

Town of Forest City, North Carolina

Financial Statements

June 30, 2019

**Forest
City N.C.**

Forest City Town Council
(As of June 30, 2019)

Steve Holland, Mayor

Commissioners:

David Eaker

Chris Lee

Dee Dee Bright

Justin Conner

Shawn Moore

Town Manager:

John Condrey

**TOWN OF FOREST CITY, NORTH CAROLINA
YEAR ENDED JUNE 30, 2019**

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**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Mayor
and Members of the Town Council
Town of Forest City
Forest City, 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 Forest City, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-11, the Retiree Health Benefit Fund's Schedules of the Proportionate Share of the Net OPEB Liability and Contributions on pages 56-57, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 58-59, the Firefighters' and Rescue Squad Workers' Pension's Schedule of the Proportionate Share of Net Pension Liability on page 60, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Forest City. The 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 individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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, based on our audit, the individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2020 on our consideration of the Town of Forest City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Forest City's internal control over financial reporting and compliance.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
January 31, 2020

TOWN OF FOREST CITY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2019

As management of the Town of Forest City, we offer readers of the Town of Forest City's financial statements this narrative overview and analysis of the financial activities of the Town of Forest City 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.

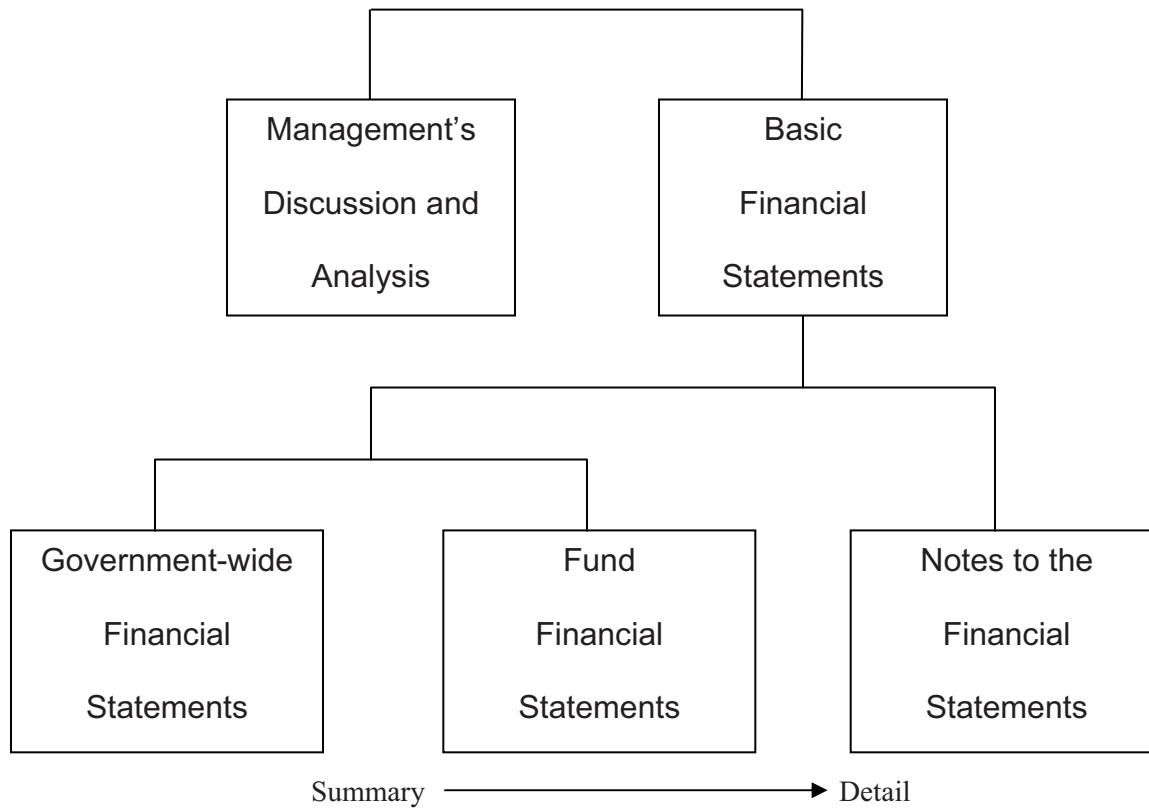
Financial Highlights

- The assets and deferred outflows of resources of the Town of Forest City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$62,752,668 (*net position*).
- The government's total net position increased by \$932,449, consisting of a decrease in the governmental activities net position of \$758,633 and an increase in the business-type activities net position of \$1,691,082.
- As of the close of the current fiscal year, the Town of Forest City's governmental fund reported ending fund balance of \$5,469,635 with a net decrease of \$3,112,778 in fund balance. Approximately 35% of this total amount, or \$1,901,898, is restricted.
- At the end of the current fiscal year, fund balance available for appropriation in the General Fund was \$4,257,971, or 26% of net General Fund expenditures for the fiscal year, and total fund balance for the General Fund was \$5,469,635 or 33% of net General Fund expenditures.
- The Town of Forest City's long-term installment and revolving loan obligations decreased by \$333,098 or 23% during the current fiscal year due to payment of principal.

Overview of the Financial Statements

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

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 9) 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 statement; 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 North Carolina 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 Forest City. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and the Board is required to distribute its profits to the Town.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Forest City, 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 Forest City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

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

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

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Forest City's progress in funding its obligation to provide pension and OPEB benefits to its employees. Required supplementary information can be found beginning on page 56 of this report.

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

Government-Wide Financial Analysis

**Town of Forest City's Net Position
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 6,505,436	\$ 9,841,695	\$ 13,999,739	\$ 13,538,174	\$ 20,505,175	\$ 23,379,869
Capital assets	21,213,237	19,176,724	40,965,110	40,408,892	62,178,347	59,585,616
Deferred outflows of resources	2,006,898	1,581,681	818,788	637,071	2,825,686	2,218,752
Total assets and deferred outflows of resources	29,725,571	30,600,100	55,783,637	54,584,137	85,509,208	85,184,237
Current liabilities	1,200,757	1,693,544	1,021,701	1,629,014	2,222,458	3,322,558
Long-term liabilities	10,661,100	11,116,435	4,365,617	4,585,797	15,026,717	15,702,232
Deferred inflows of resources	3,869,759	3,037,533	1,637,606	1,301,695	5,507,365	4,339,228
Total liabilities and deferred inflows of resources	15,731,616	15,847,512	7,024,924	7,516,506	22,756,540	23,364,018
Net position:						
Net investment in capital assets	20,591,967	18,350,313	40,498,949	39,814,774	61,090,916	58,165,087
Restricted	1,901,898	1,318,377	-	-	1,901,898	1,318,377
Unrestricted (deficit)	(8,499,910)	(4,916,102)	8,259,764	7,252,857	(240,146)	2,336,755
Total net position	\$ 13,993,955	\$ 14,752,588	\$ 48,758,713	\$ 47,067,631	\$ 62,752,668	\$ 61,820,219

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 Forest City exceeded liabilities and deferred inflows by \$62,752,668 as of June 30, 2019. The Town's net position increased by \$932,449 for the fiscal year ended June 30, 2019. However, the largest portion of net position (97%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Forest City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Forest City's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Forest City's net position, \$1,901,898, represents resources that are subject to external restrictions on how they may be used. This leaves an unrestricted deficit of (\$240,146).

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.21%. The statewide average in fiscal year 2019 was 98.78%.
- Code enforcement and building permit revenues were higher than anticipated, due mainly to increased construction and renovation activities.
- Continued cost saving efforts utilized by Town department heads, which resulted in actual expenditures being much less than the budget in many areas.

Town of Forest City's Changes in Net Position

Figure 3

	Governmental		Business-Type		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 1,901,982	\$ 1,697,454	\$ 17,293,499	\$ 17,029,867	\$ 19,195,481	\$ 18,727,321
Operating grants and contributions	29,330	414,901	-	-	29,330	414,901
Capital grants and contributions	1,032,987	101,200	97,909	101,174	1,130,896	202,374
General revenues:						
Property taxes	4,540,604	3,837,416	-	-	4,540,604	3,837,416
Other taxes	1,404,132	1,306,399	-	-	1,404,132	1,306,399
Grants and other contributions, not restricted to specific programs	1,603,309	1,581,584	-	-	1,603,309	1,581,584
Other	306,721	64,098	128,637	76,688	435,358	140,786
Total revenues	10,819,065	9,003,052	17,520,045	17,207,729	28,339,110	26,210,781
Expenses:						
General government	4,826,017	3,896,928	-	-	4,826,017	3,896,928
Public safety	4,422,309	4,510,679	-	-	4,422,309	4,510,679
Transportation	1,769,338	1,446,129	-	-	1,769,338	1,446,129
Environmental protection	1,258,675	1,220,388	-	-	1,258,675	1,220,388
Cultural and recreation	1,930,422	1,649,558	-	-	1,930,422	1,649,558
Economic development	-	102,297	-	-	-	102,297
Interest on long-term debt	17,422	22,269	-	-	17,422	22,269
Water and sewer	-	-	4,972,030	5,039,698	4,972,030	5,039,698
Electric	-	-	8,210,448	9,119,864	8,210,448	9,119,864
Total expenses	14,224,183	12,848,248	13,182,478	14,159,562	27,406,661	27,007,810
Increase in net position before transfers	(3,405,118)	(3,845,196)	4,337,567	3,048,167	932,449	(797,029)
Transfers	2,646,485	8,745,530	(2,646,485)	(8,745,530)	-	-
Increase in net position	(758,633)	4,900,334	1,691,082	(5,697,363)	932,449	(797,029)
Net position, beginning of year, as restated	14,752,588	9,852,254	47,067,631	52,764,994	61,820,219	62,617,248
Net position, end of year	\$ 13,993,955	\$ 14,752,588	\$ 48,758,713	\$ 47,067,631	\$ 62,752,668	\$ 61,820,219

Governmental activities. Governmental activities decreased the Town's net position by \$3,405,118, before transfers from the enterprise funds. This decrease is largely due to pension and OPEB related expenses as well as budgeted reliance on enterprise fund transfers.

Business-type activities. Business-type activities increased the Town of Forest City's net position by \$4,337,567, before transfers of \$2,646,845 to the general fund. This increase is due to cost saving efforts which resulted in actual expenditures being less than budgeted.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Forest City'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 Forest City's financing requirements.

The General Fund is the chief operating fund of the Town of Forest City. At the end of the current fiscal year, the Town of Forest City's fund balance available in the General Fund was \$4,257,971, while total fund balance was \$5,469,635. The Town currently has an available fund balance of 26% of net General Fund expenditures, and total fund balance represents 33% of the same amount.

General Fund Budgetary Highlights. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Budgetary amendments during the year were for adjustments to the budget estimates of completing large projects from prior year, such as a new town park and rail trail; amendments to recognize the receipt of grants from RHI Legacy Foundation for various town projects; and for the unexpected repair or replacement of equipment necessary to provide essential services.

Actual revenues are generally higher than the budget due to the use of conservative revenue estimation. Expenditures tend to be lower than the budget. For the fiscal year ended June 30, 2019, revenues were \$33,669 less than the budgeted amounts, due largely to expected capital grant contributions not received in the current year. Expenditures were \$1,993,563 less than the budgeted amounts, and the town was able to comply with its budgetary requirements.

Proprietary Funds. The Town of Forest City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$2,512,832 and the total change in net position for the Water and Sewer Fund was \$338,451. Unrestricted net position of the Electric Fund was \$5,746,932 and the total change in net position for the Electric Fund was \$1,352,631.

Capital Asset and Debt Administration

Capital assets. The Town of Forest City's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$62,178,347 (net of accumulated depreciation). These assets include land, buildings, water and sewer lines, electric lines machinery and equipment, park facilities, and vehicles.

The major capital asset transactions during the year were related construction of the Pavilion on Park Square, for \$4.5 million, as well as improvements for water and sewer and electric systems.

**Town of Forest City's Capital Assets
(net of depreciation)**

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 7,654,217	\$ 7,654,217	\$ 293,597	\$ 293,597	\$ 7,947,814	\$ 7,947,814
Construction in progress	536,023	2,850,866	264,654	150,297	800,677	3,001,163
Buildings	15,596,660	11,096,062	-	-	15,596,660	11,096,062
Infrastructure	1,233,581	1,114,000	72,930,693	71,805,030	74,164,274	72,919,030
Equipment	4,745,605	4,492,914	6,900,231	6,010,578	11,645,836	10,503,492
Vehicles	4,028,385	3,907,132	-	-	4,028,385	3,907,132
	<u>33,794,471</u>	<u>31,115,191</u>	<u>80,389,175</u>	<u>78,259,502</u>	<u>114,183,646</u>	<u>109,374,693</u>
Accumulated depreciation	<u>(12,581,234)</u>	<u>(11,938,467)</u>	<u>(39,424,065)</u>	<u>(37,849,487)</u>	<u>(52,005,299)</u>	<u>(49,787,954)</u>
Capital assets, net	<u>\$ 21,213,237</u>	<u>\$ 19,176,724</u>	<u>\$ 40,965,110</u>	<u>\$ 40,410,015</u>	<u>\$ 62,178,347</u>	<u>\$ 59,586,739</u>

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

Long-term Debt. As of June 30, 2019, the Town of Forest City had total installment debt outstanding of \$724,382 which is secured with the assets purchased with these funds, and a state revolving loan of \$363,049.

**Town of Forest City's Outstanding Debt
Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Direct placement installment loans	\$ 621,270	\$ 826,411	\$ 103,112	\$ 206,866	\$ 724,382	\$ 1,033,277
Direct placement revolving loan	-	-	363,049	387,252	363,049	387,252
	<u>\$ 621,270</u>	<u>\$ 826,411</u>	<u>\$ 466,161</u>	<u>\$ 594,118</u>	<u>\$ 1,087,431</u>	<u>\$ 1,420,529</u>

The Town of Forest City's total long-term debt decreased by \$333,098, or 23%, during the past fiscal year due to loan repayment.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Forest City is approximately \$127,000,000.

Additional information regarding the Town of Forest City's long-term debt can be found in Note 3 of this report.

Economic Factors and Next Year's Budgets and Rates

The Town of Forest City has been gaining economic momentum for several years now. All indications are that this trajectory will continue into the future. Vacant retail spaces along Main Street have been occupied and are bringing more visitors to downtown while a recently completed park with amphitheater and its

proximity to the Thermal Belt Rail Trail have potential to stimulate more economic growth in those areas. The rail trail project is funded by RHI Legacy Foundation and the amenities at trailheads are being funded by PARTF grant funds.

As always, the goal of our budget is to keep costs in perspective and give our citizens the services they need and desire. After the property revaluation, the tax rate was reduced from \$0.29/\$100 to \$0.28/\$100 for fiscal year 2019-2020. However, an increase is expected in property tax revenue mainly due to new construction projects.

The Enterprise Fund is stable, which helps the Town to provide sustainable rates to our citizens and businesses. This also allows the Town to plan for necessary future capital needs to maintain our existing utility infrastructure. This year's budget saw water, sewer, and electric rates remain the same as the previous four years. Rates for electricity may be adjusted during the year to pass on rate changes charged to the Town by our wholesale energy provider, Duke Energy.

Requests for Information

The financial report is designed to provide a general overview of the Town of Forest City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of the Director of Finance, Town of Forest City, 128 N. Powell Street, Forest City, NC 28043.

BASIC FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2019

	Primary Government			Forest City ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,311,690	\$ 10,719,832	\$ 15,031,522	\$ 277,200
Taxes receivable, net	79,812	-	79,812	-
Accrued interest receivable	10,200	-	10,200	-
Accounts receivable, net	133,646	2,473,440	2,607,086	-
Due from other governments	1,084,363	-	1,084,363	-
Interfund balances	23,077	(23,077)	-	-
Prepaid expenses	68,499	27,182	95,681	6,646
Inventories	17,708	-	17,708	173,372
Restricted cash and cash equivalents	776,441	625,411	1,401,852	-
Total current assets	<u>6,505,436</u>	<u>13,822,788</u>	<u>20,328,224</u>	<u>457,218</u>
Noncurrent assets:				
Note receivable	-	176,951	176,951	-
Capital assets:				
Land and construction in progress	8,190,240	558,251	8,748,491	-
Other capital assets, net	13,022,997	40,406,859	53,429,856	256,528
Total capital assets	<u>21,213,237</u>	<u>40,965,110</u>	<u>62,178,347</u>	<u>256,528</u>
Total assets	<u>27,718,673</u>	<u>54,964,849</u>	<u>82,683,522</u>	<u>713,746</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	1,379,895	547,763	1,927,658	21,207
OPEB deferrals	627,003	271,025	898,028	-
Total deferred outflows of resources	<u>2,006,898</u>	<u>818,788</u>	<u>2,825,686</u>	<u>21,207</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	823,933	481,412	1,305,345	227,753
Current portion of long-term liabilities	376,824	175,139	551,963	-
Payable from restricted assets:				
Customer Deposits	-	365,150	365,150	-
Total current liabilities	<u>1,200,757</u>	<u>1,021,701</u>	<u>2,222,458</u>	<u>227,753</u>
Long-term liabilities:				
Net pension liability - LGERS	1,701,494	719,955	2,421,449	23,961
Total pension liability - LEOSSA	930,199	-	930,199	-
Net OPEB liability	7,317,771	3,163,139	10,480,910	-
Due in more than one year	711,636	482,523	1,194,159	-
Total long-term liabilities	<u>10,661,100</u>	<u>4,365,617</u>	<u>15,026,717</u>	<u>23,961</u>
Total liabilities	<u>11,861,857</u>	<u>5,387,318</u>	<u>17,249,175</u>	<u>251,714</u>

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

Statement of Net Position
June 30, 2019

	Primary Government			Forest City ABC Board
	Governmental Activities	Business-type Activities	Total	
DEFERRED INFLOWS OF RESOURCES				
Prepaid taxes	6,227	-	6,227	-
Pension deferrals	136,053	26,387	162,440	124
OPEB deferrals	3,727,479	1,611,219	5,338,698	-
Total deferred inflows of resources	<u>3,869,759</u>	<u>1,637,606</u>	<u>5,507,365</u>	<u>124</u>
NET POSITION				
Net investment in capital assets	20,591,967	40,498,949	61,090,916	256,528
Restricted for:				
Stabilization by State statute	1,125,457	-	1,125,457	-
Streets	355,299	-	355,299	-
Rail trail improvements	421,142	-	421,142	-
Working capital	-	-	-	72,237
Unrestricted (deficit)	<u>(8,499,910)</u>	<u>8,259,764</u>	<u>(240,146)</u>	<u>154,350</u>
Total net position	<u>\$ 13,993,955</u>	<u>\$ 48,758,713</u>	<u>\$ 62,752,668</u>	<u>\$ 483,115</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Exhibit 2

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	Forest City ABC Board
Governmental Activities:								
General government	\$ 4,826,017	\$ 210,869	\$ -	\$ -	\$ (4,615,148)	\$ -	\$ (4,615,148)	\$ -
Public safety	4,422,309	-	25,174	-	(4,397,135)	-	(4,397,135)	-
Transportation	1,769,338	4,848	-	1,032,987	(731,503)	-	(731,503)	-
Environmental protection	1,258,675	1,343,710	4,156	-	89,191	-	89,191	-
Cultural and recreation	1,930,422	342,555	-	-	(1,587,867)	-	(1,587,867)	-
Interest on long-term debt	17,422	-	-	-	(17,422)	-	(17,422)	-
Total governmental activities	14,224,183	1,901,982	29,330	1,032,987	(11,259,884)	-	(11,259,884)	-
Business-type activities:								
Water and sewer fund	4,972,030	5,406,982	-	97,909	-	532,861	532,861	-
Electric fund	8,210,448	11,886,517	-	-	-	3,676,069	3,676,069	-
Total business-type activities	13,182,478	17,293,499	-	97,909	-	4,208,930	4,208,930	-
Component unit								
ABC Board	2,540,680	2,449,509	-	-	-	-	-	(91,171)
Total	\$ 27,406,661	\$ 19,195,481	\$ 29,330	\$ 1,130,896	(11,259,884)	4,208,930	(7,050,954)	(91,171)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					4,540,604	-	4,540,604	-
Other taxes					1,404,132	-	1,404,132	-
Grants and contributions not restricted to specific programs								
Unrestricted investment earnings					1,603,309	-	1,603,309	-
Gain on sale of fixed assets					82,753	128,637	211,390	610
Miscellaneous					16,228	-	16,228	-
					207,740	-	207,740	3,985
Total general revenues before transfers					7,854,766	128,637	7,983,403	4,595
Transfers					2,646,485	(2,646,485)	-	-
Total general revenues					10,501,251	(2,517,848)	7,983,403	4,595
Changes in net position					(758,633)	1,691,082	932,449	(86,576)
Net position, beginning of year, as originally reported					14,597,930	46,966,457	61,564,387	569,691
Restatement (Notes 8,9)					154,658	101,174	255,832	-
Net position, beginning of year, as restated					14,752,588	47,067,631	61,820,219	569,691
Net position, end of year					\$ 13,993,955	\$ 48,758,713	\$ 62,752,668	\$ 483,115

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

GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2019

	<u>Major Fund</u>	<u>Total Governmental</u>
	<u>General Fund</u>	<u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 4,311,690	\$ 4,311,690
Restricted cash and cash equivalents	776,441	776,441
Taxes receivable, net	79,812	79,812
Accounts receivable, net	133,646	133,646
Due from other governments	1,084,363	1,084,363
Due from the Everest Textile Fund	23,077	23,077
Prepaid expenses	68,499	68,499
Inventories	17,708	17,708
Total assets	<u>\$ 6,495,236</u>	<u>\$ 6,495,236</u>
LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 823,933</u>	<u>\$ 823,933</u>
DEFERRED INFLOWS OF RESOURCES	<u>201,668</u>	<u>201,668</u>
FUND BALANCES		
Non-spendable		
Prepaid expenses	68,499	68,499
Inventory	17,708	17,708
Restricted for:		
Stabilization by State statute	1,125,457	1,125,457
Streets	355,299	355,299
Rail trail improvements	421,142	421,142
Assigned - subsequent year expenditures	1,551,875	1,551,875
Unassigned	<u>1,929,655</u>	<u>1,929,655</u>
Total fund balances	<u>5,469,635</u>	<u>5,469,635</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 6,495,236</u>	<u>\$ 6,495,236</u>

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

GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2019

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

Fund balances of governmental funds	\$ 5,469,635
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	21,213,237
Deferred outflows of resources related to pensions are not reported in the funds.	1,379,895
Deferred outflows of resources related to OPEB are not reported in the funds.	627,003
Other long-term assets are not available to pay for current-period expenditures and, therefore, are inflows of resources in the funds.	10,200
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	195,441
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds:	
Notes payable	(621,270)
Net OPEB liability	(7,317,771)
Total pension liability - LEOSSA	(930,199)
Net pension liability - LGERS	(1,701,494)
Compensated absences	(467,190)
Deferred inflows of resources related to pensions are not reported in the funds.	(136,053)
Deferred inflows of resources related to OPEB are not reported in the funds.	<u>(3,727,479)</u>
Net position of governmental activities	<u>\$ 13,993,955</u>

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

GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2019

	Major Fund	
	General Fund	Total Governmental Funds
REVENUES		
Ad valorem taxes	\$ 4,678,451	\$ 4,678,451
Other taxes and licenses	1,404,132	1,404,132
Unrestricted intergovernmental	1,603,309	1,603,309
Restricted intergovernmental	272,317	272,317
Permits and fees	188,183	188,183
Sales and services	1,598,170	1,598,170
Investment earnings	82,753	82,753
Miscellaneous	997,740	997,740
Total revenues	10,825,055	10,825,055
EXPENDITURES		
Current:		
General government	5,392,905	5,392,905
Public safety	4,360,129	4,360,129
Transportation	1,708,742	1,708,742
Environmental protection	1,284,251	1,284,251
Cultural and recreation	3,654,203	3,654,203
Debt service:		
Principal	205,141	205,141
Interest	17,422	17,422
Total expenditures	16,622,793	16,622,793
Revenues under expenditures	(5,797,738)	(5,797,738)
OTHER FINANCING SOURCES		
Sale of capital assets	38,475	38,475
Transfer from other funds	2,646,485	2,646,485
Total other financing sources	2,684,960	2,684,960
Net change in fund balances	(3,112,778)	(3,112,778)
Fund balances, beginning of year, as originally reported	8,427,755	8,427,755
Restatement (Note 8)	154,658	154,658
Fund balance, beginning of year, restated	8,582,413	8,582,413
Fund balances, end of year	\$ 5,469,635	\$ 5,469,635

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

TOWN OF FOREST CITY, NORTH CAROLINA

Exhibit 4

Reconciliation of the Statement of Revenues, Expenditures, and Changes
In Fund Balances of Governmental Funds To The Statement of Activities
For the year ended June 30, 2019

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net changes in fund balances - total governmental funds	\$	(3,112,778)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays was more than depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized	\$ 2,826,505	
Depreciation expense for governmental assets	<u>(766,622)</u>	2,059,883
<p>In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.</p>		
		(22,247)
<p>Contributions to the LGERS pension plan in the current fiscal year are not included in the statement of activities.</p>		
		347,132
<p>Benefit payments paid and administrative expenses for the LEOSSA are not included on the statement of activities.</p>		
		14,418
<p>OPEB benefit payments and administrative costs made in the current fiscal year are not included on the statement of activities.</p>		
		278,923
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In addition, some revenues reported in the fund statements are not reported as revenues in the statement of activities.</p>		
Change in accrued interest receivable on taxes	(11,300)	
Change in unavailable tax and sanitation revenues	<u>(10,918)</u>	(22,218)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments on long-term debt		205,141
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These include amounts consolidated from the internal service fund.</p>		
Compensated absences	(11,235)	
Pension expense - LGERS	(450,908)	
Pension expense - LEO	(68,277)	
OPEB benefit	<u>23,533</u>	<u>(506,887)</u>
Total changes in net position of governmental activities	\$	<u><u>(758,633)</u></u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Exhibit 5

Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
For the year ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 4,394,477	\$ 4,687,543	\$ 4,678,451	\$ (9,092)
Other taxes	1,207,621	1,207,621	1,404,132	196,511
Unrestricted intergovernmental	1,511,050	1,511,050	1,603,309	92,259
Restricted intergovernmental	678,000	682,000	272,317	(409,683)
Permits and fees	159,000	159,000	188,183	29,183
Sales and services	1,511,300	1,631,300	1,598,170	(33,130)
Investment earnings	24,700	24,700	82,753	58,053
Miscellaneous	124,395	955,510	997,740	42,230
Total revenues	<u>9,610,543</u>	<u>10,858,724</u>	<u>10,825,055</u>	<u>(33,669)</u>
Expenditures:				
Current:				
General government	4,797,325	6,166,573	5,392,905	773,668
Public safety	4,577,333	4,630,110	4,360,129	269,981
Transportation	1,727,376	1,726,976	1,708,742	18,234
Environmental protection	1,277,317	1,280,317	1,284,251	(3,934)
Cultural and recreation	2,639,468	4,576,341	3,654,203	922,138
Debt service:				
Principal retirement	218,995	218,617	205,141	13,476
Interest and other charges	17,044	17,422	17,422	-
Total expenditures	<u>15,254,858</u>	<u>18,616,356</u>	<u>16,622,793</u>	<u>1,993,563</u>
Revenues under expenditures	<u>(5,644,315)</u>	<u>(7,757,632)</u>	<u>(5,797,738)</u>	<u>1,959,894</u>
Other financing sources:				
Appropriated fund balance	2,998,699	5,112,016	-	(5,112,016)
Sale of capital assets	-	-	38,475	38,475
Transfer from Electric Fund	2,387,240	2,387,240	2,387,240	-
Transfer from Water and Sewer Fund	258,376	258,376	259,245	869
Total other financing sources	<u>5,644,315</u>	<u>7,757,632</u>	<u>2,684,960</u>	<u>(5,072,672)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(3,112,778)</u>	<u>\$ (3,112,778)</u>
Fund balance, beginning of year, as originally reported			8,427,755	
Restatement (Note 8)			<u>154,658</u>	
Fund balance, beginning of year, restated			<u>8,582,413</u>	
Fund balance, end of year			<u>\$ 5,469,635</u>	

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

PROPRIETARY FUNDS
Statements of Fund Net Position
June 30, 2019

	Major Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,294,625	\$ 5,425,207	\$ 10,719,832
Accounts receivable			
Billed - net	430,371	1,058,809	1,489,180
Unbilled	228,764	755,496	984,260
Prepaid expenses	20,281	6,901	27,182
Restricted cash and cash equivalents	368,108	257,303	625,411
Total current assets	<u>6,342,149</u>	<u>7,503,716</u>	<u>13,845,865</u>
Noncurrent assets:			
Capital assets:			
Land	177,882	115,715	293,597
Construction in progress	264,654	-	264,654
Depreciable capital assets, net	37,069,561	3,337,298	40,406,859
Total capital assets	<u>37,512,097</u>	<u>3,453,013</u>	<u>40,965,110</u>
Industrial development loan	176,951	-	176,951
Total noncurrent assets	<u>37,689,048</u>	<u>3,453,013</u>	<u>41,142,061</u>
Total assets	<u>44,031,197</u>	<u>10,956,729</u>	<u>54,987,926</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	399,707	148,056	547,763
OPEB deferrals	195,770	75,255	271,025
Total deferred outflows of resources	<u>595,477</u>	<u>223,311</u>	<u>818,788</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	336,124	145,288	481,412
Due to the General Fund	23,077	-	23,077
Compensated absences, current	60,000	20,000	80,000
Current portion of long-term debt	78,527	16,612	95,139
Payable from restricted assets:			
Customer deposits	107,847	257,303	365,150
Total current liabilities	<u>605,575</u>	<u>439,203</u>	<u>1,044,778</u>
Noncurrent liabilities:			
Compensated absences, net of current portion	81,411	30,090	111,501
Net OPEB liability	2,284,838	878,301	3,163,139
Net pension liability - LGERS	525,357	194,598	719,955
Long-term debt, net of current portion	371,022	-	371,022
Total noncurrent liabilities	<u>3,262,628</u>	<u>1,102,989</u>	<u>4,365,617</u>
Total liabilities	<u>3,868,203</u>	<u>1,542,192</u>	<u>5,410,395</u>

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

PROPRIETARY FUNDS
Statements of Fund Net Position
June 30, 2019

	Major Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	19,255	7,132	26,387
OPEB deferrals	1,163,836	447,383	1,611,219
Total deferred inflows of resources	<u>1,183,091</u>	<u>454,515</u>	<u>1,637,606</u>
NET POSITION			
Net investment in capital assets	37,062,548	3,436,401	40,498,949
Unrestricted	2,512,832	5,746,932	8,259,764
Total net position	<u>\$ 39,575,380</u>	<u>\$ 9,183,333</u>	<u>\$ 48,758,713</u>

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

PROPRIETARY FUNDS
Statements of Revenues, Expenses, and Changes in Fund Net Position
For the year ended June 30, 2019

	Major Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
OPERATING REVENUES			
Charges for services	\$ 5,239,959	\$ 11,586,314	\$ 16,826,273
Late payment fees	-	265,251	265,251
Connection fees	41,850	18,495	60,345
Other operating revenue	125,173	16,457	141,630
Total operating revenues	<u>5,406,982</u>	<u>11,886,517</u>	<u>17,293,499</u>
OPERATING EXPENSES			
Administration	647,749	527,307	1,175,056
Operations	616,422	1,691,262	2,307,684
Water plant	716,381	-	716,381
Waste treatment	1,067,399	-	1,067,399
Pump station and storage	613,901	-	613,901
Electric power	-	5,724,641	5,724,641
Depreciation	1,307,864	266,714	1,574,578
Total operating expenses	<u>4,969,716</u>	<u>8,209,924</u>	<u>13,179,640</u>
Operating income	<u>437,266</u>	<u>3,676,593</u>	<u>4,113,859</u>
NONOPERATING REVENUE (EXPENSE)			
Interest income	64,835	63,802	128,637
Restricted intergovernmental revenue	97,909	-	97,909
Interest expense	(2,314)	(524)	(2,838)
Total nonoperating revenue (expense)	<u>160,430</u>	<u>63,278</u>	<u>223,708</u>
Income before other financing sources (uses)	597,696	3,739,871	4,337,567
OTHER FINANCING SOURCES (USES)			
Transfer to the General Fund	<u>(259,245)</u>	<u>(2,387,240)</u>	<u>(2,646,485)</u>
Change in net position	<u>338,451</u>	<u>1,352,631</u>	<u>1,691,082</u>
Net position, beginning, as originally reported	39,135,755	7,830,702	46,966,457
Restatement (Note 9)	101,174	-	101,174
Net position, restated	<u>39,236,929</u>	<u>7,830,702</u>	<u>47,067,631</u>
Net position, end of year	<u>\$ 39,575,380</u>	<u>\$ 9,183,333</u>	<u>\$ 48,758,713</u>

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

PROPRIETARY FUNDS
Statements of Cash Flows
For the year ended June 30, 2019

	Major Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 5,193,990	\$ 12,260,812	\$ 17,454,802
Cash paid for goods and services	(1,796,026)	(702,183)	(2,498,209)
Cash paid to employees	(1,921,156)	(7,262,146)	(9,183,302)
Net cash provided by operating activities	<u>1,476,808</u>	<u>4,296,483</u>	<u>5,773,291</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	<u>(259,245)</u>	<u>(2,387,240)</u>	<u>(2,646,485)</u>
Cash flows from capital and related financing activities:			
Cash received from grants	97,909	-	97,909
Cash advance from the general fund	21,954	-	21,954
Acquisition and construction of capital assets	(910,953)	(1,715,265)	(2,626,218)
Principal retirement	(93,532)	(34,425)	(127,957)
Interest paid on long-term debt	(2,314)	(524)	(2,838)
Net cash used by capital and related financing activities	<u>(886,936)</u>	<u>(1,750,214)</u>	<u>(2,637,150)</u>
Cash flows from investing activities:			
Payments on note receivable	140,827	-	140,827
Interest on investments	64,835	63,802	128,637
Net cash provided by investing activities	<u>205,662</u>	<u>63,802</u>	<u>269,464</u>
Net increase in cash and cash equivalents	536,289	222,831	759,120
Cash and cash equivalents, beginning of year	<u>5,126,444</u>	<u>5,459,679</u>	<u>10,586,123</u>
Cash and cash equivalents, end of year	<u>\$ 5,662,733</u>	<u>\$ 5,682,510</u>	<u>\$ 11,345,243</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 437,266</u>	<u>\$ 3,676,593</u>	<u>\$ 4,113,859</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,307,864	266,714	1,574,578
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(214,994)	373,372	158,378
(Increase) decrease in other prepaid items	(17,826)	(6,901)	(24,727)
(Increase) decrease in deferred outflows of resources for pensions	(150,668)	(56,240)	(206,908)
(Increase) decrease in deferred outflows of resources for OPEB	18,196	6,995	25,191
Increase (decrease) in accounts payable and accrued liabilities	5,111	653	5,764
Increase (decrease) in customer deposits	2,002	923	2,925
Increase (decrease) in compensated absences	16,805	8,069	24,874
Increase (decrease) in total OPEB liability	(358,122)	(137,663)	(495,785)
Increase (decrease) in net pension liability - LGERS	189,163	70,068	259,231
Increase (decrease) in deferred inflows of resources - pensions	(3,478)	(467)	(3,945)
Increase (decrease) in deferred inflows of resources - OPEB	245,489	94,367	339,856
Total adjustment	<u>1,039,542</u>	<u>619,890</u>	<u>1,659,432</u>
Net cash provided by operating activities	<u>\$ 1,476,808</u>	<u>\$ 4,296,483</u>	<u>\$ 5,773,291</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2019

Note 1 - Summary of Significant Accounting Policies and Reporting Entity:

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

A. Reporting Entity

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

Town of Forest City ABC Board

The members of the ABC Board’s governing board are appointed by the Forest City Town Council. In addition, the ABC Board is required by state statute to distribute its surpluses to the Town’s General Fund. The ABC Board, which has a June 30 year end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity’s administrative offices at Forest City ABC Board, 430 Oak Street, Forest City, N.C., 28043.

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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in

which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations. The budgetary comparisons for these funds are included in the supplemental information. This fund also covers acquisition and construction of major water and sewer capital facilities and infrastructure, which are accounted for in the Water and Sewer Capital Project Fund, which is combined with the Water and Sewer Fund (operating fund) for financial statement purposes. The non-GAAP budgetary comparison for the capital project fund has been included in the supplementary information.

Electric Fund. This fund is used to account for the Town's electric operations. An Electric Rate Stabilization Fund has been consolidated into the Electric Fund for financial reporting purposes.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Sales taxes and certain intergovernmental revenues, such as beer and wine tax, collected and held by the State at year-end on behalf of the Town, are recognized as revenue. Sales taxes are considered shared revenue for the Town because the tax is levied by Rutherford 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. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and enterprise funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Projects Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds and at the functional level for the multi-year funds. The Town Manager is authorized to transfer appropriation within a fund up to \$5,000; however, any revisions that alter the total expenditures of any fund or exceed \$5,000 must be approved by the governing board. During the year, several amendments to the original budget were made by the governing board.

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 and ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers’ acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town’s and the ABC Board’s investments are reported at fair value. Non-participating interest earning investment contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months..

2. Cash and Cash Equivalents

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

3. Restricted Assets

Customer deposits are held by the Town before any services are supplied are restricted to the services for which the deposit was collected. Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4.

Governmental Activities

General Fund:

Streets	\$ 355,299
Rail Trail Improvements	421,142
Total Governmental Activities	<u>\$ 776,441</u>

Business-type Activities

Water and Sewer Fund:

Customer deposits	\$ 107,847
Loan proceeds	260,261
Electric Fund:	
Customer deposits	257,303
Total Business-type Activities	<u>\$ 625,411</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2018. As allowed by state law, the Town periodically establishes a schedule of discounts that apply to taxes which 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 written off in prior years.

6. Inventory and Prepaid Items

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the Town's general fund and those of the ABC Board consist of materials and supplies held for subsequent use and resale, respectively. The cost of these inventories is expensed when consumed or sold, respectively, 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 \$5,000 for all assets. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of streets 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 on a straight-line basis over the following useful lives to the cost of the assets:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Streets, highways, curbing, and sidewalks	50 years
Water and sewer systems	50 years
Buildings	40 years
Electric distribution system	25 years
Tractors, backhoes	15 years
Furniture	10 years
Vehicles	10 years
Vehicles – police	5 years
Equipment	5 years

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	5-10 years
Building	30 years
Building improvements	10-29 years

8. Deferred Outflows/Inflows of Resources

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

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

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. In the fund financial statements for governmental fund types, the face amount of debt issued is reported in other financing sources.

10. Compensated Absences

The Town’s vacation policy provides that an employee can carry-over one-half of the vacation hours earned in any calendar year; vacation hours can be accumulated up to 240 hours per employee; vacation hours in excess of 240 at December 31, are converted to sick-leave hours for consideration at retirement. For the Town’s government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in and 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.

ABC Board employees may accumulate earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2019 amounted to \$16,740. The current portion of accumulated vacation pay is not considered to be material.

Both the Town's and ABC Board sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in 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

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

12. Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

Restricted for Rail Trail Improvements – Portion of fund balance that is restricted by revenue source for construction of Rutherford County Rail Trail funded by the RHI Legacy Grant.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority of vote by quorum of the Town of Forest City'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 a majority action by the Town Council.

Assigned Fund Balance – portion of fund balance that the Town of Forest City intends to use for specific purposes. The Town Council has the authority to assign fund balance.

Subsequent year's expenditures – This portion of fund balance is appropriated in next year's budget that is not already classified in restricted or committed.

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 Forest City 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, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

13. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the Statement of Net Position date and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense and allowance for doubtful accounts. Actual results may differ from those estimates.

14. Defined Benefit Pension and OPEB Plans

The Town participates in three cost-sharing, multiple-employer, defined benefit pension plans that are administered by the State; the Local Governmental Employees' Retirement System (LGERS), the Law Enforcement Officers' Special Separation Allowance (LEOSSA), and the Retiree Health Benefits Fund (OPEB). For purposes of measuring the net pension or OPEB asset or liability, deferred outflows of resources and deferred inflows of resources related to defined benefit plans, and pension or OPEB expense, information about the fiduciary net positions of the state-administered defined benefit pension plans and additions to/deductions from the state-administered defined benefit pension plans' fiduciary net positions have been determined on the same basis as they are reported by the state administered defined benefit pension plans. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The County's employer contributions are recognized when due and the County has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the state-administered defined benefit pension plans.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as

they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 – Stewardship, Compliance, and Accountability

Excess of expenditures over appropriations

For the fiscal year ended June 30, 2019, the expenditures made for the Streets and Highways and Sanitation departments in the Town's General Fund exceeded the authorized appropriations made by the governing board for these activities by \$4,481 and \$5,711, respectively. This over-expenditure occurred because of higher than expected year-end accruals. Management and the Board will more closely review the budget reports to ensure compliance in future years.

Note 3 – Detail Notes on All Funds

A. Assets

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

At June 30, 2019, the Town's deposits had a carrying amount of \$8,179,889 and a bank balance of \$8,595,041. Of the bank balance, \$500,000 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 \$3,600.

The carrying amount of the deposits of the ABC Board was \$273,645 and the bank balance was \$261,079; all of the ABC Board's bank balance was covered by federal depository insurance. The ABC Board had drawer funds of \$3,555.

Reconciliation of cash and cash equivalents:

The components of cash and cash equivalents:		Reported in the financial statements as:	
Deposits in banks	\$ 8,179,889	Cash and cash equivalents	\$ 15,031,522
Petty cash on hand	3,600	Restricted cash	<u>1,401,852</u>
Investments	8,249,885		<u>\$ 16,433,374</u>
	<u>\$ 16,433,374</u>		

2. Investments: At June 30, 2019, the Town’s investments were as follows:

Investment Type	Valuation Measurement Method	Book Value	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Fair Value Level 1	\$ 8,249,885	N/A	AAAm

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ benchmark quoted prices.

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk.

Credit Risk. The Town has no formal policy regarding credit risk. The Town’s investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor’s as of June 30, 2019.

Custodial Credit Risk. For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town has no formal policy on custodial credit risk.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 are net of the following allowances for doubtful accounts:

Government Activities	
Taxes receivable	<u>\$ 80,000</u>
Business-type Activities	
Electric accounts receivable	\$ 5,000
Water and sewer accounts receivable	<u>800</u>
Total	<u>\$ 5,800</u>

4. Due From Other Governments

Due from other governments consisted of the following at June 30, 2019:

Local option sales tax	\$	529,725
Utility franchise tax		278,475
ABC Distribution		48,922
Property taxes unremitted		28,195
Sales tax refund		199,046
Total	\$	<u>1,084,363</u>

5. Industrial Development Loan Receivable

In accordance with an "Economic Development Agreement" dated September 19, 2011, the Town of Forest City agreed to advance \$950,000 to an industry as part of an incentive package to locate a manufacturing facility within Rutherford County. In accordance with a "Water Supply Agreement" as dated October 3, 2012 (supersedes Raw Water Supply Agreement as dated September 119, 2011), the industry will pay a fee "... for the various payments and services provided by the Town in connection with the construction of the Facilities (the Construction Contributions)..." in the amount of \$11,905 for 84 equal payments. This fee shall be in addition to the monthly billing for actual water usage and shall commence when the Town initially supplies water to the site.

Twelve payments were received during the year ended June 30, 2019. The \$50,000 premium generated by the payments is being recognized as inputted interest at the annual rate of .981%. Interest for the current year was \$2,030.

6. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2019 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Non-Depreciable Capital Assets:				
Land	\$ 7,654,217	\$ -	\$ -	\$ 7,654,217
Construction in progress	2,850,866	326,684	2,641,527	536,023
Total non-depreciable capital assets	<u>10,505,083</u>	<u>326,684</u>	<u>2,641,527</u>	<u>8,190,240</u>
Depreciable Capital Assets:				
Buildings	11,096,062	4,500,598	-	15,596,660
Equipment	4,492,914	252,691	-	4,745,605
Infrastructure	1,114,000	119,581	-	1,233,581
Vehicles	3,907,132	267,355	146,102	4,028,385
Total depreciable capital assets	<u>20,610,108</u>	<u>5,140,225</u>	<u>146,102</u>	<u>25,604,231</u>
Less Accumulated Depreciation:				
Buildings	5,272,230	329,934	-	5,602,164
Equipment	3,217,214	207,276	-	3,424,490
Infrastructure	388,415	22,436	-	410,851
Vehicles	3,060,608	206,976	123,855	3,143,729
Total accumulated depreciation	<u>11,938,467</u>	<u>766,622</u>	<u>123,855</u>	<u>12,581,234</u>
Depreciable capital assets, net	<u>8,671,641</u>			<u>13,022,997</u>
Governmental capital assets, net	<u>\$19,176,724</u>			<u>\$21,213,237</u>

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

Governmental Activities:	
General government	\$ 81,534
Public safety	297,764
Transportation	82,677
Environmental protection	1,377
Culture and recreation	<u>303,270</u>
Total depreciation expense	<u>\$ 766,622</u>

Capital asset activity for business-type activities for the year ended June 30, 2019 was as follows:

<u>Business-type activities:</u>	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Water and Sewer:				
Non-Depreciable Capital Assets:				
Land	\$ 177,882	\$ -	\$ -	\$ 177,882
Construction in progress	<u>102,297</u>	<u>162,357</u>	<u>-</u>	<u>264,654</u>
Total non-depreciable capital assets	<u>280,179</u>	<u>162,357</u>	<u>-</u>	<u>442,536</u>
Depreciable Capital Assets:				
Equipment	4,568,122	219,590	-	4,787,712
Plant & water lines	<u>60,783,518</u>	<u>723,892</u>	<u>-</u>	<u>61,507,410</u>
Total depreciable capital assets	<u>65,351,640</u>	<u>943,482</u>	<u>-</u>	<u>66,295,122</u>
Less Accumulated Depreciation:				
Equipment	3,528,451	1,168,802	-	4,697,253
Plant & water lines	<u>24,389,246</u>	<u>139,062</u>	<u>-</u>	<u>24,528,308</u>
Total accumulated depreciation	<u>27,917,697</u>	<u>1,307,864</u>	<u>-</u>	<u>29,225,561</u>
Depreciable capital assets, net	<u>37,433,943</u>			<u>37,069,561</u>
Water and Sewer capital assets, net	<u>\$37,714,122</u>			<u>\$37,512,097</u>

Electric Fund:

Non-Depreciable Capital Assets:

Land	\$ 115,715	\$ -	\$ -	\$ 115,715
Construction in progress	<u>48,000</u>	<u>-</u>	<u>48,000</u>	<u>-</u>
Total non-depreciable capital assets	<u>163,715</u>	<u>-</u>	<u>48,000</u>	<u>115,715</u>

Depreciable Capital Assets:

Equipment	1,442,456	670,063	-	2,112,519
Plant & lines	<u>11,021,512</u>	<u>401,771</u>	<u>-</u>	<u>11,423,283</u>
Total depreciable capital assets	<u>12,463,968</u>	<u>1,071,834</u>	<u>-</u>	<u>13,535,802</u>

Less Accumulated Depreciation:

Equipment	1,072,972	199,815	-	1,272,787
Plant & lines	<u>8,858,818</u>	<u>66,899</u>	<u>-</u>	<u>8,925,717</u>
Total accumulated depreciation	<u>9,931,790</u>	<u>266,714</u>	<u>-</u>	<u>10,198,504</u>
Depreciable capital assets, net	<u>2,532,178</u>			<u>3,337,298</u>

Electric Fund capital assets, net	<u>\$ 2,695,893</u>			<u>\$ 3,453,013</u>
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Construction Commitments

The Town had the following construction commitments at June 30, 2019:

<u>Project</u>	<u>Spent To-Date</u>	<u>Remaining Commitment</u>
Recreational improvements	\$ 310,566	\$ 266,604
Total	<u>\$ 310,566</u>	<u>\$ 266,604</u>

Discretely Presented Component Unit

Capital asset activity for the Forest City ABC Board for the period ended June 30, 2019 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Non-Depreciable Capital Assets:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Depreciable Capital Assets:				
Buildings	314,605	-	-	314,605
Furniture and equipment	126,512	43,132	-	169,644
Total depreciable capital assets	441,117	43,132	-	484,249
Less Accumulated Depreciation:				
Buildings	152,336	10,730	-	163,066
Furniture and equipment	110,764	3,891	-	114,655
Total accumulated depreciation	263,100	14,621	-	277,721
Depreciable capital assets, net	178,017			206,528
ABC capital assets, net	<u>\$ 228,017</u>			<u>\$ 256,528</u>

B. Liabilities1. Payables

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

	Vendors	Retainage	Salaries and Benefits	Total
Governmental Activities:				
General Fund	\$ 548,984	\$ 16,346	\$ 258,603	\$ 823,933
Business-type Activities:				
Water and Sewer Fund	\$ 280,337	\$ -	\$ 55,787	\$ 336,124
Electric Fund	124,179	-	21,109	145,288
Total business-type activities	<u>\$ 404,516</u>	<u>\$ -</u>	<u>\$ 76,896</u>	<u>\$ 481,412</u>

2. Pension Plan Obligationsa. Local Governmental Employees' Retirement System

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

CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Forest City 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 Forest City's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees 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 Forest City were \$493,786 for the year ended June 30, 2019.

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

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

At June 30, 2019, the Town reported a liability of \$2,421,449 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 update procedures incorporating the actuarial assumptions. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town’s proportion was 0.10207%, which was an increase of 0.00064% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$645,940. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 373,572	\$ 12,535
Changes of assumptions	642,559	-
Net difference between projected and actual earnings on pension plan investments	332,393	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	76,213
Town contributions subsequent to the measurement date	493,786	-
Total	<u>\$ 1,842,310</u>	<u>\$ 88,748</u>

\$493,786 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ 617,232
2021	395,756
2022	61,575
2023	185,213
Thereafter	-
	<u>\$ 1,259,776</u>

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

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

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

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

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

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

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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 3.0%. All rates of return and inflation are annualized.

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 5,816,531	\$ 2,421,449	\$ (415,534)

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2017 (valuation date), the Separation Allowance’s membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>30</u>
Total	<u><u>31</u></u>

2. Summary of Significant Accounting Policies

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits 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 meet the criteria which are outlined in GASB Statement 73.

3. Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The discount rate used to measure the total pension liability is the S&P Municipal Bond 20 Year High Grade Rate Index at December 31, 2018.

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

The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population: the RP-2014 mortality tables base rates projected forward generationally from 2015 using MP-2015. The mortality tables vary by age and health status (i.e. disabled and healthy).

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administrative costs of the Separation Allowance are financed through investment earnings. The Town paid \$25,635 as benefits came due for the reporting period.

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

At June 30, 2019, the Town reported a total pension liability of \$930,199. 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 \$68,277.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,067	\$ 24,770
Changes of assumptions and other inputs	42,863	48,922
Town benefit payments and plan administrative expense made subsequent to the measurement date	14,418	-
Total	<u>\$ 85,348</u>	<u>\$ 73,692</u>

\$14,418 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2020	\$	963
2021		963
2022		963
2023		2,247
2024		68
Thereafter		<u>(7,966)</u>
	\$	<u><u>(2,762)</u></u>

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

	Current		
	1% Decrease	Discount Rate	1% Increase
	<u>(2.64%)</u>	<u>(3.64%)</u>	<u>(4.64%)</u>
Total pension liability	\$ 1,021,321	\$ 930,199	\$ 847,770

Schedule of Changes in Total Pension Liability

Total pension liability as of December 31, 2017	\$ 941,539
Changes for the year:	
Service cost at end of year	49,500
Interest	29,459
Change in benefit terms	-
Difference between expected and actual experience	(29,078)
Changes of assumptions and other inputs	(42,620)
Benefit payments	(18,601)
Other	-
Net changes	<u>(11,340)</u>
Total pension liability as of December 31, 2018	<u><u>\$ 930,199</u></u>

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 Plan 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 the Plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699, or by calling (919)981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan.

The Town made contributions of \$79,361 for the reporting year. No amounts were forfeited.

d. Supplemental Retirement Income Plan for Non-Law Enforcement Employees

Plan Description. Effective October of 1992, all non-law enforcement employees of the Town participate in the 401(k) Supplemental Retirement Income Plan of North Carolina. Participation begins when the employee becomes eligible for participation in the Local Governmental Employees Retirement System. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Plan 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 the Plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699, or by calling (919)981-5454.

Funding Policy. Effective July 1, 2016, the Town elected to match up to \$40.00 per pay period the contributions of all non-law officer employees. The Town's contributions for the current fiscal year were \$92,410. No amounts were forfeited.

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>TOTAL</u>
Proportionate share of net pension liability	\$ 2,421,449	N/A	\$ 2,421,449
Proportion of the net pension liability	0.10207%	N/A	N/A
Total pension liability	N/A	\$ 930,199	930,199
Pension expense	645,940	68,277	714,217
<u>Deferred Outflows of Resources:</u>			
Differences between expected and actual experience	\$ 373,572	\$ 28,067	\$ 401,639
Changes of assumptions	642,559	42,863	685,422
Net difference between projected and actual earnings on pension plan investments	332,393	-	332,393
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	-	-
Town contributions (LGERS) and benefit payments (LEOSSA) made subsequent to the measurement date	493,786	14,418	508,204
Total	<u>\$ 1,842,310</u>	<u>\$ 85,348</u>	<u>\$ 1,927,658</u>

Deferred Inflows of Resources:

Differences between expected and actual experience	\$ 12,535	\$ 24,770	\$ 37,305
Changes of assumptions	-	48,922	48,922
Changes in proportion and differences between Town contributions and proportionate share of contributions	76,213	-	76,213
Total	<u>\$ 88,748</u>	<u>\$ 73,692</u>	<u>\$ 162,440</u>

e. Firefighter's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Forest City, to the Firefighter's Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 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 Firefighter's and Rescue Squad Workers' Pension Fund 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 the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ended June 30, 2019, the State contributed \$17,952,000 to the plan. The Town's proportionate share of the State's contribution is \$6,578.

Refunds of Contributions. Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

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

At June 30, 2019, the Town reported no liability for its proportionate share of the net pension

liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$17,899. 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 update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at the measurement date of June 30, 2018 and at June 30, 2017 was 0%.

For the year ended June 30, 2019, the Town recognized pension expense of \$5,099 and revenue of \$5,099 for support provided by the State. At June 30, 2019, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

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

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

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.

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.

3. Post-Employment Healthcare Benefits

Plan Description. The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. It is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments also participate.

Management of the plan is vested in the State Health Plan Town of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer the State

Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan. The State Treasurer, with the approval of the State Health Plan Town of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

The financial statements and other required disclosures for the plan are presented in the State of North Carolina's CAFR, which can be found at <https://www.osc.nc.gov/public-information/reports>.

Benefits Provided. Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options of the self-funded Traditional 70/30 preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the TSERS, the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's noncontributory premium.

Section 35.21 (c) and (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired January 1, 2021. RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1 and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions. By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, the Town contributed 6.27% of covered payroll which amounted to \$399,489.

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

At June 30, 2019, Town reported a liability of \$10,480,910 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. The total OPEB liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net OPEB liability was based on a projection of the Town's present value of future salary, actuarially determined. At June 30, 2018, the Town's proportion was 0.03679%, a decrease of .00019% from the prior year.

For the year ended June 30, 2019, the Town recognized OPEB income of \$33,705. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 716,731
Changes of assumptions and other inputs	-	4,540,572
Net difference between projected and actual earnings on OPEB plan investments	1,127	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	497,412	81,395
Town benefit payments and plan administrative expense made subsequent to the measurement date	399,489	-
Total	<u>\$ 898,028</u>	<u>\$ 5,338,698</u>

\$399,489 reported as deferred outflows of resources related to OPEB resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	
2020	\$ (1,110,857)
2021	(1,110,857)
2022	(1,110,857)
2023	(1,109,736)
2024	(397,852)
Thereafter	-
	<u>\$ (4,840,159)</u>

Actuarial Assumptions. Actuarial assumptions for the June, 30, 2018 measurement were as follows

Inflation	2.75%
Salary increases	3.50-8.10%, including 3.5% inflation and productivity factor
Investment rate of return	7.20%, net of OPEB plan investment expense, including inflation
Health care cost trends:	
medical	5.00-6.50%
prescription drug	5.00-7.25%
Medicare advantage	4.00-5.00%
administrative	3.00%

The total OPEB liability was determined by an actuarial valuation performed as of December 31, 2017 using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified. The total OPEB liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2018. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal cost method was utilized.

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount rate. The discount rate used to measure the total OPEB liability for the RHBF was 3.87%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is

based on the Bond Buyer 20-year General Obligation Index as of June 30, 2018.

Sensitivity of the Board’s proportionate share of the net OPEB liability to changes in the discount rate. The following presents the Board’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage point higher (4.87 percent) than the current discount rate:

	1% Decrease (2.87%)	Current (3.87%)	1% Increase (4.87%)
Net OPEB Liability	\$ 12,383,301	\$ 10,480,910	\$ 8,955,939

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the Town, as well as what the Town’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rates (6.5% Medical, 7.5% Prescription, 3.0% Administration)	1% Increase
Net OPEB Liability	\$8,646,478	\$ 10,480,910	\$12,889,160

OPEB plan fiduciary net position. Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

4. Other Employment Benefits

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employee’s Retirement System (Death Benefit Plan), a multi-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 benefits payments to beneficiaries are equal to the employees 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. Since all death benefit payments are made from 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 annual by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers post-employment contributions to be immaterial.

5. Deferred Outflows and Inflows of Resources

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

	Deferred Outflows of Resources	Governmental Deferred Inflows of Resources	Net position Deferred Inflows of Resources
Contributions to pension plan in the current fiscal year	\$ 493,786	\$ -	\$ -
Benefit payments made and admin expenses for LEOSSA	14,418	-	-
Benefit payments made and admin expenses for OPEB	399,489	-	-
Pension and OPEB deferrals	1,917,993	-	5,501,138
Prepaid taxes	-	6,227	6,227
Taxes receivable, net (General Fund)	-	79,812	-
Other receivables (General Fund)	-	115,629	-
Total	<u>\$ 2,825,686</u>	<u>\$ 201,668</u>	<u>\$ 5,507,365</u>

6. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town secures insurance coverage for these risks from several commercial insurance companies. The Town’s insurance coverage includes: (1) general liability, \$13 million; (2) fire coverage on buildings at estimated replacement costs and up to \$5 million for flood and earthquake; (3) errors and omissions liability, \$13 million; (4) auto liability, \$13 million and (5) public officials liability, \$13 million. Various deductibles apply to coverage amounts. In addition, the Town secures workers’ compensation coverage up to the statutory limits and an employer’ liability limit of \$1 million. All of these coverages, except for worker’s compensation which is purchased through the North Carolina Interlocal Risk Management Agency, are secured through commercial insurance companies.

There has been no significant reductions in the Town’s insurance coverage in the prior year; settled claims have not exceeded coverage in the past three fiscal years.

In accordance with G.S. 159-29, the Town’s employees that have access to \$100 or more of the Town’s funds at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket employee dishonesty bond for \$25,000.

7. Long-Term Obligations

Installment Purchases

The Town has incurred installment debt to finance various pieces of equipment. Notes payable in both the General Fund and the Sewer Fund are secured by the equipment and vehicles. Principal and interest requirements are appropriated when due. Details of the Town’s installment debt are as follows:

Direct Placement Installment Notes Payable

\$2,500,000; direct placement installment note issued February 15, 2008; collateral is the Municipal Baseball Facility as partially funded by proceeds; 3.66% annual rate, reduced to 2.43% effective February 21, 2013; \$13,899 due monthly plus interest through February 2023. \$ 611,112

\$89,250; direct placement installment note issued January 22, 2015 to finance the purchase of specified equipment; 1.45% annual rate for a term of 59 months; collateral is property purchased; \$1,568 due monthly including interest through December 2019. 10,158

Total installment notes payable - governmental activities \$ 621,270

\$165,750; direct placement installment note issued January 22, 2015, to finance sewer plant equipment; 1.45% annual rate for a term of 59 months; collateral is equipment purchased or improved; \$2,192 due monthly including interest through December 2019. \$ 16,612

\$260,200; direct placement installment note issued to finance sewer plant improvement; 1.93% annual rate for a term of 59 months; collateral is property purchased or improved; \$4,626 due monthly including interest through January 2021. 86,500

Total installment notes payable - business-type activities \$ 103,112

Annual debt service for governmental and business-type activities are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 176,824	\$ 13,034	\$ 70,936	\$ 1,264
2021	166,667	8,944	32,176	207
2022	166,667	4,894	-	-
2023	111,112	1,096	-	-
Total	\$ 621,270	\$ 27,968	\$ 103,112	\$ 1,471

Direct Placement Revolving Loan:

\$994,197; direct placement revolving loan from the NC Department of Environmental and Natural Resources, issued May 3, 2013, to fund sewer rehabilitation; loan forgiveness of \$451,350 through the NC Clean Water State Revolving Fund at the conclusion of the project (June 30, 2014); collateral is property purchased or improved; 0.0% annual interest for a term of 20 years with annual payments of \$24,203 through May 2024 \$ 363,049

Annual debt service requirements for the revolving loan are as follows:

Year Ending June 30	Business-Type Activities		
	Principal	Interest	Total
2020	\$ 24,203	\$ -	\$ 24,203
2021	24,203	-	24,203
2022	24,203	-	24,203
2023	24,203	-	24,203
2024	24,203	-	24,203
2025-2029	121,015	-	121,015
2030-2034	121,019	-	121,019
Total	<u>\$ 363,049</u>	<u>\$ -</u>	<u>\$ 363,049</u>

At June 30, 2019, the Town had a legal debt margin of approximately \$127,000,000.

Changes in Long-Term Liabilities

A summary of all long-term obligations presented in the government-wide Statement of Activities is as follows:

	Balance 7/1/2018	Increases	Decreases	Balance 6/30/2019	Current Portion of Balance
<u>Governmental Activities:</u>					
Direct placement					
installment notes	\$ 826,411	-	205,141	621,270	176,824
Net OPEB liability	8,464,747	-	1,146,976	7,317,771	-
Total pension liability - LEOSSA	941,539	-	11,340	930,199	-
Net pension liability - LGERS	1,088,845	612,649	-	1,701,494	-
Compensated absences	455,995	467,190	455,995	467,190	200,000
Total	<u>\$ 11,777,537</u>	<u>\$ 1,079,839</u>	<u>\$ 1,819,452</u>	<u>\$ 11,037,924</u>	<u>\$ 376,824</u>
<u>Business-type Activities:</u>					
Direct placement revolving loan	\$ 387,252	\$ -	\$ 24,203	\$ 363,049	\$ 24,203
Direct placement					
installment note	206,866	-	103,754	103,112	70,936
Net pension liability - LGERS	460,724	259,231	-	719,955	-
Net OPEB liability	3,658,924	-	495,785	3,163,139	-
Compensated absences	166,627	191,501	166,627	191,501	80,000
Total	<u>\$ 4,880,393</u>	<u>\$ 450,732</u>	<u>\$ 790,369</u>	<u>\$ 4,540,756</u>	<u>\$ 175,139</u>

Compensated absences are accounted for on a FIFO basis.

8. Interfund Balances and Activity:

Transfer between funds at June 30, 2019 consisted of:

	<u>Purpose</u>	<u>Amount</u>
To the General Fund		
from the Electric Fund	to support operations	\$ 2,387,240
from the Water and Sewer Fund	to support operations	<u>259,245</u>
		<u>\$ 2,646,485</u>

A balance of \$23,077 is due from the Everest Textile Capital Project Fund to the general fund, for reimbursement of expenditures.

9. Net Investment in Capital Assets

Net investment in capital assets as of June 30, 2019 is calculated as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Capital assets	\$ 21,213,237	\$ 40,965,110
Less: Long-term debt	<u>(621,270)</u>	<u>(466,161)</u>
Net investment in capital assets	<u>\$ 20,591,967</u>	<u>\$ 40,498,949</u>

Note 4 – Summary Disclosure of Significant Contingencies

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

Note 5 – Fund Balance

The Town does not have a minimum fund balance policy. The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total Fund Balance - General Fund	\$ 5,469,635
<u>Less:</u>	
Non-spendable - prepaid	(68,499)
Non-spendable - inventory	(17,708)
Stabilization by State statute	<u>(1,125,457)</u>
Available Fund Balance	<u>\$ 4,257,971</u>

Outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. There were no encumbrances in the General Fund at June 30, 2019.

Note 6 – Related Organization

The five-member board of the Forest City Housing Authority is appointed by the Board of Commissioners of Forest City. The Town is accountable for the Housing Authority because it appoints the governing board; however, the Town is not financially accountable for the Housing Authority. The Town of Forest City is also disclosed as a related organization in the notes to the financial statements for the Forest City Housing Authority. Complete financial statements for the Housing Authority can be obtained from its office at 147

East Spruce Street, Forest City, North Carolina 28043.

Note 7 – Joint Venture

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Town of Forest city receives no financial benefit and has no equity interest in the joint venture, so no equity has been reflected in these financial statements at June 30, 2019. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

Note 8 – Prior Period Adjustment – Change in Accounting Policies

The County is adjusting the June 30, 2018 fund balance to reflect the June 2018 sales and use tax collected in July 2018. As a result, the fund balance of the general fund, and the net position for governmental activities both increased by \$154,658.

Note 9 – Prior Period Adjustment – Correction of an Error

Management discovered an error in the reporting of the prior year expenditures of the Everest Textile Fund. The expenditures were mistakenly recorded as expenses in the Statement of Activities. Because the expenditures are for water and sewer lines that are capital assets of the Town, those expenditures should not have been reported as a decrease in net position. As a result of the error correction, beginning capital assets and net position of the Town's business-type activities have increased by \$101,174.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

TOWN OF FOREST CITY, NORTH CAROLINA

PROPORTIONATE SHARE OF NET OPEB LIABILITY (ASSET)
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST THREE FISCAL YEARS *

Retiree Health Benefit Fund

	2019	2018	2017
Town's proportionate share of the net OPEB liability (asset) (%)	0.03679%	0.03698%	0.00000%
Town's proportion of the net OPEB liability (asset) (\$)	\$ 10,480,910	\$ 12,123,671	\$ 15,328,314
Town's covered payroll	5,945,988	5,844,823	5,523,798
Town's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	176.27%	207.43%	277.50%
Plan fiduciary net position as a percentage of the total OPEB liability	4.40%	3.52%	2.41%

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

TOWN OF FOREST CITY, NORTH CAROLINA

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS**

Retiree Health Benefit Fund

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 395,715	\$ 359,732	\$ 339,230
Contribution in relation to the contractually required contribution	<u>395,715</u>	<u>359,732</u>	<u>339,230</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 6,311,245	\$ 5,945,988	\$ 5,844,823
Contributions as a percentage of covered payroll	6.27%	6.05%	5.80%

TOWN OF FOREST CITY, NORTH CAROLINA

PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST SIX FISCAL YEARS *

Local Governmental Employees' Retirement System

	2019	2018	2017	2016	2015	2014
Town's proportionate share of the net pension liability (asset) (%)	0.10207%	0.10143%	0.10191%	0.10440%	0.10180%	0.09960%
Town's proportion of the net pension liability (asset) (\$)	\$ 2,421,449	\$ 1,549,569	\$ 2,162,872	\$ 468,676	\$ (600,302)	\$ 1,200,562
Town's covered payroll	5,945,988	5,844,823	5,634,708	5,523,798	5,205,002	5,093,077
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	40.72%	26.51%	38.38%	8.48%	(11.53%)	23.57%
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 amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

TOWN OF FOREST CITY, NORTH CAROLINA

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS**

Local Governmental Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 502,657	\$ 457,501	\$ 435,264	\$ 382,838	\$ 698,720	\$ 651,941
Contribution in relation to the contractually required contribution	<u>502,657</u>	<u>457,501</u>	<u>435,264</u>	<u>382,838</u>	<u>698,720</u>	<u>651,941</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 6,311,245	\$ 5,945,988	\$ 5,844,823	\$ 5,634,708	\$ 5,523,798	\$ 5,205,002
Contributions as a percentage of covered payroll	7.96%	7.69%	7.45%	6.79%	12.65%	12.53%

TOWN OF FOREST CITY, NORTH CAROLINA

PROPORTIONATE SHARE OF NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
LAST FIVE FISCAL YEARS*

Firefighters' and Rescue Squad Workers' Pension

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportionate share of the net pension liability (%)	0.00000%	0.00000%	0.00000%	0.00000%	0.00000%
Town's proportion of the net pension liability (\$)	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with Town of Forest City	<u>17,899</u>	<u>16,001</u>	<u>11,887</u>	<u>12,644</u>	<u>3,904</u>
Total	<u>\$ 17,899</u>	<u>\$ 16,001</u>	<u>\$ 11,887</u>	<u>\$ 12,644</u>	<u>\$ 3,904</u>
Town's covered payroll	\$ 376,550	\$ 351,916	\$ 357,586	\$ 360,194	\$ 720,000
Town's proportionate share of the net pension liability as a percentage of its covered-payroll	4.75%	4.55%	3.32%	3.51%	0.54%
Plan fiduciary net position as a percentage of the total pension liability	89.69%	89.35%	84.94%	91.40%	93.42%

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

TOWN OF FOREST CITY, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
LAST THREE FISCAL YEARS*

Schedule of Changes in Total Pension Liability

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 941,539	\$ 791,272	\$ 780,051
Changes for the year:			
Service cost at end of year	49,500	41,451	45,100
Interest	29,459	30,112	27,169
Change in benefit terms	-	-	-
Difference between expected and actual experience	(29,078)	39,985	-
Changes of assumptions and other inputs	(42,620)	61,065	(23,041)
Benefit payments	(18,601)	(22,346)	(38,007)
Other	-	-	-
Net changes	<u>(11,340)</u>	<u>150,267</u>	<u>11,221</u>
Ending balance of the total pension liability	<u>\$ 930,199</u>	<u>\$ 941,539</u>	<u>\$ 791,272</u>

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Total pension liability	\$ 930,199	\$ 941,539	\$ 791,272
Covered payroll	1,569,246	1,533,432	1,569,111
Total pension liability as a percentage of covered payroll	59.28%	61.40%	50.43%

Notes to the schedule:

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

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

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

TOWN OF FOREST CITY, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 4,659,119	
Penalties and interest		19,332	
Total	\$ 4,687,543	4,678,451	\$ (9,092)
Other Taxes and Licenses:			
Local option sales tax		1,395,953	
Privilege licenses		735	
Fire district tax		7,444	
Total	1,207,621	1,404,132	196,511
Unrestricted Intergovernmental Revenues:			
Utility sales tax		730,025	
Telecommunications sales tax		94,231	
Piped natural gas tax		27,651	
Video programming tax		34,798	
Court costs and fees		3,095	
Beer and wine tax		32,186	
Hold harmless revenue		404,739	
Policing subsidies and fees		29,462	
ABC profit distributions		245,689	
Payments-in-lieu		1,433	
Total	1,511,050	1,603,309	92,259
Restricted Intergovernmental Revenues:			
Powell Bill allocation		236,047	
Unauthorized substance tax		15,449	
Police grant - vests		3,777	
State Fire Fund		5,948	
Solid waste disposal		4,156	
Contributions - Rail Trail Head		6,940	
Total	682,000	272,317	(414,357)

TOWN OF FOREST CITY, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Permits and fees:			
Building permits		169,441	
Code enforcement fees		18,742	
Total	159,000	188,183	29,183
 Sales and Services:			
Recreation department		342,555	
Waste collection fees		1,220,981	
Cemetery lots		7,100	
Fire protection fees		4,848	
Other sales and services		22,686	
Total	1,631,300	1,598,170	(33,130)
 Investment Earnings	24,700	82,753	58,053
 Miscellaneous:			
RHI Legacy Grants		790,000	
Rents		106,736	
Other		101,004	
Total	955,510	997,740	42,230
Total revenues	10,858,724	10,825,055	(38,343)
 Expenditures:			
General Government:			
Governing board:			
Salaries and employee benefits		53,787	
Operating expenditures		47,486	
Total	108,063	101,273	6,790
 Administration:			
Salaries and employee benefits		477,961	
Operating expenses		320,257	
Capital outlay		485,962	
Economic development incentive		2,926,412	
Total	4,722,957	4,210,592	512,365

TOWN OF FOREST CITY, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
Finance and Legal:			
Salaries and employee benefits		262,837	
Operating expenditures		99,158	
Total	439,653	361,995	77,658
 Planning and Zoning:			
Salaries and employee benefits		459,681	
Operating expenditures		352,151	
Capital outlay		119,582	
Total	1,083,856	931,414	152,442
 Public Buildings:			
Operating expenditures	94,054	69,641	24,413
Administrative expense reimbursement	(282,010)	(282,010)	-
Total general government	6,166,573	5,392,905	773,668
 Public Safety:			
Police department:			
Salaries and employee benefits		2,409,130	
Operating expenditures		353,915	
Capital outlay		179,894	
Total	3,136,180	2,942,939	193,241
Fire department:			
Salaries and employee benefits		1,129,995	
Operating expenditures		184,183	
Capital outlay		103,012	
Total	1,493,930	1,417,190	76,740
Total public safety	4,630,110	4,360,129	269,981

TOWN OF FOREST CITY, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits		778,923	
Operating expenditures		590,618	
Capital outlay		150,300	
Total	<u>1,515,360</u>	<u>1,519,841</u>	<u>(4,481)</u>
Warehouse and garage			
Salaries and employee benefits		228,959	
Operating expenditures		172,840	
Total	<u>424,514</u>	<u>401,799</u>	<u>22,715</u>
Administrative expense reimbursement	<u>(212,898)</u>	<u>(212,898)</u>	<u>-</u>
Total transportation	<u>1,726,976</u>	<u>1,708,742</u>	<u>18,234</u>
Environmental Protection:			
Sanitation:			
Contracted services		1,241,466	
Operating expenditures		17,062	
Total	<u>1,252,817</u>	<u>1,258,528</u>	<u>(5,711)</u>
Cemetery:			
Operating expenditures	<u>27,500</u>	<u>25,723</u>	<u>1,777</u>
Total environmental protection	<u>1,280,317</u>	<u>1,284,251</u>	<u>(3,934)</u>
Cultural and Recreation:			
Parks and recreation:			
Salaries and employee benefits		942,024	
Other operating expenditures		512,358	
Capital outlay		2,046,707	
Total	<u>4,411,101</u>	<u>3,501,089</u>	<u>910,012</u>

TOWN OF FOREST CITY, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Library:			
Salaries and employee benefits		108,480	
Other operating expenditures		<u>44,634</u>	
Total	<u>165,240</u>	<u>153,114</u>	<u>12,126</u>
Total cultural and recreation	<u>4,576,341</u>	<u>3,654,203</u>	<u>922,138</u>
Debt Service:			
Principal retirement		205,141	
Interest and fees		<u>17,422</u>	
Total	<u>236,039</u>	<u>222,563</u>	<u>13,476</u>
Total expenditures	<u>18,616,356</u>	<u>16,622,793</u>	<u>1,993,563</u>
Revenues under expenditures	<u>(7,757,632)</u>	<u>(5,797,738)</u>	<u>1,959,894</u>
Other Financing Sources (Uses):			
Appropriated fund balance	5,112,016	-	(5,112,016)
Sale of capital assets	-	38,475	38,475
Transfer from Electric Fund	2,387,240	2,387,240	-
Transfer from Water and Sewer Fund	<u>258,376</u>	<u>259,245</u>	<u>869</u>
Total other financing sources (uses)	<u>7,757,632</u>	<u>2,684,960</u>	<u>(5,072,672)</u>
Net change in fund balance	<u>\$ -</u>	<u>(3,112,778)</u>	<u>\$ (3,112,778)</u>
Fund balance, beginning of year, as originally reported		8,427,755	
Restatement (Note 8)		<u>154,658</u>	
Fund balance, beginning of year, restated		<u>8,582,413</u>	
Fund balance, end of year		<u>\$ 5,469,635</u>	

TOWN OF FOREST CITY, NORTH CAROLINA

WATER AND SEWER FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Water sales	\$ 3,530,000	\$ 3,480,855	\$ (49,145)
Sewer charges	1,683,500	1,759,104	75,604
Tap and connection fees	38,000	41,850	3,850
Other	107,541	125,173	17,632
Total operating revenues	5,359,041	5,406,982	47,941
Non-operating revenues:			
Interest earnings	26,031	64,835	38,804
Total non-operating income	26,031	64,835	38,804
Total revenues	5,385,072	5,471,817	86,745
Expenditures:			
Administration:			
Salaries and employee benefits		288,820	
Operating expenditures		73,165	
General administration allocation		294,926	
Total administration	731,541	656,911	74,630
Water Operations:			
Salaries and employee benefits		391,135	
Operating expenditures		230,608	
Capital outlay		254,215	
Total water operations	1,328,291	875,958	452,333
Water Plant:			
Salaries and employee benefits		413,382	
Operating expenditures		313,192	
Capital outlay		212,834	
Total water plant	1,013,520	939,408	74,112

TOWN OF FOREST CITY, NORTH CAROLINA

WATER AND SEWER FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Sewer Operations:			
Salaries and employee benefits		180,662	
Operating expenditures		48,856	
Capital outlay		115,094	
Total sewer operations	569,952	344,612	225,340
Waste Treatment Plants:			
Salaries and employee benefits		424,219	
Operating expenditures		422,321	
Capital outlay		200,979	
Total sewer operations	1,263,322	1,047,519	215,803
Pump Station and Storage			
Salaries and employee benefits		228,049	
Operating expenditures		370,809	
Capital outlay		226,544	
Total sewer operations	993,134	825,402	167,732
Debt service:			
Principal		93,532	
Interest		2,314	
	85,231	95,846	(10,615)
Total expenditures	5,984,991	4,785,656	1,199,335
Revenues over (under) expenditures	(599,919)	686,161	1,286,080
Other Financing Sources (Uses):			
Loan principal payments received	140,827	140,827	-
Transfer to General Fund	(258,376)	(259,245)	(869)
Appropriated fund balance	717,468	-	(717,468)
Total other financing sources (uses)	599,919	(118,418)	(718,337)
Revenues and other sources over expenditures and other uses	\$ -	567,743	\$ 567,743

TOWN OF FOREST CITY, NORTH CAROLINA

WATER AND SEWER FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal retirement of debt		93,532	
Capital outlay		985,343	
Revenue under expenditures of the capital project fund		(22,587)	
Capital outlay of the capital project fund		120,496	
Loan principal received		(140,827)	
Increase in deferred outflows of resources - LGERS		162,945	
Increase in net pension liability - LGERS		(189,163)	
Increase in deferred inflows of resources - LGERS		(8,799)	
Decrease in deferred outflows of resources - OPEB		(18,496)	
Decrease in net OPEB liability		358,122	
Increase in deferred inflows of resources - OPEB		(245,189)	
Increase in compensated absences		(16,805)	
Depreciation		(1,307,864)	
Total reconciling items		(229,292)	
Change in net position		\$ 338,451	

TOWN OF FOREST CITY, NORTH CAROLINA

WATER & SEWER CAPITAL PROJECT FUND
EVEREST TEXTILE PROJECT

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
From inception and for the year ended June 30, 2019

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Community Development Block Grant	\$ 1,500,000	\$ 101,174	\$ 97,909	\$ 199,083
Expenditures:				
Water Improvements	122,400	-	-	-
Sewer Improvements	1,319,600	102,297	108,500	210,797
Planning	5,000	-	-	-
Administration	30,000	-	11,996	11,996
Contingency	23,000	-	-	-
Total expenditures	<u>1,500,000</u>	<u>102,297</u>	<u>120,496</u>	<u>222,793</u>
Revenues under expenditures	<u>\$ -</u>	<u>\$ (1,123)</u>	<u>\$ (22,587)</u>	<u>\$ (23,710)</u>

TOWN OF FOREST CITY, NORTH CAROLINA

ELECTRIC FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Electricity Sales	\$ 11,875,000	\$ 11,586,314	\$ (288,686)
Late payment penalties	260,000	265,251	5,251
Connection fees	18,208	18,495	287
Other operating revenue	138,000	16,457	(121,543)
Total operating revenues	12,291,208	11,886,517	(404,691)
Non-operating revenues:			
Interest earnings	25,000	63,802	38,802
Total revenues	12,316,208	11,950,319	(365,889)
Expenditures:			
Administration:			
Salaries and employee benefits		180,798	
Operating expenditures		346,274	
Total expenditures	530,326	527,072	3,254
Operations:			
Salaries and employee benefits		522,038	
Operating expenditures		784,038	
Repairs and maintenance		400,292	
Capital outlay		1,023,834	
Total	2,994,788	2,730,202	264,586
Electric power purchased:	7,100,000	5,724,641	1,375,359
Debt service:			
Principal		34,425	
Interest		524	
	34,949	34,949	-
Total expenditures	10,660,063	9,016,864	1,643,199
Revenues over expenditures	1,656,145	2,933,455	1,277,310

TOWN OF FOREST CITY, NORTH CAROLINA

ELECTRIC FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Other Financing Sources (Uses):			
Transfer to General Fund	(2,387,240)	(2,387,240)	-
Appropriated fund balance	731,095	-	(731,095)
Total other financing sources (uses)	(1,656,145)	(2,387,240)	(731,095)
 Revenues over expenditures and other uses	 \$ -	 546,215	 \$ 546,215
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal retirement of debt		34,425	
Capital outlay		1,023,834	
Increase in deferred outflows of resources - LGERS		56,240	
Increase in net pension liability - LGERS		(70,068)	
Decrease in deferred inflows of resources - LGERS		467	
Decrease in deferred outflows of resources - OPEB		(6,995)	
Decrease in net OPEB liability		137,663	
Increase in deferred inflows of resources - OPEB		(94,367)	
Increase in compensated absences		(8,069)	
Depreciation		(266,714)	
Total reconciling items		806,416	
Change in net position		\$ 1,352,631	

TOWN OF FOREST CITY, NORTH CAROLINA

ELECTRIC RATE STABILIZATION FUND
 Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
 From inception and for the year ended June 30, 2019

		Actual		
Project Authorization	Prior Years	Current Year	Total	
Other Financing Sources:				
Transfers from Electric Fund	\$ 1,394,493	\$ 1,394,493	\$ -	\$ 1,394,493
Transfer to Electric Fund	(1,394,493)	(252,218)	-	(252,218)
Total other financing sources	\$ -	\$ 1,142,275	-	\$ 1,142,275

OTHER SCHEDULES

TOWN OF FOREST CITY, NORTH CAROLINA

GENERAL FUND

Schedule of Ad Valorem Taxes Receivable
For the year ended June 30, 2019

Fiscal Year	Uncollected Balance 6/30/2018	Additions	Collections And Credits	Uncollected Balance 6/30/2019
2018-2019	\$ -	\$ 4,673,872	\$ 4,637,171	\$ 36,701
2017-2018	38,371	-	14,560	23,811
2016-2017	26,708	-	9,651	17,057
2015-2016	28,271	-	6,053	22,218
2014-2015	14,862	-	4,166	10,696
2013-2014	25,648	-	9,935	15,713
2012-2013	16,834	-	6,485	10,349
2011-2012	14,751	-	4,544	10,207
2010-2011	12,179	-	3,362	8,817
2009-2010	6,940	-	2,697	4,243
2008-2009	5,581	-	5,581	-
	<u>\$ 190,145</u>	<u>\$ 4,673,872</u>	<u>\$ 4,704,205</u>	<u>159,812</u>
Less: allowance for uncollectible accounts:				
	General Fund			<u>(80,000)</u>
Ad valorem taxes receivable, net				<u>\$ 79,812</u>
 <u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 4,678,451
Reconciling items:				
	Interest and penalties collected			(19,332)
	Taxes written off and credits			5,581
	Adjustments and releases			<u>39,505</u>
	Total collections and credits			<u>\$ 4,704,205</u>

TOWN OF FOREST CITY, NORTH CAROLINA

GENERAL FUND
Analysis of Current Tax Levy
For the year ended June 30, 2019

	Property Valuation	Rate	Total Levy	Total Levy	
				Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 1,612,446,897	0.290	\$ 4,676,096	\$ 4,545,605	\$ 130,491
Discoveries	1,640,345	0.290	4,757	4,757	-
Abatements	<u>(2,407,241)</u>	0.290	<u>(6,981)</u>	<u>(6,981)</u>	<u>-</u>
Total property valuation	<u>\$ 1,611,680,000</u>				
Net levy			4,673,872	4,543,381	130,491
Uncollected taxes at June 30, 2019			<u>(36,701)</u>	<u>(36,701)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 4,637,171</u>	<u>\$ 4,506,680</u>	<u>\$ 130,491</u>
Current levy collection percentage			99.21%	99.19%	100.00%

COMPLIANCE SECTION



**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
Town of Forest City
Forest City, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Forest City, North Carolina, as of and for the year ended June 30, 2019, which collectively comprise the Town of Forest City's basic financial statements, and have issued our report thereon dated January 31, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as items 2019-001 to be a material weakness.

Compliance and Other Matters

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

Town of Forest City's Responses to Findings

The Town of Forest City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

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

Donald Killian CPA Group, P.A.

Asheville, North Carolina
January 31, 2020

TOWN OF FOREST CITY, NORTH CAROLINA

Schedule of Findings and Management Responses
For the Year Ended June 30, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

TOWN OF FOREST CITY, NORTH CAROLINA

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

II. Financial Statement Findings

Finding 2019-001

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

Condition: Internal controls were not sufficient to detect material misstatements in the Town's financial statements.

Context: The external auditor proposed material adjustments, including the discovery of prior year errors, necessary to present the Town's financial statements in accordance with generally accepted accounting principles.

Cause: There is currently no formal month-end or year-end close process in place to review the Town's balance sheet for proper accruals or cutoff.

Effect: Errors in financial reporting could occur, causing users of the financial statements to rely on inaccurate information for decision making.

Recommendation: The Town should establish a formal month-end and year-end close process whereby significant balance sheet accounts are reviewed for accuracy.

Management's Response: Management agrees with this finding. See the correction action plan on page 80.



Town of Forest City

P.O. Box 728

Forest City, North Carolina 28043

Corrective Action Plan For the Year Ended June 30, 2019

Finding 2019-001

Name of Contact Person: Roxanne Stiles, CPA, Finance Director

Corrective Action: Management will implement a process whereby significant balances sheet accounts are reviewed on a monthly basis, including reconciling subsidiary ledgers to the general ledger. This will help ensure accurate financial reporting throughout the year.

Proposed Completion Date: Immediately and ongoing