

Town of Kenansville

North Carolina

Financial Statements

Town Board Members

John D. Garner, Mayor

Nelson Baker

Elwood Garner

Jonathan Guy

Lloyd Hobbs

Milta King

Town Administration

Chris Roberson, Town Manager

Anna West, Finance Officer

Annette Dunn, Town Clerk

June 30, 2019

Town of Kenansville, North Carolina
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Financial Section

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Independent Auditor's Report

To the Honorable Mayor
and Members of the Town Board
Kenansville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Kenansville, 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. The financial statements of the Kenansville ABC Board were not audited in accordance with Government Auditing Standards.

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

management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Kenansville, North Carolina as of June 30, 2019, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year 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 - 13, the Other Postemployment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, on pages 61, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 57 - 58 respectively, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 59 - 60 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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

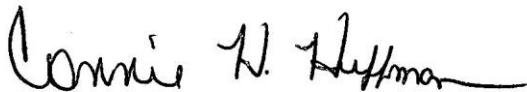
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Kenansville, North Carolina. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes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

The combining and individual fund statements, budgetary schedules and other schedules are the responsibility of management and were derived from and relates directly to the underlying

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2019 on our consideration of Town of Kenansville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Kenansville's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Connie H. Huffman". The signature is written in a cursive style with a long horizontal flourish at the end.

Connie H. Huffman, CPA, P.A.
Pink Hill, North Carolina
November 8, 2019

Management's Discussion and Analysis

Town of Kenansville, North Carolina Management's Discussion and Analysis

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

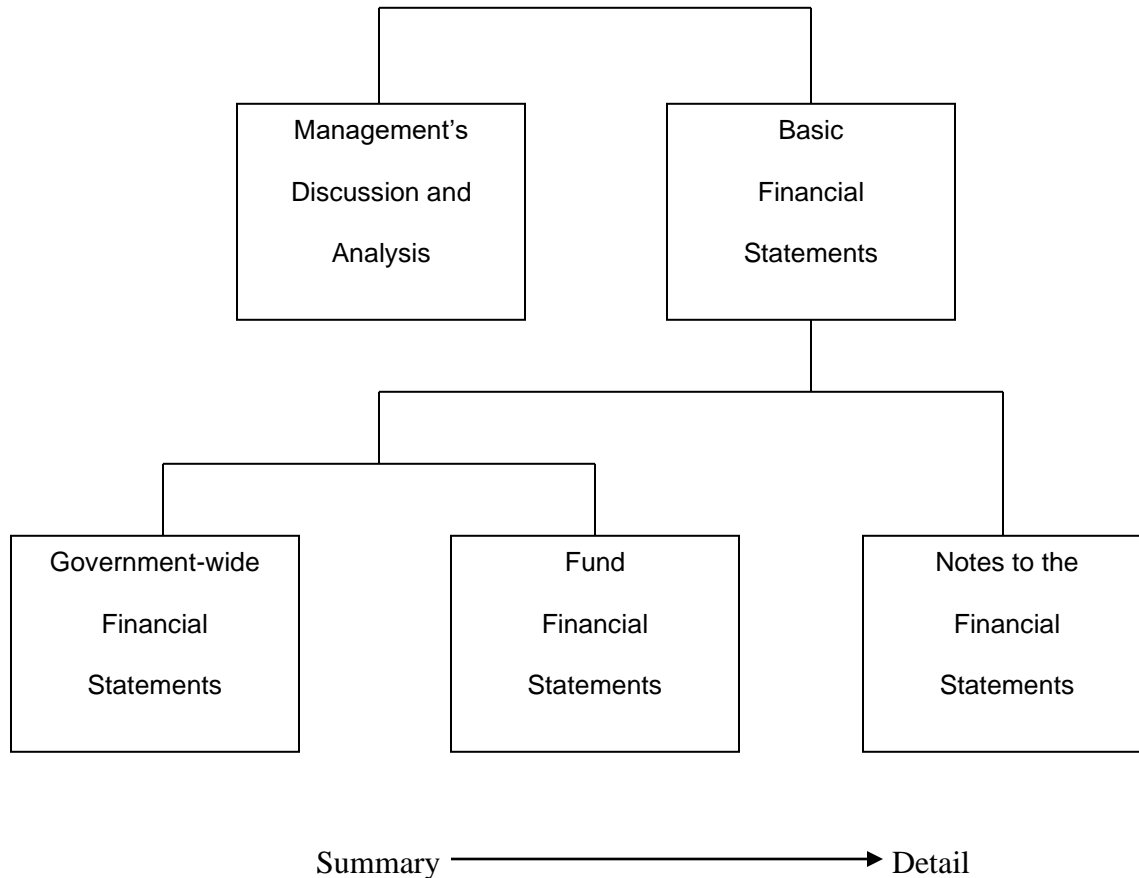
- The assets and deferred outflows of resources of the Town of Kenansville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$4,348,306. (*net position*)
- The government's total net position increased by \$73,233, primarily due to increased revenues and decreased expenses in the Governmental activities.
- As of the close of the current fiscal year, the Town of Kenansville's governmental funds reported combined ending fund balances of \$667,459, an increase of \$33,272 in comparison with the prior year. Approximately 36.30 percent of this total amount, or \$242,272 is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$425,187, or 49.1% of total general fund expenditures for the fiscal year.
- The Town of Kenansville's total debt decreased by \$12,207 (.008%) during the current fiscal year. The key factor in this decrease was routine debt service.

Overview of the Financial Statements

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

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 statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the town's individual funds.

Budgetary information required by the 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 services offered by the Town of Kenansville. The final category is the component unit. Although legally separate from the town, the Kenansville ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town of Kenansville.

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

Fund Financial Statements

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

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

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

Proprietary Funds – Town of Kenansville 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. Town of Kenansville uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

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

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Kenansville's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 57 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. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

**The Town of Kenansville's Net Position
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 768,242	\$ 767,113	\$ 1,783,513	\$ 1,858,428	\$ 2,551,755	\$ 2,625,541
Capital assets	1,276,333	1,260,191	2,080,685	1,977,778	3,357,018	3,237,969
Deferred outflows of resources	83,365	58,228	50,496	31,727	133,861	89,955
Total assets and deferred outflows of resources	2,127,940	2,085,532	3,914,694	3,867,933	6,042,634	5,953,465
Long-term liabilities outstanding	799,664	784,268	615,470	615,517	1,415,134	1,399,785
Other liabilities	43,533	74,674	68,215	81,893	111,748	156,567
Deferred inflows of resources	93,230	65,793	74,216	56,247	167,446	122,040
Total liabilities and deferred inflows of resources	936,427	924,735	757,901	753,657	1,694,328	1,678,392
Net position:						
Net invested in capital assets	1,257,858	1,231,168	2,057,389	1,934,839	3,315,247	3,166,007
Restricted	242,272	239,678	119,056	119,056	361,328	358,734
Unrestricted	(308,617)	(310,049)	980,348	1,060,381	671,731	750,332
Total net position	\$ 1,191,513	\$ 1,160,797	\$ 3,156,793	\$ 3,114,276	\$ 4,348,306	\$ 4,275,073

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 Kenansville exceeded liabilities and deferred inflows by \$4,348,306 as of June 30, 2019. The town's net position increased by \$73,233 for the fiscal year ended June 30, 2019. However, the largest portion (76.24%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Kenansville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Kenansville's 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 Kenansville's net position \$361,328 (8.31%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$671,731 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.11%, which is comparable to the statewide average of 98.78%.
- Continued efforts in cost saving measures.

- The Town of Kenansville is the county seat of Duplin County. This increases our Monday – Friday population to over 6,000. Increased population stimulates more business growth and sales tax revenue.
- Continued low cost of debt due to low fixed interest rates and timely structure payment schedule.
- Increases in sales tax revenues and utility tax revenues.

Town of Kenansville Changes in Net Position
Figure 2

	Governmental Activities 2019	Governmental Activities 2018	Business Type Activities 2019	Business Type Activities 2018	Total 2019	Total 2018
Revenues:						
Program revenues:						
Charges for services	\$ 108,188	\$ 114,223	\$ 677,507	\$ 713,224	\$ 785,695	\$ 827,447
Operating grants and contributions	33,283	65,109	-	-	33,283	65,109
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	367,012	383,732	-	-	367,012	383,732
Other taxes	-	-	-	-	-	-
Grants and contributions not restricted to specific programs	345,794	320,587	-	-	345,794	320,587
Other	42,641	17,920	51,588	35,464	94,229	53,384
Total revenues	896,918	901,571	729,095	748,688	1,626,013	1,650,259
Expenses:						
General government	209,033	207,751	-	-	209,033	207,751
Public safety	368,748	348,672	-	-	368,748	348,672
Highways/streets	142,476	287,360	-	-	142,476	287,360
Sanitation	79,089	76,501	-	-	79,089	76,501
Economic development	-	-	-	-	-	-
Culture and recreation	66,856	71,106	-	-	66,856	71,106
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	686,578	673,195	686,578	673,195
Total expenses	866,202	991,390	686,578	673,195	1,552,780	1,664,585
Increase in net position before transfers	30,716	(89,819)	42,517	75,493	73,233	(14,326)
Transfers	-	-	-	-	-	-
Increase in net position	30,716	(89,819)	42,517	75,493	73,233	(14,326)
Net position, beginning restated	1,160,797	1,250,616	3,114,276	3,038,783	4,275,073	4,289,399
Net position, June 30	\$ 1,191,513	\$ 1,160,797	\$ 3,156,793	\$ 3,114,276	\$ 4,348,306	\$ 4,275,073

Governmental activities. Governmental activities increased the Town's net position by \$30,716. The Town still has its cost savings strategies implemented across Town departments and is working to maximize tax collections. The Town's management will continue to monitor spending to maximize savings for the Town.

Business-type activities: Business-type activities increased the Town of Kenansville's net position by \$42,517. The key element of this increase was continued cost savings measures taken to reduce operating costs in the Water Sewer Fund.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Kenansville. At the end of the current fiscal year, Town of Kenansville's fund balance available in the General Fund was \$576,531, while total fund balance reached \$667,459. The Governing Body of Town of Kenansville has determined that the Town should maintain an available fund balance of 10% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 66.58% of general fund expenditures, while total fund balance represents 77.08% of the same amount.

At June 30, 2019, the governmental funds of Town of Kenansville reported a combined fund balance of \$667,459, a \$33,272 increase from last year.

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

Expenditures were kept to a minimum in all departments to compensate for unexpected expenses.

Proprietary Funds. The Town of Kenansville'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 \$980,348. Other factors concerning the finances of this fund have already been addressed in the discussion of the town's business-type activities. The change in net position was \$42,517.

Capital Asset and Debt Administration

Capital assets. The Town of Kenansville’s investment in capital assets for its governmental and business–type activities as of June 30, 2019 totals \$3,357,018 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, vehicles, sidewalks, and storm drainage system.

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

- Purchase of lighting and new computer network for general government \$4,729
- Purchase of vehicle and police equipment \$31,273
- Purchase of vehicle and mower for streets \$24,471
- Purchase of recreation equipment and tennis court restoration \$23,849
- Wastewater line improvement, GIS system, purchase of miscellaneous equipment and vehicles for water and sewer \$238,869

Town of Kenansville’s Capital Assets (net of depreciation)

Figure 3

	Governmental Activities 2019	Governmental Activities 2018	Business-type Activities 2019	Business-type Activities 2018	Total 2019	Total 2018
Land	\$ 41,125	\$ 41,125	\$ 6,500	\$ 6,500	\$ 47,625	\$ 47,625
Buildings and systems	396,874	401,103	1,849,619	1,849,338	2,246,493	2,250,441
Improvements other than buildings	616,154	617,716	-	-	616,154	617,716
Machinery and equipment	159,865	171,867	94,865	74,888	254,730	246,755
Vehicles and motorized equipment	60,684	26,981	48,550	45,987	109,234	72,968
Computer software	112	1,064	2,671	1,065	2,783	2,129
Computer equipment	1,519	335	-	-	1,519	335
Work in Progress	-	-	78,480	-	78,480	-
Total	\$ 1,276,333	\$ 1,260,191	\$ 2,080,685	\$ 1,977,778	\$ 3,357,018	\$ 3,237,969

Additional information on the town’s capital assets can be found on pages 35 – 36 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2019, the Town of Kenansville had total debt outstanding of \$1,449,442. Of this, \$37,246 is installment debt, and \$4,525 is capital leases. The remainder of the Town’s liability is for compensated absences payable, pension related debt, and other post-employment benefits.

Outstanding Debt

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Installment debt	\$ 13,950	\$ 23,137	\$ 23,296	\$ 38,939	\$ 37,246	\$ 62,076
General obligation bonds	-	-	-	4,000	-	4,000
Capital leases	4,525	5,886	-	-	4,525	5,886
OPEB	632,171	629,388	533,155	530,808	1,165,326	1,160,196
Pension related debt (LGERS)	66,535	49,596	59,911	45,581	126,446	95,177
Pension related debt (LEO)	80,530	73,730	-	-	80,530	73,730
Compensated absences	17,111	16,520	18,258	19,650	35,369	36,170
Total	\$ 814,822	\$ 798,257	\$ 634,620	\$ 638,978	\$ 1,449,442	\$ 1,437,235

Additional information regarding the Town of Kenansville’s long-term debt can be found on page 54 in Note III.B.6 of this report.

Economic Factors and Next Year’s Budgets and Rates

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

- The Town of Kenansville is the county seat of Duplin County, offering jobs in local and state agencies. The town is also home to Vidant Duplin Hospital, one K-8 school, and James Sprunt Community College.
- Occupancy rates on office and retail space. The Town host high occupancy rates throughout the fiscal year.
- More growth is expected with more businesses coming to Town which will in turn add to the tax base.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: The Town’s property tax rate will remain at \$0.47 per \$100. Property taxes and revenues from local sales tax and franchise taxes are expected to remain relatively level.

Budgeted expenditures in the General Fund increased approximately 18% in comparison to the prior year budget. This increase is mainly due to increased expenditures in the police department and streets for operating expenditures and debt service.

Business – type Activities: The water and sewer rates will remain the same for customers. Expenditures decreased approximately 17% primarily due to decreased capital outlay expenditures.

Requests for Information

This report is designed to provide an overview of the town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Kenansville, PO Box 370, 141 Routledge Road, Kenansville, NC 28349. You can also call 910-296-0369 or send an email to manager@kenansville.org.

Basic Financial Statements

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

Primary Government

	Governmental Activities	Business-type Activities	Total	Kenansville ABC Store
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 455,762	\$ 1,544,646	\$ 2,000,408	54,517
Taxes receivables (net)	51,273	-	51,273	-
Accrued interest receivable on taxes	18,935	-	18,935	-
Accounts receivable (net)	10,374	93,827	104,201	-
Due from other governments	80,554	-	80,554	-
Prepaid expenses	-	-	-	2,221
Inventories	-	-	-	70,518
Restricted cash and cash equivalents	151,344	145,040	296,384	-
Total current assets	<u>768,242</u>	<u>1,783,513</u>	<u>2,551,755</u>	<u>127,256</u>
Non-current assets:				
Capital assets (Note 4):				
Land, non-depreciable improvements, and construction in progress	41,125	6,500	47,625	3,357
Other capital assets, net of depreciation	1,235,208	2,074,185	3,309,393	31,961
Total capital assets	<u>1,276,333</u>	<u>2,080,685</u>	<u>3,357,018</u>	<u>35,318</u>
Total assets	<u>2,044,575</u>	<u>3,864,198</u>	<u>5,908,773</u>	<u>162,574</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	70,456	44,492	114,948	12,146
OPEB deferrals	12,909	6,004	18,913	-
Total deferred outflows of resources	<u>83,365</u>	<u>50,496</u>	<u>133,861</u>	<u>12,146</u>
LIABILITIES				
Current liabilities:				
Accounts payable	28,237	21,945	50,182	74,508
Accrued interest payable	138	-	138	-
Unearned revenue	-	1,136	1,136	-
Current portion of long-term liabilities	15,158	19,150	34,308	-
Payable from restricted assets	-	25,984	25,984	-
Total current liabilities	<u>43,533</u>	<u>68,215</u>	<u>111,748</u>	<u>74,508</u>
Long-term liabilities:				
Net pension liability	66,535	59,911	126,446	16,132
Total pension liability	80,530	-	80,530	-
Total OPEB liability	632,171	533,155	1,165,326	-
Due in more than one year	20,428	22,404	42,832	-
Total liabilities	<u>843,197</u>	<u>683,685</u>	<u>1,526,882</u>	<u>90,640</u>
DEFERRED INFLOWS OF RESOURCES				
Prepaid taxes	2,338	-	2,338	-
Pension deferrals	7,893	4,217	12,110	566
OPEB deferrals	82,999	69,999	152,998	-
Total deferred inflows of resources	<u>93,230</u>	<u>74,216</u>	<u>167,446</u>	<u>566</u>
NET POSITION				
Net investment in capital assets	1,257,858	2,057,389	3,315,247	32,937
Restricted for:				
Stabilization by State Statute	90,928	-	90,928	-
Transportation	148,491	-	148,491	-
Recreation	2,853	-	2,853	-
WW Treatment Plant Expansion	-	119,056	119,056	-
Other functions	-	-	-	50,577
Unrestricted	(308,617)	980,348	671,731	-
Total net position	<u>\$ 1,191,513</u>	<u>\$ 3,156,793</u>	<u>\$ 4,348,306</u>	<u>\$ 83,514</u>

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

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Kenansville ABC Board
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 209,033	\$ 21,958	\$ -	\$ -	\$ (187,075)	\$ -	\$ (187,075)	-
Public safety	368,748	1,554	-	-	(367,194)	-	(367,194)	-
Transportation	142,476	1,800	32,663	-	(108,013)	-	(108,013)	-
Economic and physical development	-	-	-	-	-	-	-	-
Environmental protection	79,089	78,746	620	-	277	-	277	-
Cultural and recreation	66,856	4,130	-	-	(62,726)	-	(62,726)	-
Interest on long-term debt	-	-	-	-	-	-	-	-
Total governmental activities	866,202	108,188	33,283	-	(724,731)	-	(724,731)	-
Business-type activities:								
Water and sewer	686,578	677,507	-	-	-	(9,071)	(9,071)	-
Total business-type activities	686,578	677,507	-	-	-	(9,071)	(9,071)	-
Total primary government	\$ 1,552,780	\$ 785,695	\$ 33,283	\$ -	(724,731)	(9,071)	(733,802)	-
Component Unit:								
Kenansville ABC Board	571,272	570,015	-	-	-	-	-	(1,257)
Total component unit	571,272	570,015	-	-	-	-	-	(1,257)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					367,012	-	367,012	-
Other taxes					-	-	-	-
Grants and contributions not restricted to specific programs					345,794	-	345,794	-
Unrestricted investment earnings					263	8,406	8,669	31
Miscellaneous					12,929	50	12,979	-
Insurance proceeds					9,881	4,821	14,702	1,226
Fema proceeds					19,568	38,311	57,879	-
Total general revenues and transfers					755,447	51,588	807,035	1,257
Change in net position					30,716	42,517	73,233	-
Net position, beginning					1,160,797	3,114,276	4,275,073	83,514
Net position, ending					\$ 1,191,513	\$ 3,156,793	\$ 4,348,306	\$ 83,514

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

Town of Kenansville, North Carolina
Balance Sheet
Governmental Funds
June 30, 2019

	Major Funds General	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 455,762	\$ 455,762
Restricted cash	151,344	151,344
Receivables, net:		
Taxes	51,273	51,273
Accounts	10,374	10,374
Due from other governments	80,554	80,554
Due from other funds	-	-
Total assets	<u>749,307</u>	<u>749,307</u>
LIABILITIES		
Accounts payable and accrued liabilities	28,237	28,237
Due to other funds	-	-
Total liabilities	<u>28,237</u>	<u>28,237</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	51,273	51,273
Prepaid taxes	2,338	2,338
Total deferred inflows of resources	<u>53,611</u>	<u>53,611</u>
FUND BALANCES		
Non Spendable		
Inventories	-	-
Perpetual maintenance	-	-
Restricted		
Stabilization by State Statute	90,928	90,928
Streets	148,491	148,491
Recreation	2,853	2,853
Economic Development	-	-
Assigned		
Subsequent year's expenditures	-	-
Unassigned	425,187	425,187
Total fund balances	<u>667,459</u>	<u>667,459</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 749,307</u>	<u>\$ 749,307</u>

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

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

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

<i>Total Fund Balances:</i>	\$	667,459
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,276,333
Deferred outflows of resources related to pensions are not reported in the funds		70,456
Deferred outflows of resources related to OPEB are not reported in the funds		12,909
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		18,935
Prepaid assets are recognized in the Government-wide financial statements and expensed as consumed and recorded as an expenditure in the fund statements when paid		-
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		51,273
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		
Gross long term debt		(35,586)
Deferred inflows of resources related to pensions are not reported in the funds		(7,893)
Deferred inflows of resources related to OPEB are not reported in the funds		(82,999)
Net pension liability		(66,535)
Total pension liability		(80,530)
OPEB liability		(632,171)
Other liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.		(138)
Net position of governmental activities	<u>\$</u>	<u>1,191,513</u>

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

Town of Kenansville, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	Major Funds		Total Governmental Funds
	General Fund		
REVENUES			
Ad valorem taxes	\$ 369,270	\$	369,270
Unrestricted intergovernmental	345,794		345,794
Restricted intergovernmental	33,224		33,224
Permits and fees	2,564		2,564
Sales and services	82,876		82,876
Investment earnings	322		322
Miscellaneous	35,677		35,677
Total revenues	<u>869,727</u>		<u>869,727</u>
EXPENDITURES			
Current:			
General government	201,486		201,486
Public safety	369,567		369,567
Transportation	148,108		148,108
Economic and physical development	-		-
Environmental protection	79,665		79,665
Culture and recreation	55,808		55,808
Debt service:			
Principal	10,548		10,548
Interest and other charges	722		722
Total expenditures	<u>865,904</u>		<u>865,904</u>
Excess (deficiency) of revenues over expenditures	<u>3,823</u>		<u>3,823</u>
OTHER FINANCING SOURCES (USES)			
Insurance proceeds	9,881		9,881
FEMA proceeds	19,568		19,568
Total other financing sources (uses)	<u>29,449</u>		<u>29,449</u>
Net change in fund balance	33,272		33,272
Fund balances, beginning	634,187		634,187
Fund balances, ending	<u>\$ 667,459</u>	\$	<u>667,459</u>

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

Town of Kenansville, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

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

Net changes in fund balances - total governmental funds	\$	33,272
Change in fund balance due to change in prepaid expenses		-
<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 depreciation exceeded capital outlay in the current period</p>		
Capital outlay expenditures which were capitalized	\$ 84,322	
Depreciation expense for governmental assets	<u>(68,180)</u>	16,142
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		19,433
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities		326
OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities		13,131
Difference in gains on sale of assets		-
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		-
Change in unavailable revenue for tax revenues		(2,258)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
New long-term debt issued	-	
Principal payments on long-term debt	10,548	
Decrease in accrued interest payable	<u>91</u>	10,639
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(591)	
Pension expense	(24,765)	
OPEB plan expense	<u>(34,613)</u>	(59,969)
Net revenue of internal service funds determined to be governmental-type.		<u>-</u>
Total changes in net position of governmental activities	\$	<u><u>30,716</u></u>

Town of Kenansville, North Carolina
General Fund and Annually Budgeted Major Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2019

	General Fund			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 356,808	\$ 356,808	\$ 369,270	\$ 12,462
Unrestricted intergovernmental	321,199	321,199	345,794	24,595
Restricted intergovernmental	33,248	33,248	33,224	(24)
Permits and fees	1,750	3,710	2,564	(1,146)
Sales and services	85,191	81,813	82,876	1,063
Investment earnings	600	600	322	(278)
Miscellaneous	29,554	31,833	35,677	3,844
Total revenues	<u>828,350</u>	<u>829,211</u>	<u>869,727</u>	<u>40,516</u>
Expenditures:				
Current:				
General government	204,535	210,571	201,486	9,085
Public safety	338,775	370,967	369,567	1,400
Transportation	171,769	223,515	148,108	75,407
Environmental protection	79,270	80,418	79,665	753
Cultural and recreation	51,630	75,825	55,808	20,017
Debt service:				
Principal retirement	-	10,548	10,548	-
Interest and other charges	-	722	722	-
Contingency	33,221	16,687	-	16,687
Total expenditures	<u>879,200</u>	<u>989,253</u>	<u>865,904</u>	<u>123,349</u>
Revenues over (under) expenditures	<u>(50,850)</u>	<u>(160,042)</u>	<u>3,823</u>	<u>163,865</u>
Other financing sources (uses):				
Loan proceeds	50,850	50,850	-	(50,850)
Insurance proceeds	-	-	9,881	9,881
FEMA proceeds	-	19,423	19,568	145
Total other financing sources (uses)	<u>50,850</u>	<u>70,273</u>	<u>29,449</u>	<u>(40,824)</u>
Fund balance appropriated	<u>-</u>	<u>89,769</u>	<u>-</u>	<u>(89,769)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>33,272</u>	<u>\$ 33,272</u>
Fund balances, beginning			<u>634,187</u>	
Fund balances, ending			<u>\$ 667,459</u>	

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

Town of Kenansville, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2019

	Water and Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,544,646
Accounts receivable (net) - billed	4,272
Accounts receivable (net) - unbilled	89,555
Prepaid items	-
Restricted cash and cash equivalents	145,040
Total current assets	1,783,513
Noncurrent assets:	
Capital assets:	
Land and other non-depreciable assets	6,500
Other capital assets, net of depreciation	2,074,185
Total capital assets	2,080,685
Total noncurrent assets	2,080,685
Total assets	\$ 3,864,198
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	\$ 44,492
OPEB deferrals	6,004
Total deferred outflows of resources	\$ 50,496
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 21,945
Unearned revenue	1,136
Compensated absences - current	3,619
General obligation bonds payable - current	-
Southern Bank installment purchase - current	15,531
Liabilities payable from restricted assets:	
Customer deposits	25,984
Total current liabilities	68,215
Noncurrent liabilities:	
Compensated absences	14,639
Southern Bank installment purchase - noncurrent	7,765
Net pension liability	59,911
Total OPEB liability	533,155
General obligation bonds payable - noncurrent	-
Total noncurrent liabilities	615,470
Total liabilities	683,685
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	4,217
OPEB deferrals	69,999
Total deferred inflows of resources	74,216
NET POSITION	
Net investment in capital assets	2,057,389
Restricted - Waste Water Treatment Plant Expansion	119,056
Unrestricted	980,348
Total net position	\$ 3,156,793

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

Town of Kenansville, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2019

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 658,332
Water and sewer taps	-
Other operating revenues	19,175
Total operating revenues	677,507
OPERATING EXPENSES	
Water and sewer administration	272,819
Water treatment and distribution	281,615
Depreciation	131,239
Total operating expenses	685,673
Operating income (loss)	(8,166)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	8,406
Interest and other charges	(905)
Fema proceeds	38,311
Insurance proceeds	4,821
Miscellaneous revenue	50
Total nonoperating revenue (expenses)	50,683
Income (loss) before contributions and transfers	42,517
Other miscellaneous items:	
Capital contributions	-
Sale of fixed assets	-
Transfers to other funds	-
Total other miscellaneous items	-
Change in net position	42,517
Beginning net position, restated	3,114,276
Total net position, ending	\$ 3,156,793

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

Town of Kenansville, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2019

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 689,788
Cash paid for goods and services	(285,945)
Cash paid to or on behalf of employees for services	(265,378)
Customer deposits received (net)	1,654
Net cash provided (used) by operating activities	140,119
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Fema proceeds	38,311
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(238,869)
Principal paid on bonds and leases	(19,643)
Sale of equipment	4,723
Interest paid on bonds and leases	(905)
Insurance proceeds	4,821
Other non-operating	50
Net cash provided (used) by capital and related financing activities	(249,823)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	8,406
Net increase (decrease) in cash and cash equivalents	(62,987)
Balances, beginning	1,752,673
Balances, ending	\$ 1,689,686
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ (8,166)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	131,239
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	11,928
(Increase) decrease in prepaid items	-
(Increase)decrease in deferred outflows of resources - pensions	(14,021)
(Increase)decrease in deferred outflows of resources - OPEB	(4,748)
Increase (Decrease) in net pension liability	14,330
Increase (decrease) in deferred inflows of resources - pensions	(2,167)
Increase (decrease) in accounts payable and accrued liabilities	(11,374)
Increase (decrease) in unearned revenues	353
Increase (decrease) in customer deposits	1,654
Increase in deferred inflows of resources - OPEB	20,136
Increase (decrease) in OPEB liability	2,347
Increase (decrease) in accrued vacation pay	(1,392)
Total adjustments	148,285
Net cash provided by operating activities	\$ 140,119

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

Town of Kenansville, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

I. Summary of Significant Accounting Policies

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

Kenansville ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Kenansville ABC Board, P.O. Box 488, Kenansville, NC 28349.

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a 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, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and

contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses for the enterprise fund 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 for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the 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 a shared revenue for the Town of Kenansville because the tax is levied by Duplin 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 are both restricted and unrestricted net positions available to finance the program. It is the Town's policy

to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town and 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 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.

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

The Town adopted enabling legislation on October 1, 1990 related to sewer impact fees charged to commercial and institutional customers. The fees collected for this purpose can only be used for Waste Water Treatment Plant expansion. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. The Town had unspent donated funds of \$2,853 that can only be spent for recreation purposes. Powell Bill Funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4. The Town also has \$14,470 of restricted funds related to its municipal vehicle taxes collected.

Town of Kenansville Restricted Cash

Governmental Activities

General Fund	Streets	\$148,491
	Recreation	<u>2,853</u>
Total governmental activities		<u>\$151,344</u>

Business Type Activities:

Water and Sewer Fund	Customer deposits	\$ 25,984
	Wastewater Treatment Expansion	<u>119,056</u>
Total Business-type Activities		<u>\$145,040</u>

Total Restricted Cash		<u>\$296,384</u>
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4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

The inventories of the ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs is \$1,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Improvements	25
Vehicles	6
Furniture and equipment	7
Computer software	5
Computer equipment	3 – 5

Property, plant, and equipment of the ABC Board are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	30
Store equipment	5 – 20
Office equipment	10
Leasehold improvements	10

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows*

of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals for the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – prepaid taxes, property taxes receivable, and pension 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.

10. Compensated Absences

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

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

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance include inventory or perpetual maintenance resources. The Town does not maintain either of these.

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

Restricted for Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the cost 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 provision 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 and municipal vehicle tax collections that are restricted for maintaining, repairing, constructing, widening, or improving public streets in the town that do not form part of the State highway system. This amount represents the balance of the total unexpended Powell Bill funds and municipal vehicle tax collections.

Restricted for Recreation – portion of fund balance that is restricted by revenue source for recreation.

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

Assigned fund balance – portion of fund balance that the Town of Kenansville intends to use for specific purposes.

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

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

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

The Town of Kenansville has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures. Any portion of the general fund balance in excess of 10% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

12. Defined Benefit Cost-Sharing Plans

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

II. Stewardship, Compliance, and Accountability

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

1. Noncompliance with North Carolina General Statutes

There were no instances of noncompliance with North Carolina General Statutes noted.

III. Detail Notes on All Funds

A. Assets

1. Deposits

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

At June 30, 2019, the Town's deposits had a carrying amount of \$2,295,002 and a bank balance of \$2,296,197. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$53,717 and the bank balance was \$47,623. The bank balances of the ABC Board were fully covered by the federal depository insurance. At June 30, 2019, the Town's petty cash fund totaled \$100.

2. Investments

At June 30, 2019 the Town of Kenansville had \$1,690 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

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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 were as follows:

	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from Other Governments</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:					
General	\$ 12,488	\$ 70,208	\$ 80,554	\$ -	\$ 163,250
Other Governmental	-	-	-	-	-
Total receivables	12,488	70,208	80,554	-	163,250
Allowance for doubtful accounts	(2,114)	-	-	-	(2,114)
 Total-governmental activities	 \$ 10,374	 \$ 70,208	 \$ 80,554	 \$ -	 \$ 161,136
Business-type Activities					
Water and Sewer	\$ 105,877	\$ -	\$ -	\$ -	\$ 105,877
Total receivables	105,877	-	-	-	105,877
Allowance for doubtful accounts	(12,050)	-	-	-	(12,050)
 Total - business-type activities	 \$ 93,827	 \$ -	 \$ -	 \$ -	 \$ 93,827

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

Governmental Activities	
Local option sales tax	\$ 39,679
Utilities franchise tax	24,288
Sales tax refund receivable	10,241
Duplin County	<u>6,346</u>
 Total	 <u>\$ 80,554</u>

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4. Capital Assets
Primary Government

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 41,125	\$ -	\$ -	\$ 41,125
Construction in progress	-	-	-	-
Total capital assets not being depreciated	41,125	-	-	41,125
Capital assets being depreciated:				
Buildings	556,014	7,606	-	563,620
Other improvements	743,382	15,870	-	759,252
Equipment	675,585	19,779	58,875	636,489
Vehicles and motorized equipment	146,565	39,744	7,527	178,782
Computer software	23,828	-	-	23,828
Computer equipment	10,195	1,323	-	11,518
Total capital assets being depreciated	2,155,569	84,322	66,402	2,173,489
Less accumulated depreciation for:				
Buildings	154,911	11,835	-	166,746
Other improvements	125,666	17,432	-	143,098
Equipment	503,718	31,781	58,875	476,624
Vehicles and motorized equipment	119,584	6,041	7,527	118,098
Computer software	22,764	952	-	23,716
Computer equipment	9,860	139	-	9,999
Total accumulated depreciation	936,503	68,180	66,402	938,281
Total capital assets being depreciated, net	1,219,066			1,235,208
Governmental activity capital assets, net	\$ 1,260,191			\$ 1,276,333

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

General government	\$ 5,596
Public safety	16,258
Transportation	11,429
Environmental protection	-
Cultural and recreational	34,897
Total depreciation expense	<u>\$ 68,180</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Construction in progress	-	78,480	-	78,480
Total capital assets not being depreciated	6,500	78,480	-	84,980
Capital assets being depreciated:				
Plant and distributions systems	5,050,257	102,750	296	5,152,711
Computer equipment	4,330	2,647	-	6,977
Furniture and maintenance equipment	388,872	42,321	39,518	391,675
Vehicles	109,626	12,672	29,132	93,166
Total capital assets being depreciated	5,553,085	160,390	68,946	5,644,529
Less accumulated depreciation for:				
Plant and distributions systems	3,200,919	102,469	296	3,303,092
Computer equipment	3,265	1,041	-	4,306
Furniture and maintenance equipment	313,984	17,620	34,794	296,810
Vehicles	63,639	10,109	29,132	44,616
Total accumulated depreciation	3,581,807	131,239	64,222	3,648,824
Total capital assets being depreciated, net	1,971,278			1,995,705
Business-type activities capital assets, net	\$ 1,977,778			\$ 2,080,685

Discretely presented component unit

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 3,357	\$ -	\$ -	\$ 3,357
Construction in progress	-	-	-	-
Total capital assets not being depreciated	3,357	-	-	3,357
Capital assets being depreciated:				
Buildings	60,181	-	-	60,181
Store equipment	34,052	14,130	26,705	21,477
Office equipment	1,838	-	911	927
Improvements	11,441	-	-	11,441
Total capital assets being depreciated	107,512	14,130	27,616	94,026
Less accumulated depreciation for:				
Buildings	41,615	840	-	42,455
Store equipment	31,188	2,957	26,705	7,440
Office equipment	1,581	58	911	728
Improvements	11,442	-	-	11,442
Total accumulated depreciation	85,826	3,855	27,616	62,065
Total capital assets being depreciated, net	21,686			31,961
Business-type activities capital assets, net	\$ 25,043			\$ 35,318

B. Liabilities

1. Payables

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

	<u>Vendors</u>	<u>Payroll Liabilities</u>	<u>Total</u>
Governmental Activities:			
General	\$ 27,997	\$ 240	\$ 28,237
Total-governmental activities	<u>\$ 27,997</u>	<u>\$ 240</u>	<u>\$ 28,237</u>
Business-type Activities			
Water and Sewer	\$ 21,668	\$ 277	\$ 21,945
Total - business-type activities	<u>\$ 21,668</u>	<u>\$ 277</u>	<u>\$ 21,945</u>

2. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Kenansville is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, 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 Kenansville 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 Kenansville's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.82% 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 Kenansville were \$34,798 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 \$126,446 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 0.00533%, which was a decrease of 0.00090% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$31,323. 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	\$ 19,508	\$ 655
Changes in assumptions	33,554	-
Net difference between projected and actual earnings on pension plan investments	17,358	
Changes in proportion and differences between Town contributions and proportionate share of contributions	1,532	7,485
Town contributions subsequent to the measurement date	34,798	-
Total	<u>\$ 106,750</u>	<u>\$ 8,140</u>

\$34,798 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 30,886
2020	19,565
2021	3,901
2022	9,460
2023	-
Thereafter	-

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, 2018 are summarized in the following table:

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

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

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

on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 303,734	\$ 126,446	\$ (21,699)

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

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

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

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

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>3</u>
Total	<u><u>3</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 are recognized when due and payable in accordance with the terms of the plan.

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

3. Actuarial Assumptions

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

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

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

Mortality rates are based on the RP-2014 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. Contributions

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

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

At June 30, 2019, the Town reported a total pension liability of \$80,530. 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 \$6,950.

	Deferred Outflows of	Deferred Inflows of
Differences between expected and actual experience	\$ 4,516	\$ -
Changes of assumptions	3,355	3,970
Town benefit payments and plan administrative expense made subsequent to the measurement date	326	-
Total	\$ 8,197	\$ 3,970

\$326 of administrative expenses subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$	781
2021		781
2022		781
2023		780
2024		629
Thereafter		149

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:

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	\$ 87,778	\$ 80,530	\$ 73,818

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

	2019
Beginning balance	\$ 73,730
Service Cost	3,529
Interest on the total pension liability	2,330
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	4,352
Changes of assumptions or other inputs	(3,411)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	\$ 80,530

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

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

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

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

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	LGERS	LEOSSA	Total
Pension Expense	\$31,323	\$6,950	\$38,273
Pension Liability	126,446	80,530	206,976
Proportionate share of the net pension liability	0.00533%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	19,508	4,516	24,024
Changes of assumptions	33,554	3,355	36,909
Net difference between projected and actual earnings on plan investments	17,358	-	17,358
Changes in proportion and differences between contributions and proportionate share of contributions	1,532	-	1,532
Benefit payments and administrative costs paid subsequent to the measurement date	34,798	326	35,124
Deferred of Inflows of Resources			
Differences between expected and actual experience	655	-	655
Changes of assumptions	-	3,970	3,970
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	7,485	-	7,485

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

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

Contributions for the year ended June 30, 2019 for all employees were \$27,982, which consisted of \$22,219 from the Town and \$5,763 from the employees and law enforcement officers. No amounts were forfeited.

d. Other Postemployment Benefit

Health Care Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single employer defined benefit Healthcare Benefits Plan (the HCB Plan). No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. The plan provides post-employment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the Town. The Town pays the cost of coverage as indicated below based on length of service. The Town pays the costs for these benefits through private insurers. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare supplemental plan after qualifying for Medicare. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates but the retiree must pay all cost of dependent coverage. The Town Board may amend the benefit provisions. A separate report was not issued for the plan. At the July 11, 2011 regular board meeting, the Board voted to rescind the resolution to provide retirees and elected officials with health insurance coverage. The employees that are presently employed with the Town will be eligible for this benefit, but all employees hired after July 11, 2011 will not be covered. A separate report was not issued for the plan.

Date Hired

Years of Creditable Service	Pre-July 11, 2011	On or after July 11, 2011
Less than 5 years	Not eligible for coverage	Not eligible for coverage
5 – 10 years	20% coverage paid for by Town	Not eligible for coverage
10 – 20 years	75% coverage paid for by Town	Not eligible for coverage
20+ years	Full coverage paid for by Town	Not eligible for coverage

Membership of the HCB Plan consisted of the following at December 31, 2017, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active Plan members	<u>6</u>
Total	<u>7</u>

Total OPEB Liability

The Town's total OPEB liability of \$1,165,326 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases, including wage inflation	
General employees	3.50% - 7.75%
Law enforcement officers	3.50% - 7.35%
Municipal Bond Index Rate	
Prior measurement date	3.56%
Measurement date	3.89%
Health care cost trends	
Pre-Medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2017 decreasing to an ultimate rate of 5% by 2020

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

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Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	\$1,160,196
Changes for the year:	
Service Cost	40,571
Interest	41,144
Changes of benefit terms	-
Differences between expected and actual experience	2,184
Changes in assumptions of other inputs	(69,781)
Benefit payments	(8,988)
Net changes	<u>5,130</u>
Balance at June 30, 2018	<u><u>\$1,165,326</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.56% to 3.89%.

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014, adopted by the LGERS.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	1% Decrease (2.89%)	Current Discount Rate (3.89%)	1 % Increase (4.89%)
Total OPEB liability	\$ 1,394,889	\$ 1,165,326	\$ 983,529

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	1% Increase
Total OPEB liability	\$ 951,986	\$ 1,165,326	\$ 1,442,054

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

For the year ended June 30, 2019, the Town recognized OPEB expense of \$58,734. At June 30, 2019, the Town reported 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	\$ 1,896	\$ 483
Changes in assumptions	-	152,515
Benefit payments and administrative costs made subsequent to the measurement date	17,016	-
Total	\$ 18,912	\$ 152,998

\$17,016 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 outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	(25,482)
2020	(25,482)
2021	(25,482)
2022	(25,482)
2023	(25,482)
Thereafter	(23,692)

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's

death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

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

	Deferred Outflows of Resources
Contributions to pension plan in current fiscal year	\$ 34,798
Benefit payments and administrative expenses for LEOSSA made subsequent to measurement date	326
Benefit payments and administrative expenses for OPEB made subsequent to measurement date	17,016
Differences between expected and actual experience	25,920
Changes of assumptions	36,910
Net difference between projected and actual earnings	17,359
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,532
Total	<u><u>\$ 133,861</u></u>

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

	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes (General Fund)	\$ 2,338	\$ 2,338
Taxes receivable (General Fund)	-	51,273
Changes in assumptions	156,485	-
Differences between expected and actual experience	1,138	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,485	-
Total	\$ 167,446	\$ 53,611

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Medical stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years. The Town does not carry flood insurance because it is not in a designated flood zone.

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

Kenansville ABC Board is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation and employee health coverage. The Board also has liquor legal liability. There have been no significant reductions in insurance coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years for the ABC Store.

5. Claims, Judgments and Contingent Liabilities

No claims or judgments existed at June 30, 2019.

6. Long-Term Obligations

a. Capital Leases

The Town has entered into an agreement to lease certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception.

The agreement was executed on August 10, 2017 to lease police equipment and requires 5 payments of \$1,668.82. Title passes to the Town at the end of the lease term.

The following is an analysis of the assets recorded under capital leases at June 30, 2019:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment	7,555	2,392	5,163

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2019 were as follows:

<u>Year Ending June 30</u>	
2020	1,669
2021	1,669
2022	1,669
	<u>5,007</u>
Less: amount representing interest	482
Present value of the minimum lease payments	<u><u>4,525</u></u>

b. Installment Purchase

In November 2017, the Town entered into an installment purchase contract with Southern Bank and Trust Company to finance vehicles for the police department and the water sewer fund. The property is pledged as collateral for the debt while the debt is outstanding. The contract calls for 6 semi-annual principal payments of \$12,415.19 plus accrued interest, beginning on May 22, 2018 and continuing every six months thereafter, until paid in full. The interest rate is 1.99% per annum.

Annual debt service payments of the installment purchase as June 30, 2019, including \$744 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 9,300	\$ 229	\$ 15,531	\$ 391
2021	4,650	46	7,765	78
	<u>\$ 13,950</u>	<u>\$ 275</u>	<u>\$ 23,296</u>	<u>\$ 469</u>

c. General Obligation Indebtedness

The general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All bonds are collateralized by the faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due. The town made the final payment on the \$532,000 1982 Water and Sewer serial bonds on May 6, 2019. At June 30, 2019, the Town of Kenansville had no bonds authorized and unissued.

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The following is a summary of the changes in the Town's debt for the year ended June 30, 2019:

	Liabilities			Liabilities	Current
	June 30, 2018	Additions	Retirements	June 30, 2019	Portion
<i>Governmental activities:</i>					
By the type of debt:					
Installment purchase	\$ 23,137	\$ -	\$ 9,187	\$ 13,950	\$ 9,300
Capitalized lease	5,886	-	1,361	4,525	1,432
Total OPEB liability	629,388	2,783	-	632,171	-
Net pension liability (LGERS)	49,596	16,939	-	66,535	-
Total pension liability (LEO)	73,730	6,800	-	80,530	\$ -
Compensated absences	16,520	10,695	10,104	17,111	4,426
Total	<u>\$ 798,257</u>	<u>\$ 37,217</u>	<u>\$ 20,652</u>	<u>\$ 814,822</u>	<u>\$ 15,158</u>
<i>Business-type activities:</i>					
Water/Sewer Fund:					
Installment purchase	\$ 38,939	\$ -	\$ 15,643	\$ 23,296	\$ 15,531
Net pension liability (LGERS)	45,581	14,330	-	59,911	-
Total OPEB liability	530,808	2,347	-	533,155	-
Compensated absences	19,650	10,052	11,444	18,258	3,619
General obligation bonds	4,000	-	4,000	-	-
Total	<u>\$ 638,978</u>	<u>\$ 26,729</u>	<u>\$ 31,087</u>	<u>\$ 634,620</u>	<u>\$ 19,150</u>

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

7. Operating Leases

The Town executed a Metering as a Service Agreement contract with Metersys on March 12, 2018. The contract required the Town to pay \$49,663 on June 30, 2018 and nine more additional payments of \$49,663 due January 31 beginning in 2019 and ending January 31, 2027. The Town has recognized \$49,663 in rental expenses during the current fiscal year as a result of this agreement.

C. Interfund Balances and Activity

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations; including amounts provided as matching funds for various grant programs.

The Town did not make any interfund transfers this fiscal year.

D. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 1,276,333	\$ 2,080,685
Less: long-term debt	<u>18,475</u>	<u>23,296</u>
Net investment in capital assets	<u><u>\$ 1,257,858</u></u>	<u><u>\$ 2,057,389</u></u>

E. Fund Balance

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

<i>Total fund balance-General Fund</i>	\$ 667,459
Less:	
Stabilization by State Statute	90,928
Streets	148,491
Parks and recreation	2,853
Working Capital/Fund Balance Policy	<u>98,925</u>
Remaining Fund Balance	<u><u>326,262</u></u>

The Town of Kenansville has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures.

IV. Jointly Governed Organization

The Town, in conjunction with nine counties and forty seven other municipalities established the Eastern Carolina Council. The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$290 to the Council during the fiscal year ended June 30, 2019.

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

VI. Subsequent Events

As of November 8, 2019, the date of the completion of the financial statements, there were no material subsequent events that were required to be reported.

Required Supplementary Financial Data

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

- Schedule of Proportionate Share of Net Pension Liability for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered Payroll
- Schedule of Changes in the Total OPEB Liability and Related Ratios

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

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Kenansville's proportion of the net pension liability (asset) (%)	0.00533%	0.62300%	0.00589%	0.00749%	0.00700%	0.00760%
Kenansville's proportion of the net pension liability (asset) (\$)	\$ 126,446	\$ 95,177	\$ 125,006	\$ 33,615	\$ (41,164)	\$ 91,609
Kenansville's covered-employee payroll	\$ 405,535	\$ 382,066	\$ 327,076	\$ 361,239	\$ 395,578	\$ 394,183
Kenansville's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.18%	24.91%	38.22%	9.31%	(10.41%)	23.24%
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 ending June 30.

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

Town of Kenansville, North Carolina
Town of Kenansville's Contributions
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 34,798	\$ 31,391	\$ 28,740	\$ 22,514	\$ 25,660	\$ 28,283
Contributions in relation to the contractually required contribution	34,798	31,391	28,740	22,514	25,660	28,283
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Kenansville's covered-employee payroll	\$ 434,285	\$ 405,535	\$ 382,066	\$ 327,076	\$ 361,239	\$ 395,578
Contributions as a percentage of covered-employee payroll	8.01%	7.74%	7.52%	6.88%	7.10%	7.14%

Town of Kenansville, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance

	2019	2018	2017
Beginning balance	\$ 73,730	\$ 62,586	\$ 59,497
Service Cost	3,529	2,783	2,779
Interest on the total pension liability	2,330	2,416	2,124
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	4,352	1,114	-
Changes of assumptions or other inputs	(3,411)	4,831	(1,814)
Benefit payments	-	-	-
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 80,530</u>	<u>\$ 73,730</u>	<u>\$ 62,586</u>

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

	2019	2018
Total pension liability	\$ 80,530	\$ 73,730
Covered payroll	173,655	108,045
Total pension liability as a percentage of covered payroll	46.37%	68.24%

Notes to the schedules:

The Town of Kenansville has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 nor does the Plan provide pay related benefits.

Town of Kenansville
Schedule of Changes in the Total OPEB Liability and Related Ratios
June 30, 2019

Total OPEB Liability	2019	2018
Service Cost	\$ 40,571	\$ 45,896
Interest	41,144	36,315
Changes of benefit terms	-	-
Differences between expected and actual experience	2,184	(657)
Changes of assumptions	(69,781)	(124,894)
Benefit payments	(8,988)	(5,828)
Net change in total OPEB liability	5,130	(49,168)
Total OPEB liability - beginning	1,160,196	1,209,364
Total OPEB liability - ending	\$ 1,165,326	\$ 1,160,196

Covered payroll N/A* N/A*

Total OPEB liability as a percentage of covered payroll N/A* N/A*

*Covered employee payroll is not provided, since there are fewer than 10 participants in the Plan.

Notes to Schedule

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

<u>Fiscal Year</u>	<u>Rate</u>
2019	3.89%
2018	3.56%

***Individual Fund Statements
and Schedules***

Town of Kenansville, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Current year	\$ 344,308	\$ 347,578	\$ 3,270
Prior years	11,500	10,620	(880)
Penalties and interest	1,000	11,072	10,072
Total	<u>356,808</u>	<u>369,270</u>	<u>12,462</u>
Unrestricted intergovernmental:			
Local option sales taxes	202,187	221,804	19,617
Video franchise fee	2,500	2,326	(174)
Telecommunications sales tax	11,000	9,591	(1,409)
Piped natural gas tax sales tax	8,126	9,956	1,830
Utilities sales tax	83,050	82,877	(173)
Beer and wine tax	4,236	3,608	(628)
ABC profit distribution	10,100	15,632	5,532
Total	<u>321,199</u>	<u>345,794</u>	<u>24,595</u>
Restricted intergovernmental:			
Powell Bill allocation	32,698	32,604	(94)
Solid waste disposal tax	550	620	70
Total	<u>33,248</u>	<u>33,224</u>	<u>(24)</u>
Permits and fees:			
Zoning permit fees	1,000	1,010	10
Police fees	2,710	1,554	(1,156)
Total permits and fees	<u>3,710</u>	<u>2,564</u>	<u>(1,146)</u>
Sales and services:			
Sanitation fees	78,913	78,746	(167)
Park and recreation fees	2,900	4,130	1,230
Total sales and service	<u>81,813</u>	<u>82,876</u>	<u>1,063</u>
Investment earnings:			
Interest on investments	600	322	(278)
Miscellaneous:			
Solar fields revenue	20,948	20,948	-
Yard maintenance	1,800	1,800	-
Lease Bostic Street Tower	7,107	7,124	17
Other	1,978	5,805	3,827
Total	<u>31,833</u>	<u>35,677</u>	<u>3,844</u>
Total revenues	<u>829,211</u>	<u>869,727</u>	<u>40,516</u>

Town of Kenansville, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General government:			
Salaries and benefits	105,723	104,613	1,110
Town and planning board compensation	14,020	13,014	1,006
Operating expenditures	48,678	42,319	6,359
Professional services	17,400	19,736	(2,336)
Contracted services	19,750	17,075	2,675
Capital outlay	5,000	4,729	271
Total general government	<u>210,571</u>	<u>201,486</u>	<u>9,085</u>
Public safety:			
Police:			
Salaries and benefits	184,987	195,323	(10,336)
Vehicle expense	14,005	18,799	(4,794)
Other operating expenditures	43,398	40,172	3,226
Capital outlay	44,577	31,273	13,304
Total	<u>286,967</u>	<u>285,567</u>	<u>1,400</u>
Fire:			
Contributions for operating expenditures	56,411	56,411	-
Contributions for capital outlay	27,589	27,589	-
Total	<u>84,000</u>	<u>84,000</u>	<u>-</u>
Total public safety	<u>370,967</u>	<u>369,567</u>	<u>1,400</u>
Transportation:			
Streets:			
Salaries and benefits	69,899	62,707	7,192
Vehicle maintenance	6,000	3,898	2,102
Other operating expenses	30,219	16,718	13,501
Street lights	23,535	24,871	(1,336)
Contracted services	32,798	15,443	17,355
Capital outlay	61,064	24,471	36,593
Total transportation	<u>223,515</u>	<u>148,108</u>	<u>75,407</u>
Environmental protection:			
Sanitation:			
Contracted services	76,770	77,510	(740)
County landfill tipping fee	3,648	2,155	1,493
Total environmental protection	<u>80,418</u>	<u>79,665</u>	<u>753</u>
Culture and recreation:			
Contracted services	-	-	-
Operating expenditures	51,630	31,959	19,671
Capital outlay	24,195	23,849	346
Total culture and recreation	<u>75,825</u>	<u>55,808</u>	<u>20,017</u>
Debt service:			
Principal retirement	10,548	10,548	-
Interest and other changes	722	722	-
Total debt service	<u>11,270</u>	<u>11,270</u>	<u>-</u>
Contingency	16,687	-	16,687
Total expenditures	<u>989,253</u>	<u>865,904</u>	<u>123,349</u>
Revenues over (under) expenditures	<u>(160,042)</u>	<u>3,823</u>	<u>163,865</u>

Town of Kenansville, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Loan proceeds	50,850	-	(50,850)
Insurance proceeds	-	9,881	9,881
FEMA proceeds	19,423	19,568	145
Total other financing sources (uses)	<u>70,273</u>	<u>29,449</u>	<u>(40,824)</u>
Fund balance appropriated	89,769	-	89,769
Net change in fund balance	<u>\$ -</u>	33,272	<u>\$ 33,272</u>
Fund balances, beginning		<u>634,187</u>	
Fund balances, ending		<u>\$ 667,459</u>	

Town of Kenansville, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 725,378	\$ 658,332	\$ (67,046)
Water and sewer taps	-	-	-
Other operating revenues	<u>13,650</u>	<u>19,175</u>	<u>5,525</u>
Total	<u>739,028</u>	<u>677,507</u>	<u>(61,521)</u>
Nonoperating revenues:			
Miscellaneous revenue	2,050	50	(2,000)
Interest earnings	<u>650</u>	<u>8,406</u>	<u>7,756</u>
Total	<u>2,700</u>	<u>8,456</u>	<u>5,756</u>
Total revenues	<u>741,728</u>	<u>685,963</u>	<u>(55,765)</u>
Expenditures:			
Wastewater			
Salaries and employee benefits	132,198	128,840	3,358
Professional services	12,000	828	11,172
Contracted services	25,200	14,197	11,003
Utilities	41,967	40,938	1,029
Supplies	13,000	15,217	(2,217)
Vehicle expense	19,400	7,858	11,542
Repairs and maintenance	30,471	27,430	3,041
Insurance	12,231	12,006	225
Water and sewer analysis	10,000	5,462	4,538
Other	<u>16,700</u>	<u>12,800</u>	<u>3,900</u>
Total water and sewer admin	<u>313,167</u>	<u>265,576</u>	<u>47,591</u>
Water treatment and distribution			
Salaries and employee benefits	150,960	150,884	76
Supplies	9,000	2,815	6,185
Utilities	15,408	14,735	673
Repairs and maintenance	49,142	34,548	14,594
Insurance	8,131	6,660	1,471
Professional	9,200	4,800	4,400
Water analysis	5,600	1,455	4,145
Other operating expenditures	<u>46,015</u>	<u>58,476</u>	<u>(12,461)</u>
Total water treatment	<u>293,456</u>	<u>274,373</u>	<u>19,083</u>

Town of Kenansville, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement	19,643	19,643	-
Interest	905	905	-
Total debt service	20,548	20,548	-
Capital outlay:			
Sewer extensions and expansions	-	-	-
Miscellaneous equipment	386,932	238,869	148,063
Total capital outlay	386,932	238,869	148,063
Contingency	16,265	-	16,265
Total expenditures	1,030,368	799,366	231,002
Revenues over expenditures	(288,640)	(113,403)	175,237
Other financing sources (uses):			
FEMA proceeds	40,296	38,311	(1,985)
Loan proceeds	25,500	-	(25,500)
Insurance proceeds	4,930	4,821	(109)
Total other financing sources (uses)	70,726	43,132	(27,594)
Fund balance appropriated	217,914	-	(217,914)
Revenues and other sources over expenditures and other uses	-	(70,271)	(70,271)
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over			
expenditures and other uses		\$ (70,271)	
Reconciling items:			
Capital outlay		238,869	
Principal retirement		19,643	
Decrease in accrued vacation pay		1,392	
Increase in deferred outflows of resources - pensions		14,021	
Increase in net pension liability		(14,330)	
Decrease in deferred inflows of resources - pensions		2,167	
Increase in deferred outflows of resources - OPEB		4,748	
Increase in deferred inflows of resources - OPEB		(20,136)	
Increase in accrued OPEB liability		(2,347)	
Depreciation		(131,239)	
Total reconciling items		112,788	
Change in net position		\$ 42,517	

Other Schedules

This section contains additional information required on property taxes.

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

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

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018	\$ -	\$ 361,253	\$ 350,796	\$ 10,457
2017	5,061		2,155	2,906
2016	2,401	-	1,202	1,199
2015	14,329	-	1,942	12,387
2014	11,562	-	2,087	9,475
2013	4,752	-	86	4,666
2012	3,978	-	653	3,325
2011	3,193	-	640	2,553
2010	3,239	-	602	2,637
2009	2,607	-	939	1,668
2008	1,791	-	1,791	-
	<u>\$ 52,913</u>	<u>\$ 361,253</u>	<u>\$ 362,893</u>	<u>\$ 51,273</u>

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 369,270
Discounts allowed	3,217
Taxes written off	<u>1,478</u>
Subtotal	373,965
Less interest and penalties collected	<u>(11,072)</u>
Total collections and credits	<u>\$ 362,893</u>

Town of Kenansville, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2019

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 77,264,255	0.470	\$ 363,142	\$ 329,446	33,696
Discoveries:					
Current year taxes	-	0.470	-	-	-
Abatements	(401,915)	0.470	(1,889)	(1,889)	-
Total property valuation	\$ 76,862,340				
Net levy			361,253	327,557	33,696
Uncollected taxes at June 30, 2019			(10,457)	(10,457)	-
Current year's taxes collected			350,796	317,100	33,696
Current levy collection percentage			97.11%	96.81%	100.00%

Compliance Section

Connie H. Huffman, CPA, P.A.

"Past, Present, Future...CPA Required"

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Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Board
Kenansville, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Kenansville, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the Town of Kenansville's basic financial statements, and have issued our report thereon dated November 8, 2019. The financial statements of the Town of Kenansville's ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Kenansville'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 Kenansville's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

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

Compliance and Other Matters

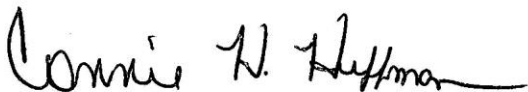
As part of obtaining reasonable assurance about whether the Town of Kenansville's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

Town of Kenansville's Response to Findings

The Town of Kenansville's response 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 this Report

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



Connie H. Huffman, CPA, P.A.

Pink Hill, North Carolina

November 8, 2019

**Town of Kenansville
Schedule of Findings and Responses
For the Year Ended June 30, 2019**

Finding 19-1: Segregation of Duties

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled properly.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Views of responsible officials and corrective actions: The Town agrees with this finding and will adhere to the corrective action plan in this audit.

**Town of Kenansville
Corrective Action Plan
For the Year Ended June 30, 2019**

Finding: 19-1 Segregation of Duties

Name of Contact Person: Chris Roberson, Town Manager

Corrective Action Plan: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.

Proposed Completion Date: Immediately