportion of the net pension liability (asset) (%)	0.01233%	0.01336%	0.01294%	0.01404%	0.01394%	0.01220%
Drexel's proportion of net pension liability (asset) (\$)	\$292,510	\$204,104	\$274,630	\$ 63,011	(\$ 82,211)	\$ 147,057
Drexel's covered-employee payroll	726,694	750,701	801,562	729,377	749,484	736,701
Drexel's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.25%	27.19%	34.26%	8.63%	-10.97%	19.96%
Plan fiduciary net position as a percentage of the total pension liability **	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

**Town of Drexel, North Carolina
Contributions
Required Supplementary Information
Last Six Fiscal Years**

Local Government Employee's Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 58,361	\$ 59,449	\$ 60,252	\$ 51,169	\$ 54,416	\$ 52,852
Contributions in relation to the contractually required contribution	<u>58,361</u>	<u>59,449</u>	<u>60,252</u>	<u>51,169</u>	<u>54,416</u>	<u>52,852</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Drexel's covered employee payroll	\$726,694	\$750,701	\$801,562	\$ 729,377	\$749,784	\$736,701
Contributions as a percentage of covered-employee payroll	8.03%	7.92%	7.52%	7.02%	7.26%	7.17%

Town of Drexel
Schedule of Changes In Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

Beginning balance	\$ 94,488
Service Cost	7,290
Interest on the total pension liability	2,754
Changes of benefit terms	-
Difference between expected and actual experience in the measurement of the total pension liability	94,541
Changes of assumptions or other inputs	(6,612)
Benefit payments	(14,701)
Other changes	<u>\$ -</u>
Ending balance of the total pension liability	<u><u>\$177,760</u></u>

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

Town of Drexel, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$177,760	\$ 94,488	\$208,082
Covered payroll	237,991	242,839	270,735
Total pension liability as a percentage of covered payroll	74.69%	38.91%	76.85%

Notes to the schedules:

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

**TOWN OF DREXEL, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018)**

	2019		Positive (Negative) Variances	2018 Actual
	Budget	Actual		
REVENUES:				
Ad valorem taxes:				
Taxes	\$ 364,950	\$ 362,001	\$ (2,949)	\$ 345,281
Penalties and interest	1,200	1,516	316	1,255
Total	366,150	363,517	(2,633)	346,536
Unrestricted intergovernmental:				
Local option sales taxes	470,000	477,205	7,205	441,424
Utility franchise tax	120,000	117,196	(2,804)	118,510
Sales tax refund	17,000	19,900	2,900	9,970
Alcohol Beverage Tax	5,000	7,954	2,954	3,195
Total	612,000	622,255	10,255	573,099
Restricted intergovernmental:				
Powell Bill allocation	56,500	55,240	(1,260)	56,345
Fire department grant	25,000	25,315	315	22,866
Electricities Grant	-	-	-	5,000
Rural Economic Development Grant	41,500	41,500	-	-
Total	123,000	122,055	(945)	84,211
Permits and fees:				
Zoning fees	250	875	625	450
Solid waste disposal fee	68,250	68,250	-	68,446
Total	68,500	69,125	625	68,896
Sales and Services:				
Officer fees	150	624	474	236
Investment earnings	28,000	28,074	74	3,921
Miscellaneous				
Rental	10,800	10,800	-	12,640
Sale of fixed assets	500	-	(500)	-
Sale of materials	200	-	(200)	75
Lawsuit proceeds	-	-	-	125,000
Contribution - Drexel Foundation	-	-	-	-
Drexel Foundation - parking	5,500	4,030	(1,470)	3,695
RO Huffman activities	35,000	25,123	(9,877)	38,358
Other	2,500	844	(1,656)	2,523
Total	54,500	40,797	(13,703)	182,291
Total revenues	1,252,300	1,246,447	(5,853)	1,259,190

	2019		Positive (Negative) Variances	2018
	Budget	Actual		Actual
EXPENDITURES:				
General government:				
Salaries and employee benefits	17,992	17,119	873	\$ 17,638
Other operating expenditures	3,950	3,227	723	2,859
Total	21,942	20,346	1,596	20,497
Administration:				
Elections	500	-	500	1,130
Reimbursement - proprietary funds	50,000	50,000	-	50,000
Economic Development	30,675	-	30,675	-
Total	81,175	50,000	31,175	51,130
Legal:				
Operating expenses	2,000	2,253	(253)	1,895
Contracted services	10,000	6,388	3,612	6,877
Total	12,000	8,641	3,359	8,772
Public buildings:				
Other operating expenditures	34,790	31,032	3,758	34,180
Capital outlay	-	-	-	-
Total	34,790	31,032	3,758	34,180
Total general government	149,907	110,019	39,888	114,579
Public safety:				
Police:				
Salaries and employee benefits	348,602	337,904	10,698	343,419
Other operating expenditures	37,450	31,060	6,390	41,853
Capital outlay	38,000	35,529	2,471	6,282
Contract Services	5,000	4,321	679	5,702
Total	429,052	408,814	20,238	397,256
Fire:				
Salaries and employee benefits	33,497	22,592	10,905	31,464
Other operating expenditures	86,200	81,938	4,262	64,928
Capital outlay	2,500	-	2,500	4,185
Total	122,197	104,530	17,667	100,577
Total public safety	551,249	513,344	37,905	497,833
Transportation				
Streets and highways:				
Salaries and employee benefits	106,154	97,304	8,850	115,754
Maintenance and repairs sidewalk and streets	145,000	139,793	5,207	1,407
Other operating expenditures	92,262	79,161	13,101	62,037
Capital outlay - equipment	2,500	-	2,500	-
Total transportation	345,916	316,258	29,658	179,198

	2019		Positive (Negative) Variances	2018
	Budget	Actual		Actual
EXPENDITURES (Continued):				
Environmental protection:				
Sanitation:				
Outside services	74,800	74,222	578	\$ 72,728
Recycle collection charges	5,000	4,682	318	4,660
Tipping fees	100	-	100	-
Total environmental protection	79,900	78,904	996	77,388
Culture and recreation:				
Parks and recreation:				
Salaries and employee benefits	43,060	36,098	6,962	43,444
Fairground operating expense	12,500	5,967	6,533	
Other operating expenditures	144,300	109,829	34,471	99,041
Capital outlay	-	-	-	-
Total culture and recreation	199,860	151,894	47,966	142,485
Debt service:				
Principal retirement	27,062	27,062	-	39,399
Interest	2,985	2,985	-	3,771
Total debt service	30,047	30,047	-	43,170
Special appropriations:				
Contingency				
State sales tax	11,000	8,689	2,311	14,038
County sales tax	5,000	3,669	1,331	5,863
Total special appropriations	16,000	12,358	3,642	19,901
Total expenditures	1,372,879	1,212,824	160,055	1,074,554
Revenues over (under) expenditures	(120,579)	33,623	154,202	184,636
Other financing sources (uses):				
Transfers from other funds:				
Pension Trust Fund				
Capital Reserve Fund				
Transfers to other funds:				
Enterprise Fund				
Proceeds from capital lease	-	-	-	-
Total other financing sources (uses)	\$ -	-	\$ -	-
Fund balance appropriated	\$ 120,579		\$ (120,579)	
Net change in fund balance	-	33,623	33,623	184,636
Fund Balances:				
Beginning of year, July 1		1,698,571		1,513,935
End of year, June 30		\$ 1,732,194		\$ 1,698,571

**TOWN OF DREXEL, NORTH CAROLINA
ELECTRIC FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018)**

	<u>2019</u>		Variance Positive (Negative)	2018 Actual
	Budget	Actual		
Revenues:				
Operating revenues:				
Charges for services	\$ 2,339,960	\$ 2,305,872	\$ (34,088)	\$2,320,404
Other operating revenues	50,800	43,549	(7,251)	46,851
Total operating revenues	<u>2,390,760</u>	<u>2,349,421</u>	<u>(41,339)</u>	<u>2,367,255</u>
Nonoperating revenues:				
Interest	6,500	-	(6,500)	1,331
Electricities grant	4,000	5,000	1,000	
CDBG Demolition / Cleanup Grant	500,000	-	(500,000)	-
Total non operating revenues	<u>510,500</u>	<u>5,000</u>	<u>(505,500)</u>	<u>1,331</u>
Total revenues	<u>2,901,260</u>	<u>2,354,421</u>	<u>(546,839)</u>	<u>2,368,586</u>
Expenditures:				
Administration:				
Salaries and employee benefits	268,837	264,191	4,646	257,897
Maintenance and repairs	500	168	332	-
Other operating expenditures	101,260	94,582	6,678	98,843
Community relations	18,600	11,562	7,038	9,284
Reserve for economic development	647,692	8,016	639,676	-
Total	<u>1,036,889</u>	<u>378,519</u>	<u>658,370</u>	<u>366,024</u>
Electrical operations:				
Salaries and employee benefits	215,721	169,486	46,235	192,016
Maintenance and repairs	23,000	12,112	10,888	7,236
Other operating expenditures	118,650	66,572	52,078	114,179
Capital outlay	-	33,177	(33,177)	71,787
Total	<u>357,371</u>	<u>281,347</u>	<u>76,024</u>	<u>385,218</u>
Electrical power purchases	<u>1,507,000</u>	<u>1,494,315</u>	<u>12,685</u>	<u>1,638,336</u>
Budgetary appropriations:				
Contingency				
Total budgetary appropriations				
Total expenditures	<u>2,901,260</u>	<u>2,154,181</u>	<u>747,079</u>	<u>2,389,578</u>

	2019		Variance Positive (Negative)	2018
	Budget	Actual		Actual
Revenues over (under) expenditures	-	-	-	\$ (20,992)
Other Financing Sources (Uses):				
Transfers to other funds:				
General Fund (payment in lieu of taxes)				
Appropriated retained earnings	-	-	-	-
Rate Stabilization				
Total other financing (uses)	-	-	-	
Revenues over (under) expenditures and other financing (uses)	-	200,240	200,240	(20,992)

Reconciliation from budgetary basis (modified accrual) to full accrual:

Reconciling items:			
Increase (decrease) in inventory	(1,877)		3,753
Capital outlay	33,177		71,821
Depreciation	(25,150)		(20,750)
Pension expense	-		-
Increase (Decrease) in deferred outflows of resources - pension	17,103		(58,479)
(Increase) Decrease in net pension liability	(22,192)		28,438
(Increase) Decrease in deferred inflows of resources - pension	(640)		1,485
(Increase) decrease in accrued vacation pay	1,878		1,374
Total	2,299		27,642
Net Income (Loss)	202,539		\$ 6,650

**TOWN OF DREXEL, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018)**

	2019		Variance Positive (Negative)	2018 Actual
	Budget	Actual		
Revenues:				
Water and sewer charges	700,000	664,415	(35,585)	645,037
Other operating revenues	15,100	18,332	3,232	14,680
Total operating revenues	<u>715,100</u>	<u>682,747</u>	<u>(32,353)</u>	<u>659,717</u>
Nonoperating revenues:				
Insurance refund				
Grants		148,466	148,466	
Interest earnings	200	-	(200)	-
Total revenues	<u>715,300</u>	<u>831,213</u>	<u>115,913</u>	<u>659,717</u>
Expenditures:				
Water and sewer administration:				
Other operating expenditures	24,000	24,000	-	24,000
Total	<u>24,000</u>	<u>24,000</u>	<u>-</u>	<u>24,000</u>
Water treatment and distribution:				
Water treatment:				
Salaries and employee benefits				
Water purchased	102,400	102,395	5	80,876
Other operating expenditures	29,310	27,258	2,052	51,018
Total	<u>131,710</u>	<u>129,653</u>	<u>2,057</u>	<u>131,894</u>
Waste collection and treatment:				
Sewage collection system:				
Waste treatment	206,500	206,360	140	161,095
Other operating expenditures	126,765	125,207	1,558	79,958
Capital outlay	-	-	-	-
Total	<u>333,265</u>	<u>331,567</u>	<u>1,698</u>	<u>241,053</u>
Water and sewer maintenance:				
Salaries and employee benefits	147,755	139,716	8,039	154,674
Other operating expenditures	66,398	66,368	30	105,899
Capital Outlay	10,000	8,347	1,653	-
Total	<u>224,153</u>	<u>214,431</u>	<u>9,722</u>	<u>260,573</u>
Debt Service:				
Interest and other charges			-	
Principal retirement	23,555	23,555	-	23,554
Total debt service	<u>23,555</u>	<u>23,555</u>	<u>-</u>	<u>23,554</u>

	2019		Variance Positive (Negative)	2018
	Budget	Actual		Actual
Expenditures (Continued):				
Capital outlay:				
Water extensions	\$	\$	\$	\$
Sewer extension				
Total capital outlay				
Total expenditures	736,683	723,206	13,477	681,074
Revenues over(under) expenditures	(21,383)	108,007	129,390	
Other financing sources (uses):				
Transfer to other fund:				
General Fund (payment in lieu of taxes)				
Proceeds from long term debt				
Appropriated Retained Earnings	21,383	-	(21,383)	-
Transfer From General Fund				
Contingency				
Total other financing sources (uses)	21,383	-	(21,383)	-
Revenues and other sources over expenditures and other uses	-	108,007	108,007	(21,357)
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Principal retirement		23,554		23,554
Capital outlay		8,347		-
Decrease (increase) in accrued vacation pay		(1,138)		1,033
Depreciation		(123,843)		(126,590)
Increase (Decrease) in deferred outflows of resources - pension		17,123		(22,827)
(Increase) Decrease in net pension liability		(22,100)		11,057
(Increase) Decrease in deferred inflows of resources - pension		(639)		578
Increase (decrease) in inventory		(8,705)		6,456
Total		(107,401)		(106,739)
Net Income		606		(128,096)

**TOWN OF DREXEL, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2019**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018 - 2019		363,155	358,602	4,553
2017 - 2018	4,232	-	2,884	1,348
2016 - 2017	807	-	539	268
2015 - 2016	272		5	267
2014 - 2015	231			231
2013 - 2014	231			231
2012 - 2013	229			229
2011 - 2012	5			5
2010 - 2011	6			6
2009 - 2010	16			16
2008 - 2009	29		29	-
	<u>6,058</u>	<u>\$ 363,155</u>	<u>\$ 362,059</u>	<u>7,154</u>

Plus: uncollected 2015 - 2016 ad valorem
taxes receivable annually registered
vehicles

Less: allowance for uncollectible accounts:
General Fund

Ad valorem taxes receivable - net

\$ 7,154

Reconciliation with revenues:

Ad valorem taxes - General Fund

\$ 359,128

Reconciling items:

Interest collected

(1,516)

Discounts allowed

4,418

Taxes written off

-

Total collections and credits

\$ 362,030

**TOWN OF DREXEL, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN - WIDE LEVY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property tax at current rates	\$ 83,401,842	.38	\$ 316,927	\$ 316,927	
Registered motor vehicles taxed at prior year's rate	12,165,263	.38	46,228		46,228
Penalties					
Total	<u>95,567,105</u>		<u>363,155</u>	<u>316,927</u>	<u>46,228</u>
Discoveries:					
Current year taxes					
Prior year taxes					
Penalties					
Abatements					
Total property valuation	<u>\$ 95,567,105</u>				
Net levy			363,155	316,927	46,228
Uncollected taxes at June 30, 2019			<u>4,232</u>	<u>4,232</u>	<u>-</u>
Current year's taxes collected			<u>\$ 358,923</u>	<u>\$ 312,695</u>	<u>\$ 46,228</u>
Current levy collection percentage			<u>98.83%</u>	<u>98.66%</u>	<u>100.00%</u>

COMPLIANCE SECTION

Boggs, Crump & Brown, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

205 East Union Street
P.O. Box 2070
Morganton, NC 28680
Telephone (828) 437-1361
Fax (828) 437-6114

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Drexel, North Carolina, as of and for the year ended June 30, 2019, which collectively comprises the Town of Drexel's basic financial statements, and have issued our report thereon dated August 2, 2019. 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.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 or 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.

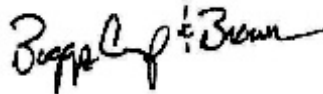
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting. Item 2019-01. 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.

Compliance and Other Matters

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

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion.

This report is intended solely for the information and use of management, others within the entity, and members of the Town Council and is not intended to be and should not be used by anyone other than these specified parties.



Boggs, Crump & Brown, P.A.
Certified Public Accountants

August 2, 2019
Morganton, North Carolina

**TOWN OF DREXEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- * Material weakness(es) identified? __ yes X no
- * Significant deficiency(s) identified
that are not considered to be
material weaknesses X yes __ none reported
- Noncompliance material to financial
statements noted __ yes X no

Section II. Financial Statement Findings:

Finding 2019-1 Financial Statement Preparation - Significant Deficiency

- Criteria: Effective internal control procedures should include a requirement that drafted financial statements are reviewed to insure accordance with GAAP.
- Condition: The financial statements prepared by the Town do not include all GAAP disclosures.
- Effect: Material disclosures and classification errors may occur.
- Cause: The Town's Finance Officer prepares financial statements based on cash receipts and disbursements activity.
- Recommendation: We recommend the Board review its current procedures and make adjustments that are feasible.

**TOWN OF DREXEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Finding 2019-1 Financial Statement Preparation

Contact Person: Sherri Bradshaw, Finance Officer

Corrective Action: The Board will continue to review all financial activities.

Proposed Completion Date: The above plan will be implemented as soon as funds are available to do so.

**TOWN OF DREXEL
GASB 34 CALCULATION OF MAJOR FUNDS
FISCAL YEAR ENDED JUNE 30, 2019**

<u>Type of Fund</u>	<u>Assets</u>	<u>Computes "X" if Meets</u>		<u>Liabilities</u>	<u>Computes "X" if Meets</u>		<u>Revenue</u>	<u>Computes "X" if Meets</u>		<u>Expenditures/ Expenses</u>	<u>Computes "X" if Meets</u>		<u>Computes "MAJOR" if Fund is Major If a "Category" Has an "X" in Both Columns, Then Fund is a Major Fund</u>
		<u>10% Rule</u>	<u>5% Rule</u>		<u>10% Rule</u>	<u>5% Rule</u>		<u>10% Rule</u>	<u>5% Rule</u>		<u>10% Rule</u>	<u>5% Rule</u>	
General Fund	\$ 3,263,747	N/A	N/A	\$ 421,277	N/A	N/A	\$ 1,246,447	N/A	N/A	\$ 1,316,172	N/A	N/A	YES - ALWAYS MAJOR
Total Government Funds	<u>\$ 3,263,747</u>			<u>\$ 421,277</u>			<u>\$ 1,246,447</u>			<u>\$ 1,316,172</u>			
10% of Total Governmental Funds	<u>\$ 326,375</u>			<u>\$ 42,128</u>			<u>\$ 124,645</u>			<u>\$ 131,617</u>			
Enterprise Funds:													
Electric Fund	\$ 3,426,320	X	X	\$ 221,704	X	X	\$ 2,349,421	X	X	\$ 2,151,882	X	X	MAJOR
Water and Sewer Fund	<u>1,303,375</u>	X	X	<u>53,854</u>	X	X	<u>682,747</u>	X	X	<u>830,607</u>	X	X	MAJOR
Total Enterprise Funds	<u>\$ 4,729,695</u>			<u>\$ 275,558</u>			<u>\$ 3,032,168</u>			<u>\$ 2,982,489</u>			
10% of Total Enterprise Funds	<u>\$ 472,970</u>			<u>\$ 27,556</u>			<u>\$ 303,217</u>			<u>\$ 298,249</u>			
Total Governmental and Enterprise Funds	<u>\$ 7,993,442</u>			<u>\$ 696,835</u>			<u>\$ 4,278,615</u>			<u>\$ 4,298,661</u>			
5% of Total Governmental and Enterprise Funds	<u>\$ 399,672</u>			<u>\$ 34,842</u>			<u>\$ 213,931</u>			<u>\$ 214,933</u>			