

**TOWN OF LILLINGTON, NORTH CAROLINA**

**ANNUAL FINANCIAL REPORT**

*As of and for the Year Ended June 30, 2019*

*And Report of Independent Auditor*

**TOWN OF LILLINGTON, NORTH CAROLINA**  
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**TOWN OF LILLINGTON**

**FINANCIAL SECTION**

## Report of Independent Auditor

To the Honorable Mayor and Town Commissioners  
Town of Lillington  
Lillington, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Lillington, North Carolina (the "Town"), 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 did not audit the financial statements of the Town of Lillington Alcoholic Beverage Control Board (the "Board"). Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Board, is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 Town's preparation and fair presentation of the financial statements in order design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town'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 and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town 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 the Required Supplementary Information as listed in the table of contents, 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. The individual fund schedules and other schedules as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019 on our consideration of the Town'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's internal control over financial reporting and compliance.

Chemy Bekaert LLP

Raleigh, North Carolina  
November 26, 2019

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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As management of the Town of Lillington (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Lillington 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 Lillington exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,252,296 (*net position*).
- The government's total net position decreased by \$375,544. Increase in the governmental activities amounts to \$207,853 and decrease in the enterprise type activities amounts to \$583,397. As a result of this decrease, there have been some positive improvements to our aging infrastructure; however, unforeseen storm repairs from Hurricane Florence and increased inflow and infiltration also affected the Town's financial condition.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,024,495, a decrease of \$1,547,417 in comparison with the prior year. Approximately 72.3% of this total amount, or \$2,186,751, is available for spending at the government's discretion (unreserved fund balance). Approximately 27.7% of this total amount, or \$837,744, is non-spendable, restricted, committed, and assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,186,751 or 28.6% of total General Fund expenditures, for the fiscal year.
- At June 30, 2019, the Town's total debt was \$2,879,121. Decrease of the Town's debt was as a result of making principal payments.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 15-16) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

### Reporting the Town as a Whole

Our analysis of the Town as a whole begins on page 6. One of the most important questions asked about the Town's finances is, "Is the Town, as a whole, better or worse as a result of the year's activities?" The statement of net position and the statement of activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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These two statements report the Town's net financial position and changes in them. Readers are encouraged to think of the Town's net position—the difference between assets, liabilities, and deferred inflows of resources—as one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. The reader must also consider other nonfinancial factors; however, such as changes in the Town's property tax base and the condition of the Town's infrastructure, to assess the overall health of the Town.

In the statement of net position and the statement of activities, we divide the Town into three kinds of activities:

- **Governmental activities**—Most of the Town's basic services are reported here, including the general administration, police, fire, public services, and parks and recreation departments. Property taxes, sales and use taxes, intergovernmental revenues (utility franchise taxes, Powell Bill, etc.), along with various federal and State grants finance most of these activities.
- **Business-type activities**—The Town charges a fee to customers to help cover all or most of the cost of certain services it provides. The Town's utility systems (water, sewer, and storm water) and other business-type activities are reported here.
- **Component units**—The Town includes one separate legal entity in its report—the Town of Lillington ABC Board. Although legally separate, this "component unit" is important because the Town appoints the ABC Board. The Town is not financially accountable for them, even though net profits are distributed to the Town; however, the Town Board authorized, through resolution, the ABC Board to apply net profits toward their outstanding debt.

### *Reporting the Town's Most Significant Funds*

Our analysis of the Town's major funds begins on page 11. The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. The Town's two types of funds—governmental and proprietary—use different methods of accounting.

**Governmental funds**—Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

**Proprietary funds**—When the Town charges customers for the services it provides—whether to outside customers or to other units of the Town—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way all activities are reported in the statement of net position and the statement of activities. In fact, the Town's Enterprise Funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

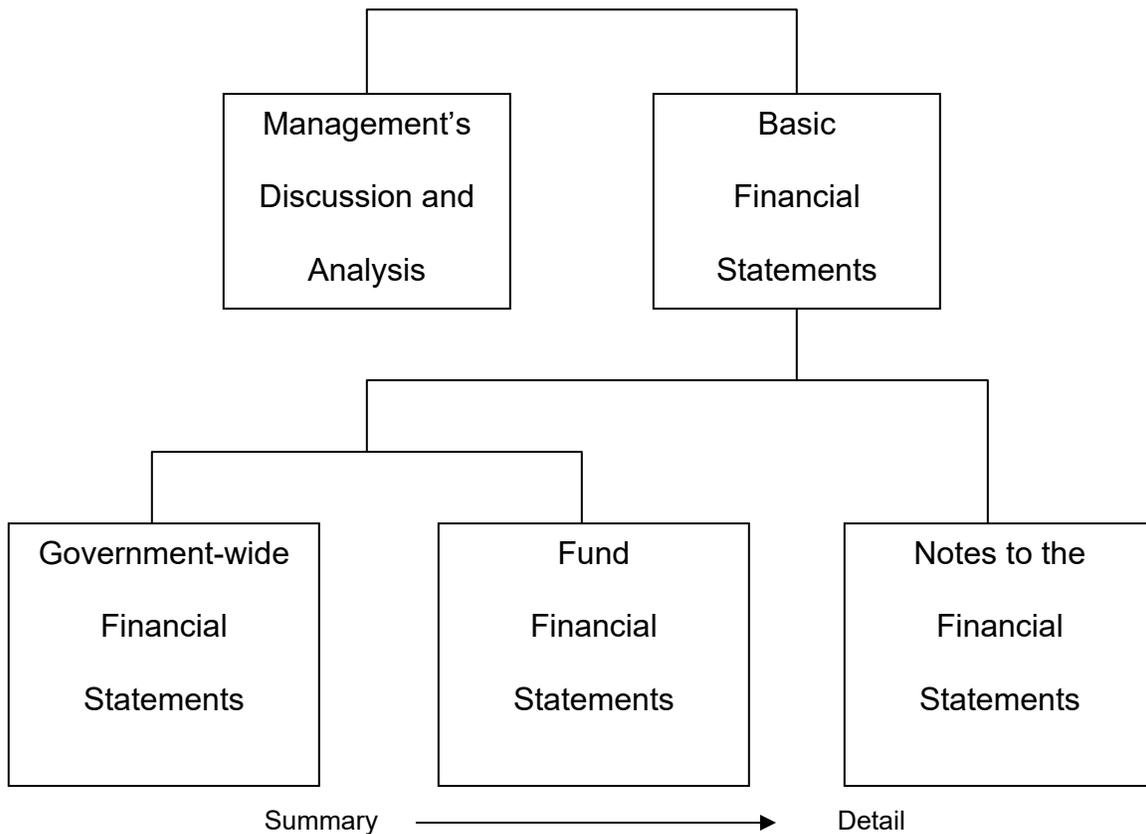
**TOWN OF LILLINGTON, NORTH CAROLINA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

JUNE 30, 2019

**THE TOWN AS A WHOLE AND GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The government-wide financial statements for the fiscal year ended June 30, 2019 are presented in accordance with GASB Statement (“GASBS”) No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.

**Required Components of Annual Financial Report**  
**Figure 1**



**Net Position**

The Town’s combined net position decreased this year to \$10,363,296 from \$10,627,840. Given that the Town saw a decrease in net position of \$375,544 from FY2018’s total of \$10,627,840, it is a testament to the Town’s Board decisions to begin revitalization, economic development, and capital improvements planning to rehabilitate the Town’s aging infrastructure. Our analysis below focuses on the net financial position (Table 1), and changes in net position (Table 2) of the Town’s governmental and business-type activities.

The net position for governmental activities of \$5,179,840 increased by \$207,853 compared to prior fiscal year. We believe these results from a combination of several factors which contributed to the improving fiscal health of the government. The most significant factor, however, was realizing revenues which exceeded fiscal controls on expenditures for governmental activities. Restricted and unrestricted net position combined for a net increase.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2019

The net position of our business-type activities decreased by \$583,397 in 2019 as operating expenses outpaced revenues. Unrestricted net position in the governmental activities—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—decreased to \$687,162 as compared to \$2,255,758. The Town will use the unrestricted net position to meet future budget needs and any potential deficits. These balances are also used as a tool to leverage the need for future tax increases. The net position of the Town has remained stable even though the demand for current and enhanced services continued to rise, and the Town continues to make capital improvements to increase quality of life. Other surrounding regions, as well as ourselves, have experienced the same issues from unusually high sewer treatment due to inflow and infiltration from aged infrastructure and unforeseen natural disasters.

**Town of Lillington's Net Position**  
**Table 1**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 3,050,484	\$ 4,408,519	\$ 1,393,625	\$ 1,624,098	\$ 4,444,109	\$ 6,032,617
Restricted assets	147,872	307,772	135,492	129,901	283,364	437,673
Capital assets	6,577,638	6,007,488	4,142,852	4,174,577	10,720,490	10,182,065
Total assets	9,775,994	10,723,779	5,671,969	5,928,576	15,447,963	16,652,355
Total deferred outflows of resources	439,719	278,505	116,784	70,137	556,503	348,642
Long-term liabilities outstanding	4,726,917	5,669,509	190,091	126,018	4,917,008	5,795,527
Other liabilities	196,363	281,004	520,337	209,658	716,700	490,662
Total liabilities	4,923,280	5,950,513	710,428	335,676	5,633,708	6,286,189
Total deferred inflows of resources	112,593	79,784	5,869	7,184	118,462	86,968
Net Position:						
Net investment in						
capital assets	3,698,517	1,938,436	4,142,852	4,174,577	7,841,369	6,113,013
Restricted	794,161	777,793	-	-	794,161	777,793
Unrestricted	687,162	2,255,758	929,604	1,481,276	1,616,766	3,737,034
Total Net Position	\$ 5,179,840	\$ 4,971,987	\$ 5,072,456	\$ 5,655,853	\$ 10,252,296	\$ 10,627,840

**Revenues and Expenses**

The Town's total revenues (excluding transfers and special items) increased 7.98% (\$504,089) over the previous fiscal year. Operating grant and contributions, along with capital grants and contributions, led the majority of the increase which was coupled with increases in interest revenue and increases in property taxes. Charges for services in the Town's business-type activities experienced a slight decrease. Sales taxes also posted revenue increases when compared to the prior fiscal year.

**TOWN OF LILLINGTON, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2019

**Town of Lillington's Changes in Net Position  
Table 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues:						
Charges for services	\$ 770,010	\$ 773,541	\$ 2,068,287	\$ 2,109,199	\$ 2,838,297	\$ 2,882,740
Operating grant and contributions	178,081	177,605	58,928	10,330	237,009	187,935
Capital grants and contributions	275,000	-	-	-	275,000	-
General Revenues:						
Property taxes	1,891,416	1,793,343	-	-	1,891,416	1,793,343
Other taxes	3,426	3,171	-	-	3,426	3,171
Grants and contributions not restricted to specific programs	1,353,287	1,259,763	-	-	1,353,287	1,259,763
Interest	54,652	27,846	15,023	7,283	69,675	35,129
Other	148,297	143,273	643	7,607	148,940	150,880
Total Revenues	<u>4,674,169</u>	<u>4,178,542</u>	<u>2,142,881</u>	<u>2,134,419</u>	<u>6,817,050</u>	<u>6,312,961</u>
Expenses:						
Governing body	240,129	162,373	-	-	240,129	162,373
Administration	629,733	509,548	-	-	629,733	509,548
Finance	427,216	388,547	-	-	427,216	388,547
Planning and inspections	170,598	140,050	-	-	170,598	140,050
Public works	625,341	577,134	-	-	625,341	577,134
Police	1,093,010	982,303	-	-	1,093,010	982,303
Fire	461,028	447,124	-	-	461,028	447,124
Streets	88,712	23,748	-	-	88,712	23,748
Parks and recreation	608,708	626,854	-	-	608,708	626,854
Interest	121,841	98,899	-	-	121,841	98,899
Water and sewer	-	-	2,726,278	1,836,443	2,726,278	1,836,443
Total Expenses	<u>4,466,316</u>	<u>3,956,580</u>	<u>2,726,278</u>	<u>1,836,443</u>	<u>7,192,594</u>	<u>5,793,023</u>
Increase in net position before transfers	207,853	221,962	(583,397)	297,976	(375,544)	519,938
Transfers	-	-	-	-	-	-
Increase in net position	<u>207,853</u>	<u>221,962</u>	<u>(583,397)</u>	<u>297,976</u>	<u>(375,544)</u>	<u>519,938</u>
Net position, July 1, previously reported	4,971,987	5,006,560	5,655,853	5,357,877	10,627,840	10,364,437
Restatement	-	(256,535)	-	-	-	(256,535)
Net position, July 1, restated	<u>4,971,987</u>	<u>4,750,025</u>	<u>5,655,853</u>	<u>5,357,877</u>	<u>10,627,840</u>	<u>10,107,902</u>
Net position, June 30	<u>\$ 5,179,840</u>	<u>\$ 4,971,987</u>	<u>\$ 5,072,456</u>	<u>\$ 5,655,853</u>	<u>\$ 10,252,296</u>	<u>\$ 10,627,840</u>

The total cost of all programs and services increased approximately 24.16% or \$1,399,571. The Town moderated the increased demands for services and the resulting cost to Town operations in continued response to the protracted economic recovery. Results of operations show that governmental functions saw a moderate increase and the business-type activities of the water and sewer fund saw a significant increase when compared to last fiscal year.

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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Several aspects of the Town's financial operations influenced the total unrestricted government net position. These are highlighted as follows:

- The Town's continued high collection of property taxes billed exceeding a tax collection rate of 99%. There was an increase of \$98,073 in ad valorem taxes.
- Sales tax decreased slightly during this fiscal year.
- Permits and fees in the Town's governmental activities increased over the past fiscal year. This was mainly due to an increase in building and zoning permits issued.
- The net position for business-type operations decreased this year by \$583,397 due to increases in expenses. Harnett County sells Lillington water and also treats the Town's wastewater. During FY2018-2019 the Town purchased 56,914,654 gallons from Harnett County compared to 59,899,555 gallons in FY2017-2018. Decreased amount of water purchased resulted in a decrease in water expense paid to Harnett County of \$5,110 over the prior fiscal year. Harnett County treated 337,119,643 metered gallons of wastewater during FY2018-2019 compared to 215,807,377 metered gallons during FY2017-2018; this resulted in an increase of \$271,323 paid to Harnett County for the treatment of wastewater over the previous fiscal year. The Town is billed for every gallon of wastewater runoff that Harnett County is required to treat. The Town only bills its customers for usage which in FY2017-2018 was 93,790,685 gallons compared to 95,493,872 gallons billed during FY2018-2019. The Town, in continuation with the I/I Study, completed smoke testing of sewer lines.

### **Governmental Activities**

Property tax revenues increased slightly compared to the prior year. Sales tax grew slightly in addition to the property taxes. The positive news in both these significant revenue sources is that the declines experienced in prior years have slowed and we are seeing a slight improvement monthly and throughout the fiscal year.

The total cost of all governmental activities this year increased by \$509,736. As shown in the statement of activities on page 16, the amount that our taxpayers ultimately finance for these activities through Town taxes was \$3,243,225, an increase of \$237,791 from the prior year.

The Town paid for the remaining "public benefit" portion of governmental activities with sales tax, other taxes, and other general revenues.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

JUNE 30, 2019

**Town of Lillington's Governmental Activities**  
**Table 3**

	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Governing body	\$ 240,129	\$ 240,129
Administration	629,733	629,733
Finance	427,216	427,216
Planning and inspections	170,598	85,953
Public works/streets	714,053	388,213
Police	1,093,010	896,700
Fire	461,028	339,316
Parks and recreation	608,708	114,124
Interest on long-term debt	121,841	121,841
<b>Total</b>	<b>\$ 4,466,316</b>	<b>\$ 3,243,225</b>

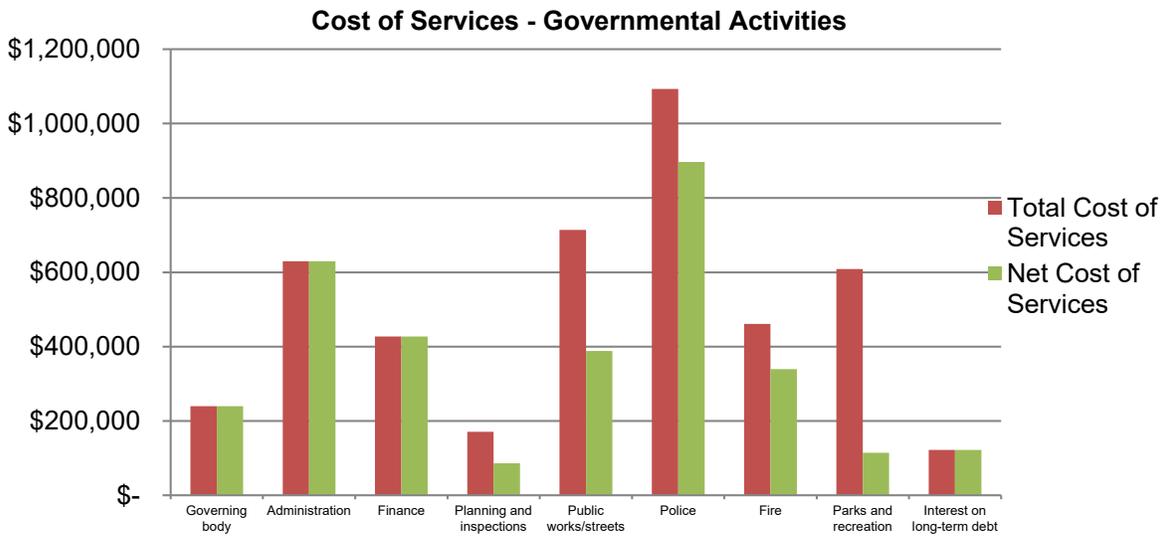


Table 3 presents the cost of each of the Town’s programs—governing body, administration, finance, planning and inspections, public work streets, police, fire, and parks and recreation—as well as each program’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Town’s taxpayers by each of these functions.

**Business-type activities**

Charges for services of the Town’s business-type activities (see Table 2) decreased over the past fiscal year (\$2,109,199 in 2018 compared to \$2,068,287 in 2019). The Town’s water and sewer utility did not increase rates for the fiscal year ended June 30, 2019, and experienced a decrease in operating revenues due to a decrease in new accounts and water consumption.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

JUNE 30, 2019

**Financial Analysis of the Town’s Funds**

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

**Governmental Fund** – The focus of the Town’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’s financing requirements.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, fund balance available in the General Fund was \$2,186,751. The Town currently has an available fund balance of 28.6% of general fund expenditures.

At June 30, 2019, the governmental funds of the Town reported a combined fund balance of \$3,024,495, a 33.8% decrease 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. However, expenditures were held in check and the Town was able to comply with its budgetary requirements.

**General Fund Revenues on the Governmental Fund Basis**

Revenue Sources	Actual Amount	Percent of Total	Increase (Decrease) from 2018
Ad valorem taxes	\$ 1,891,886	41%	\$ 100,877
Other taxes and licenses	880	0%	(58)
Unrestricted intergovernmental	1,355,833	30%	93,837
Restricted intergovernmental	453,081	10%	275,476
Permits and fees	210,303	5%	68,691
Sales and services	559,707	12%	(72,222)
Investment earnings	54,370	1%	26,647
Miscellaneous	60,961	1%	(20,126)
	\$ 4,587,021	100.0%	\$ 473,122

The most significant component in General Fund revenues remains to be property taxes. Property taxes for the Town increased \$100,877 compared to the previous year. Also, sales and services showed a decrease over the previous year by \$72,222. In addition, unrestricted intergovernmental revenues are showing an increase of \$93,837. The most significant changes in General Fund expenditures, when compared to the previous fiscal year, occurred in Parks and Recreation. In the Parks and Recreation Department, there were increases due to the River Park Project and the salaries associated with start of a Summer Camp Program, Before and After School Program, and Preschool Program. There were also increase due to the Downtown Revitalization and the Parks and Recreation Trust Fund Grant revenues in the current year.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2019

**General Fund Expenses on the Governmental Fund Basis**

<b>Expenditure Sources</b>	<b>Actual Amount</b>	<b>Percent of Total</b>	<b>Increase (Decrease) from 2018</b>
Governing body	\$ 321,385	4%	\$ 159,012
Administration	202,981	3%	35,936
Finance	416,686	5%	40,379
Planning and inspections	173,872	2%	38,402
Public works	795,769	10%	128,792
Police	1,153,190	15%	153,510
Fire	368,117	5%	(121,226)
Flatwoods fire district	101,603	1%	(10,446)
Streets	254,997	3%	212,613
Parks and recreation	1,007,090	13%	13,937
Debt service	2,849,398	37%	2,739,670
	<u>\$ 7,645,088</u>	<u>100.0%</u>	<u>\$ 3,390,579</u>

**Proprietary Funds** – The Town’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$929,604. This represents a decrease of \$551,672 in unrestricted net position from the prior year.

**Capital Asset and Debt Administration**

**Capital assets** – The Town’s investment in capital assets for its governmental and business–type activities as of June 30, 2019, totaled \$10,720,490 (net of accumulated depreciation). These assets include land, buildings, roads, machinery and equipment, park facilities, and vehicles.

Additional major capital asset transactions during the year include the following additions:

Governmental Activities:

- 2018 Nissan Pathfinder 4x4 w/equipment \$ 30,320
- 2018 Dodge Charger w/equipment 30,967
- 2019 Charger Pursuit w/equipment 37,603
- SOD at River Park 20,050
- River Park 687,754
- TPO Roof System - Town Hall/PD 25,800
- TPO Roof System - 108 E. Front Street 18,000
- 2019 Ford F-250 72,092
- Install French Drains Emilies Crossing Way 16,080
- E. Front Street Culvert \* FEMA 156,225
- W. Edgar Culvert \*FEMA 64,522

**TOWN OF LILLINGTON, NORTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2019

Business-Type Activities:

• 2 Inserta Valves at Railroad	\$ 71,772
• Aerial Sanitary Sewer Line- S. 13th *FEMA	19,851
• Install Sanitary Sewer Service 1106 S. 13th Street	16,157
• Aerial Sanitary Sewer Line- E. James Street *FEMA	24,490
• 2 Inserta Valves on 11th Street	19,200
• Hydrant and valve 4th Street	6,500
• Lay Down Yard	60,642

**Town of Lillington's Capital Assets  
Figure 4**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Land	\$ 671,247	\$ 599,155	\$ 149,857	\$ 149,857	\$ 821,104	\$ 749,012
Buildings and land improvement	4,646,700	4,061,748	108,597	50,850	4,755,297	4,112,598
Infrastructure	263,735	50,480	-	-	263,735	50,480
Water system	-	-	725,210	669,223	725,210	669,223
Sewer system	-	-	2,887,737	2,987,616	2,887,737	2,987,616
Data processing equipment	3,258	7,558	-	-	3,258	7,558
Equipment and machinery	552,776	559,525	179,565	197,741	732,341	757,266
Vehicles	402,145	375,752	64,386	91,790	466,531	467,542
Construction in progress	37,777	353,270	27,500	27,500	65,277	380,770
<b>Total</b>	<b>\$ 6,577,638</b>	<b>\$ 6,007,488</b>	<b>\$ 4,142,852</b>	<b>\$ 4,174,577</b>	<b>\$ 10,720,490</b>	<b>\$ 10,182,065</b>

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

**Long-term Debt** – As of June 30, 2019, the Town's General Fund had total installment purchases of \$2,879,121. The Town's proprietary fund had no installment purchases as of June 30, 2019.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Installment purchases	\$ 2,879,121	\$ 4,069,052	\$ -	\$ -	\$ 2,879,121	\$ 4,069,052
<b>Total</b>	<b>\$ 2,879,121</b>	<b>\$ 4,069,052</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,879,121</b>	<b>\$ 4,069,052</b>

The Town of Lillington's total debt decreased by \$1,189,931 during the past fiscal year.

Additional information on the Town's long-term debt can be found in Note 9 to the financial statements.

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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### Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2019-2020 budget and tax rates that support the governmental activities and fees that will be charged for the business-type activities.

In adopting the Annual Budget for fiscal year 2019-2020, the Town realized there will always be challenges. The Town is the leading catalyst responsible for initiating and delivering on three very broadly defined community, neighborhood and economic quality of life goals:

- Create, guide, and sustain the Town as being a livable, safe, and prosperous community
- Add competitive value and quality to the services and programs provided to our citizens, businesses, and visitors through prudent and accountable financial stewardship, expanding public-private partnerships, and importantly, trusting and empowering employees to improve productivity and increase innovation, and
- Seek out and create opportunities for the Town to grow while keeping the desire of our citizens to have a high level of quality services with minimum staffing and low taxes/utility rates.

### Budget Highlights for the Fiscal Year Ending June 30, 2020

**Governmental Activities** – The revenues budgeted increased very little over the previous year's revenues due to the economic conditions we are experiencing. The Town will use these increases in revenues to finance programs that we currently have in place. However, with the slight growth the Town is experiencing, the Town's fund balance is staying solid. Budgeted expenditures in the General Fund for the 2020 year are approximately 7.62% more than the 2019 budget.

**Business – Type Activities** – The Utility Fund Annual Budget of \$2,140,000 is 14.32% more than the 2018-2019 Annual Budget of \$1,872,000. The Town did increase water and sewer fees for the 2019-2020 fiscal year. The Town also budgeted for short-lived assets and capital improvements in the 2019-2020 fiscal year due to an increased need for replacement and repairs of infrastructure.

### Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. You can also visit our website at [www.lillingtonnc.org](http://www.lillingtonnc.org). Questions concerning any of the information found in this report or requests for additional information should be directed to:

Town of Lillington  
Director of Finance  
P.O. Box 296  
Lillington, North Carolina 27546  
(910) 893-2654  
[lyoung@lillingtonnc.org](mailto:lyoung@lillingtonnc.org)



**TOWN OF LILLINGTON**

**BASIC FINANCIAL STATEMENTS**

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**

EXHIBIT 1

JUNE 30, 2019

	Primary Government			Town of Lillington ABC Board
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 2,356,970	\$ 1,130,632	\$ 3,487,602	\$ 396,666
Taxes receivables (net)	9,047	-	9,047	-
Accrued interest receivable on taxes	1,202	-	1,202	-
Accounts receivable (net)	90,312	236,352	326,664	-
Due from other governments	576,097	-	576,097	-
Inventories	16,856	26,641	43,497	177,881
Prepaid items	-	-	-	6,976
Restricted cash and cash equivalents	118,705	135,492	254,197	110,693
<b>Total Current Assets</b>	<b>3,169,189</b>	<b>1,529,117</b>	<b>4,698,306</b>	<b>692,216</b>
Noncurrent Assets:				
Restricted assets:				
Cash and cash equivalents	29,167	-	29,167	-
<b>Total Noncurrent Current Assets</b>	<b>29,167</b>	<b>-</b>	<b>29,167</b>	<b>-</b>
Capital Assets:				
Land, non-depreciable improvements, and construction in progress	709,024	177,357	886,381	27,416
Other capital assets, net of depreciation	5,868,614	3,965,495	9,834,109	490,198
<b>Total Capital Assets</b>	<b>6,577,638</b>	<b>4,142,852</b>	<b>10,720,490</b>	<b>517,614</b>
<b>Total Assets</b>	<b>9,775,994</b>	<b>5,671,969</b>	<b>15,447,963</b>	<b>1,209,830</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
OPEB deferrals	17,224	-	17,224	-
Pension deferrals	422,495	116,784	539,279	-
<b>Total Deferred Outflow of Resources</b>	<b>439,719</b>	<b>116,784</b>	<b>556,503</b>	<b>-</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	160,414	384,845	545,259	96,961
Accrued interest	35,949	-	35,949	-
Customer deposits	-	135,492	135,492	-
Current portion of installment notes	193,649	-	193,649	-
<b>Total Current Liabilities</b>	<b>390,012</b>	<b>520,337</b>	<b>910,349</b>	<b>96,961</b>
Long-Term Liabilities:				
Total pension obligation - LEO	252,247	-	252,247	-
Net pension obligation - LGERS	517,680	150,546	668,226	-
Compensated absences	241,969	39,545	281,514	-
Total OPEB liability	835,900	-	835,900	-
Installment notes	2,685,472	-	2,685,472	-
<b>Total Liabilities</b>	<b>4,923,280</b>	<b>710,428</b>	<b>5,633,708</b>	<b>96,961</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Prepaid taxes	3,198	-	3,198	-
OPEB deferrals	69,045	-	69,045	-
Pension deferrals	40,350	5,869	46,219	-
<b>Total Deferred Inflows of Resources</b>	<b>112,593</b>	<b>5,869</b>	<b>118,462</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets	3,698,517	4,142,852	7,841,369	517,614
Restricted for:				
Capital improvements	-	-	-	110,693
Stabilization by State Statute	675,456	-	675,456	-
Streets	118,705	-	118,705	-
Working Capital	-	-	-	62,045
Unrestricted	687,162	929,604	1,616,766	422,517
<b>Total Net Position</b>	<b>\$ 5,179,840</b>	<b>\$ 5,072,456</b>	<b>\$ 10,252,296</b>	<b>\$ 1,112,869</b>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**STATEMENT OF ACTIVITIES**

EXHIBIT 2

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			Town of Lillington ABC Board
					Governmental Activities	Business-Type Activities	Total	
<b>Primary Government:</b>								
Governmental activities:								
Governing body	\$ 240,129	\$ -	\$ -	\$ -	\$ (240,129)	\$ -	\$ (240,129)	\$ -
Administration	629,733	-	-	-	(629,733)	-	(629,733)	-
Finance	427,216	-	-	-	(427,216)	-	(427,216)	-
Planning and inspection	170,598	84,645	-	-	(85,953)	-	(85,953)	-
Public works	625,341	224,684	-	-	(400,657)	-	(400,657)	-
Police	1,093,010	125,658	70,652	-	(896,700)	-	(896,700)	-
Fire	461,028	115,439	6,273	-	(339,316)	-	(339,316)	-
Streets	88,712	-	101,156	-	12,444	-	12,444	-
Recreation	608,708	219,584	-	275,000	(114,124)	-	(114,124)	-
Interest on long-term debt	121,841	-	-	-	(121,841)	-	(121,841)	-
Total governmental activities (See Note 1)	<u>4,466,316</u>	<u>770,010</u>	<u>178,081</u>	<u>275,000</u>	<u>(3,243,225)</u>	<u>-</u>	<u>(3,243,225)</u>	<u>-</u>
Business-type activities:								
Water and sewer	2,726,278	2,068,287	58,928	-	-	(599,063)	(599,063)	-
Total business-type activities	<u>2,726,278</u>	<u>2,068,287</u>	<u>58,928</u>	<u>-</u>	<u>-</u>	<u>(599,063)</u>	<u>(599,063)</u>	<u>-</u>
Total primary government	<u>\$ 7,192,594</u>	<u>\$ 2,838,297</u>	<u>\$ 237,009</u>	<u>\$ 275,000</u>	<u>(3,243,225)</u>	<u>(599,063)</u>	<u>(3,842,288)</u>	<u>-</u>
Component unit:								
ABC Board	\$ 1,908,527	\$ 2,102,213	\$ -	\$ -	-	-	-	193,686
Total component unit	<u>\$ 1,908,527</u>	<u>\$ 2,102,213</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,686</u>
General Revenues:								
Taxes:								
Property taxes, levied for general purpose					1,891,416	-	1,891,416	-
Other taxes					3,426	-	3,426	-
Grants and contributions not restricted to specific programs					1,353,287	-	1,353,287	-
Unrestricted investment earnings					54,652	15,023	69,675	262
Gain on sale of assets					-	643	643	-
Gain on insurance recoveries					10,368	-	10,368	-
Miscellaneous					137,929	-	137,929	-
Total general revenues					<u>3,451,078</u>	<u>15,666</u>	<u>3,466,744</u>	<u>262</u>
Change in net assets					<u>207,853</u>	<u>(583,397)</u>	<u>(375,544)</u>	<u>193,948</u>
Net position, beginning of year, previously reported					<u>4,971,987</u>	<u>5,655,853</u>	<u>10,627,840</u>	<u>918,921</u>
Net position, ending of year					<u>\$ 5,179,840</u>	<u>\$ 5,072,456</u>	<u>\$ 10,252,296</u>	<u>\$ 1,112,869</u>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**

EXHIBIT 3

JUNE 30, 2019

	<u>Major Fund General</u>	<u>Total Non-major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,330,243	\$ 26,727	\$ 2,356,970
Restricted cash	147,872	-	147,872
Receivables (net)			
Taxes	9,047	-	9,047
Accounts	90,312	-	90,312
Due from other governments	576,097	-	576,097
Inventories	16,856	-	16,856
<b>Total Assets</b>	<u>\$ 3,170,427</u>	<u>\$ 26,727</u>	<u>\$ 3,197,154</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 160,414	\$ -	\$ 160,414
<b>Total Liabilities</b>	<u>160,414</u>	<u>-</u>	<u>160,414</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes receivable	9,047	-	9,047
Prepaid taxes	3,198	-	3,198
<b>Total Deferred Inflows of Resources</b>	<u>12,245</u>	<u>-</u>	<u>12,245</u>
<b>Fund Balances:</b>			
Non-Spendable:			
Inventories	16,856	-	16,856
Restricted:			
Stabilization by State Statute	675,456	-	675,456
Streets	118,705	-	118,705
Committed:			
Fire	-	26,727	26,727
Unassigned	2,186,751	-	2,186,751
<b>Total Fund Balances</b>	<u>2,997,768</u>	<u>26,727</u>	<u>3,024,495</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 3,170,427</u>	<u>\$ 26,727</u>	
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Gross capital assets at historical cost		\$ 10,129,687	
Accumulated depreciation		(3,552,049)	6,577,638
Deferred outflows of resources related to pensions are not reported in the funds.			
			422,495
Deferred outflows of resources related to OPEB are not reported in the funds.			
			17,224
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.			
			1,202
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			
			9,047
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds.			
Gross long-term debt			(2,915,070)
Total pension liability - LEOSSA			(252,247)
Total OPEB Liability			(835,900)
Compensated Absences			(241,969)
Net pension liability - LGERS			(517,680)
Deferred inflows of resources related to pensions are not reported in the funds			(40,350)
Deferred inflows of resources related to OPEB are not reported in the funds			(69,045)
Net position of governmental activities			<u>\$ 5,179,840</u>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**

EXHIBIT 4

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2019

	<u>Major Fund General</u>	<u>Total Non-major Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
Ad valorem taxes	\$ 1,891,886	\$ -	\$ 1,891,886
Other taxes and licenses	880	-	880
Unrestricted intergovernmental	1,355,833	-	1,355,833
Restricted intergovernmental	453,081	-	453,081
Permits and fees	210,303	-	210,303
Sales and services	559,707	-	559,707
Investment earnings	54,370	282	54,652
Miscellaneous	60,961	-	60,961
Total Revenues	<u>4,587,021</u>	<u>282</u>	<u>4,587,303</u>
<b>EXPENDITURES:</b>			
Current:			
Governing body	321,385	-	321,385
Administration	202,981	-	202,981
Finance	416,686	-	416,686
Planning & inspection	173,872	-	173,872
Public works	795,769	-	795,769
Police	1,153,190	-	1,153,190
Fire	368,117	-	368,117
Flatwoods fire district	101,603	-	101,603
Streets	254,997	-	254,997
Parks and Recreation	1,007,090	-	1,007,090
Debt Service:			
Principal	2,689,931	-	2,689,931
Interest and other charges	159,467	-	159,467
Total Expenditures	<u>7,645,088</u>	<u>-</u>	<u>7,645,088</u>
Deficiency of revenues over expenditures	<u>(3,058,067)</u>	<u>282</u>	<u>(3,057,785)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from the installment purchase debt	1,500,000	-	1,500,000
Insurance recovery	10,368	-	10,368
Total Other Financing Sources (Uses)	<u>1,510,368</u>	<u>-</u>	<u>1,510,368</u>
Net change in fund balance	(1,547,699)	282	(1,547,417)
Fund balances, beginning	4,545,467	26,445	4,571,912
Fund balances, ending of year	<u>\$ 2,997,768</u>	<u>\$ 26,727</u>	<u>\$ 3,024,495</u>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**

EXHIBIT 5

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

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	\$	(1,547,417)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	974,372	
Depreciation expense for governmental assets	<u>(404,222)</u>	570,150

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		(470)
Change in unavailable revenue for deferred rent		76,967

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.

Proceeds from issuance of debt	(1,500,000)	
Principal payments on long-term debt	2,689,931	
Decrease in accrued interest payable	<u>37,626</u>	1,227,557

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	(13,511)	
OPEB expense	(51,047)	
Pension expense	<u>(54,376)</u>	<u>(118,934)</u>

Total changes in net position of governmental activities	\$	<u>207,853</u>
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**TOWN OF LILLINGTON, NORTH CAROLINA**

EXHIBIT 6

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND**

YEAR ENDED JUNE 30, 2019

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES:</b>				
Ad valorem taxes	\$ 1,841,000	\$ 1,841,000	\$ 1,891,886	\$ 50,886
Other taxes and licenses	-	-	880	880
Unrestricted intergovernmental	1,201,000	1,201,000	1,355,833	154,833
Restricted intergovernmental	284,210	563,210	453,081	(110,129)
Permits and fees	133,000	236,200	210,303	(25,897)
Sales and services	516,500	516,500	559,707	43,207
Investment earnings	5,500	8,500	54,370	45,870
Miscellaneous	53,000	53,000	60,961	7,961
Total Revenues	<u>4,034,210</u>	<u>4,419,410</u>	<u>4,587,021</u>	<u>167,611</u>
<b>EXPENDITURES:</b>				
Current:				
Governing body	134,000	453,050	321,385	131,665
Administration	217,850	222,850	202,981	19,869
Finance	399,625	422,125	416,686	5,439
Planning & inspection	194,375	225,375	173,872	51,503
Public works	606,800	853,075	795,769	57,306
Police	1,064,750	1,208,826	1,153,190	55,636
Fire	393,100	378,100	368,117	9,983
Flatwoods fire district	118,000	115,000	101,603	13,397
Street	289,500	357,500	254,997	102,503
Recreation	667,150	1,326,050	1,007,090	318,960
Debt Service:				
Principal retirement	111,145	2,713,395	2,689,931	23,464
Interest and other charges	155,615	155,615	159,467	(3,852)
Total Expenditures	<u>4,351,910</u>	<u>8,430,961</u>	<u>7,645,088</u>	<u>785,873</u>
Revenues over (under) expenditures	<u>(317,700)</u>	<u>(4,011,551)</u>	<u>(3,058,067)</u>	<u>953,484</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers from other funds	260,000	450,000	-	(450,000)
Installment purchase obligations issued	-	-	1,500,000	1,500,000
Insurance recovery	-	-	10,368	10,368
Appropriation of fund balance	57,700	3,561,551	-	(3,561,551)
Total Other Financing Sources (Uses)	<u>317,700</u>	<u>4,011,551</u>	<u>1,510,368</u>	<u>(2,501,183)</u>
Revenues and other sources over (under) expenditures and other uses	-	-	(1,547,699)	(1,547,699)
Fund balances, beginning	-	-	4,545,467	4,545,467
Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,997,768</u>	<u>\$ 2,997,768</u>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**

EXHIBIT 7

JUNE 30, 2019

	<u>Water and Sewer Fund</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 1,130,632
Accounts receivable (net) - billed	162,755
Accounts receivable (net) - unbilled	73,597
Inventories	26,641
Restricted cash and cash equivalents	<u>135,492</u>
<b>Total Current Assets</b>	<u>1,529,117</u>
Capital Assets:	
Land and other non-depreciable assets	177,357
Other capital assets, net of depreciation	<u>3,965,495</u>
Capital assets (net)	<u>4,142,852</u>
<b>Total Assets</b>	<u>5,671,969</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Contributions to pension plan	<u>116,784</u>
<b>Total Deferred Outflow of Resources</b>	<u>116,784</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable and accrued liabilities	384,845
Customer deposits	<u>135,492</u>
<b>Total Current Liabilities</b>	<u>520,337</u>
Noncurrent Liabilities:	
Compensated absences	39,545
Pension liability	<u>150,546</u>
<b>Total Noncurrent Liabilities</b>	<u>190,091</u>
<b>Total Liabilities</b>	<u>710,428</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	<u>5,869</u>
<b>Total Deferred Inflows of Resources</b>	<u>5,869</u>
<b>NET POSITION</b>	
Net investment in capital assets	4,142,852
Unrestricted	<u>929,604</u>
<b>Total Net Position</b>	<u>\$ 5,072,456</u>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –  
PROPRIETARY FUNDS***YEAR ENDED JUNE 30, 2019*

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	<b>Water and Sewer Fund</b>
<b>OPERATING REVENUE:</b>	
Charges for services	\$ 2,068,287
Water and sewer taps	7,900
Other operating revenues	51,028
Total Operating Revenues	<u>2,127,215</u>
<b>OPERATING EXPENSES:</b>	
Water and sewer operations	2,469,509
Depreciation	256,769
Total Operating Expenses	<u>2,726,278</u>
Operating Loss	<u>(599,063)</u>
<b>NON OPERATING REVENUE (EXPENSE):</b>	
Investment earnings	15,023
Gain on disposal of fixed assets	643
Total Nonoperating Revenue	<u>15,666</u>
Loss before contributions and transfers	(583,397)
Change in net position	<u>(583,397)</u>
Total net position, beginning	<u>5,655,853</u>
Total net position, ending	<u><u>\$ 5,072,456</u></u>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**

EXHIBIT 9

YEAR ENDED JUNE 30, 2019

	<b>Water and Sewer Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 2,036,545
Cash paid for goods and services	(2,174,895)
Cash paid to or on behalf of employees for services	24,759
Net customer deposits	5,591
Other operating revenues	51,028
	<u>51,028</u>
Net cash flows from operating activities	<u>(56,972)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	(225,044)
Proceeds from disposal of capital assets	643
	<u>643</u>
Net cash flows from capital and related financing activities	<u>(224,401)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest and dividends	15,023
	<u>15,023</u>
Net decrease in cash and cash equivalents	(266,350)
Cash and cash equivalents, beginning of year	1,532,474
	<u>1,532,474</u>
Cash and cash equivalents, end of year	<u>\$ 1,266,124</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (599,063)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	256,769
Pension expense	7,103
Changes in assets and liabilities:	
Accounts receivable	(39,642)
Inventory	(1,826)
Accounts payable and accrued liabilities	305,088
Customer deposits	5,591
Accrued vacation pay	9,008
	<u>9,008</u>
Total adjustments	542,091
Net cash provided by operating activities	<u>\$ (56,972)</u>

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



**TOWN OF LILLINGTON**

**NOTES TO THE FINANCIAL STATEMENTS**

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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### Note 1—Summary of significant accounting policies

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

#### A. Reporting Entity

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

*Lillington ABC Board* – The members of the ABC Board’s governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity’s administrative offices at the Lillington ABC Board, Lillington, North Carolina 27501.

#### 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. All remaining governmental and Enterprise Funds are aggregated and reported as non-major funds.

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

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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### Note 1—Summary of significant accounting policies (continued)

The Town reports the following major governmental fund:

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

The Town reports the following nonmajor governmental fund:

*Capital Project Fund - Fire Station #2* – This fund is used to account for the acquisition and construction of a new fire station.

The Town reports the following major Enterprise Funds:

*Water and Sewer Fund* – This fund is used to account for the Town's water and sewer operations. The fund is comprised of the following sub funds: Water and Sewer Fund and McKinney Parkway Sewer System Improvements Capital Project Fund. These funds have been consolidated in the Water and Sewer Fund for financial reporting purposes.

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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### Note 1—Summary of significant accounting policies (continued)

*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 utilities franchise tax, collected and held by the State at year-end on behalf of the Town, are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Harnett 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 position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

#### D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by \$1,500 or more. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 1—Summary of significant accounting policies (continued)**

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

1. Deposits and Investments

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through G.S. 136-41.4. U.S.D.A. loan reserve requirements are recorded as restricted cash in the General Fund. Customer deposits in the Water Sewer Fund held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Governmental Activities:

General Fund:

Streets	\$ 118,705
U.S.D.A. loan reserve requirements	<u>29,167</u>
Total Governmental Fund	<u>147,872</u>

Business-Type Activities:

Water and Sewer Fund:

Customer deposits	<u>135,492</u>
Total Business-Type Activities	<u>135,492</u>
Total Restricted Cash	<u><u>\$ 283,364</u></u>

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019*

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**Note 1—Summary of significant accounting policies (continued)**

4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. The taxes levied for fiscal year 2019 are based on the assessed values as of January 1, 2018.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

	<u>Useful Life</u>
Buildings and improvements	50 years
Improvements	10 - 25 years
Furnishings and fixtures	10 years
Automobiles	6 years
Equipment (non-computer)	5 - 10 years
Computer equipment	3 years
Software	3 years

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

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**Note 1—Summary of significant accounting policies (continued)**

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

	<u>Useful Life</u>
Building and improvements	10 - 31.5 years
Equipment	5 - 10 years
Furniture	3 - 10 years

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 several items that meet this criterion, contributions made to the pension plan in the 2019 fiscal year, contributions made to the OPEB plan in the 2019 fiscal year, and other pension and OPEB deferrals. 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, taxes receivable, deferrals of pension expense, and deferrals of OPEB expense.

9. Long-Term Obligations

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

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

10. Compensated Absences

The vacation policy of the Town provide for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned. The ABC Board employees may accumulate up to 12 days earned vacation and such leave is 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.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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### Note 1—Summary of significant accounting policies (continued)

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 invested in capital assets; restricted and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through State statute.

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

The governmental fund types classify fund balances as follows:

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

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

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

*Restricted for Stabilization by State Statute* – Portion of fund balance that is restricted by State statute (G.S. 159-8(a)).

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

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

*Committed Fire Balance* – Portion of fund balance that will be used for the Fire and Flatwoods Fire District.

*Assigned Fund Balance* – Portion of fund balance that the Town intends to use for specific purposes.

*Unassigned Fund Balance* – The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

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

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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### Note 1—Summary of significant accounting policies (continued)

#### 12. Pensions

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's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

### Note 2—Deposits and investments

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved Averaging Method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town 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 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 \$1,449,508 and a bank balance of \$1,545,083. The carrying amount of deposits for the ABC Board was \$504,367 and the bank balance was \$563,501. At June 30, 2019, the Town's petty cash fund was \$210.

Of the Town's bank balance (including certificates of deposit), \$750,000 was covered by federal depository insurance and \$1,425,083 was covered by collateral under the Pooling Method. Of the ABC Board's bank balance, \$250,000 was covered by the federal depository insurance and \$313,501 was fully covered by the Pooling Method.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

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**Note 2—Deposits and investments (continued)**

At June 30, 2019, the Town had \$2,321,248 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk. The ABC Board had no investments.

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

*Credit Risk* – The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated.

State law (G.S. 159-30(c)) authorizes the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of a North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust and SEC registered (2a-7) money market mutual fund.

**Note 3—Allowance for doubtful accounts**

The amounts presented in the balance sheet and the statement of net position for the year ended June 30, 2019 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 4,702
Accounts receivable	<u>5,617</u>
Total General Fund	<u>10,319</u>
Enterprise Fund:	
Accounts receivable	<u>28,080</u>
Total Enterprise Fund	<u>28,080</u>
Total	<u><u>\$ 38,399</u></u>

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 4—Capital assets**

*Primary Government* – Capital assets activity for the Primary Government for the year ended June 30, 2019 was as follows:

	Beginning Balances	Increases	Decreases	Transfers In (Out)	Ending Balances
<b>Governmental Activities:</b>					
Capital Assets not being Depreciated:					
Land	\$ 599,155	\$ 72,092	\$ -	\$ -	\$ 671,247
Construction in progress	353,270	372,261	-	(687,754)	37,777
Total Capital Assets not being Depreciated	<u>952,425</u>	<u>444,353</u>	<u>-</u>	<u>(687,754)</u>	<u>709,024</u>
Capital Assets being Depreciated:					
Buildings and structures	5,241,127	73,268	-	687,754	6,002,149
Infrastructure	277,345	236,827	-	-	514,172
Data processing equipment	81,012	-	-	-	81,012
Equipment and machinery	1,086,882	86,637	-	-	1,173,519
Vehicles	1,516,524	133,287	-	-	1,649,811
Total Capital Assets being Depreciated	<u>8,202,890</u>	<u>530,019</u>	<u>-</u>	<u>687,754</u>	<u>9,420,663</u>
Less Accumulated Depreciation For:					
Buildings and structures	1,179,379	176,070	-	-	1,355,449
Infrastructure	226,865	23,572	-	-	250,437
Data processing equipment	73,454	4,300	-	-	77,754
Equipment and machinery	527,357	93,386	-	-	620,743
Vehicles	1,140,772	106,894	-	-	1,247,666
Total Accumulated Depreciation	<u>3,147,827</u>	<u>404,222</u>	<u>-</u>	<u>-</u>	<u>3,552,049</u>
Total Capital Assets being Depreciated, net	<u>5,055,063</u>	<u>125,797</u>	<u>-</u>	<u>687,754</u>	<u>5,868,614</u>
Governmental Activities Capital Assets, net	<u>\$ 6,007,488</u>	<u>\$ 570,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,577,638</u>

Depreciation expense of \$404,222 was charged to the administration function.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 4—Capital assets (continued)**

	Beginning Balances	Increases	Decreases	Transfers In (Out)	Ending Balances
<b>Business-Type Activities:</b>					
Capital Assets not being Depreciated:					
Land	\$ 149,857	\$ -	\$ -	\$ -	\$ 149,857
Construction in progress	27,500	-	-	-	27,500
Total Capital Assets not being Depreciated	<u>177,357</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>177,357</u>
Capital Assets being Depreciated:					
Buildings and structures	206,953	60,642	-	-	267,595
Water systems	1,312,725	90,972	-	-	1,403,697
Sewer systems	5,140,314	60,498	-	-	5,200,812
Equipment	516,596	12,932	-	-	529,528
Vehicles	290,502	-	-	-	290,502
Total Capital Assets being Depreciated	<u>7,467,090</u>	<u>225,044</u>	<u>-</u>	<u>-</u>	<u>7,692,134</u>
Less Accumulated Depreciation For:					
Buildings and structures	156,103	2,895	-	-	158,998
Water systems	643,502	34,985	-	-	678,487
Sewer systems	2,152,698	160,377	-	-	2,313,075
Equipment	318,855	31,108	-	-	349,963
Vehicles	198,712	27,404	-	-	226,116
Total Accumulated Depreciation	<u>3,469,870</u>	<u>256,769</u>	<u>-</u>	<u>-</u>	<u>3,726,639</u>
Total Capital Assets being Depreciated, net	<u>3,997,220</u>	<u>(31,725)</u>	<u>-</u>	<u>-</u>	<u>3,965,495</u>
Business-Type Activity Capital Assets, net	<u>\$ 4,174,577</u>	<u>\$ (31,725)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,142,852</u>

*Discretely Presented Component Unit* – Activity for the ABC Board for the year ended June 30, 2019 was as follows:

	Cost	Accumulated Depreciation	Net Amount
Land	\$ 27,416	\$ -	\$ 27,416
Building and improvements	675,566	193,261	482,305
Furniture/equipment	97,890	90,225	7,665
Loan costs	3,285	3,057	228
Total	<u>\$ 804,157</u>	<u>\$ 286,543</u>	<u>\$ 517,614</u>

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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### Note 5—Pension plan and postemployment obligations

#### A. Local Governmental Employees' Retirement System

*Plan Description* – The Town of Lillington is a participating employer in the statewide 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 (“LEO”) 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 LGERS is included in the Comprehensive Annual Financial Report (“CAFR”) for the State of North Carolina. The State’s CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at [www.osc.nc.gov](http://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 postretirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

*Contributions* – Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town 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’s contractually required contribution rate for the year ended June 30, 2019 was 8.5% of compensation for law enforcement officers and 7.8% 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 were \$147,000 for the year ended June 30, 2019.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 5—Pension plan and postemployment obligations (continued)**

*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 \$668,226 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 0.02816%, which was an increase of 0.00040% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$178,570. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 103,064	\$ 3,458
Changes of assumptions	177,275	-
Net difference between projected and actual earnings on pension plan investments	91,703	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	23,408
Town contributions subsequent to the measurement date	147,000	-
Total	<u>\$ 519,042</u>	<u>\$ 26,866</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 5—Pension plan and postemployment obligations (continued)**

\$147,000 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Years Ending June 30,**

2020	\$	168,418
2021		109,004
2022		17,222
2023		50,533
2024		-
Thereafter		-
Total	<u>\$</u>	<u>345,177</u>

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

Inflation	3.00%
Salary increases	3.50 to 8.10%, including inflation and productivity factor
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

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

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 5—Pension plan and postemployment obligations (continued)**

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%
Total	100.0%	

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 3.05%. All rates of return and inflation are annualized.

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 5—Pension plan and postemployment obligations (continued)**

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

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Town's proportionate share of the net pension liability (asset)	<u>\$ 1,604,718</u>	<u>\$ 668,226</u>	<u>\$ (114,641)</u>

*Pension Plan Fiduciary Net Position* – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

**B. Law Enforcement Officers Special Separation Allowance**

*Plan Description* – The Town administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefits 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 member entitled to but not yet receiving benefits	-
Active Plan members	<u>16</u>
Total	<u><u>16</u></u>

**1. Summary of Significant Accounting Policies**

*Basis of Accounting* – The Financial Statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. 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 following criteria which are outlined in GASB Statement 73.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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### Note 5—Pension plan and postemployment obligations (continued)

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

Inflation	2.5%
Salary increases	3.5 - 7.35%, including inflation
Discount rate	3.64%
Cost of living adjustment	N/A

The discount rate is based on the Standard and Poor's Municipal Bond 20 Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2014.

**DEATHS AFTER RETIREMENT (HEALTHY):** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.

**DEATHS BEFORE RETIREMENT:** RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

**DEATHS AFTER RETIREMENT (BENEFICIARY):** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

**DEATHS AFTER RETIREMENT (DISABLED):** RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

#### 2. 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 by making contributions based on actuarial valuations. For the current year, there were no contributions made by the Town. 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.

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 5—Pension plan and postemployment obligations (continued)**

At June 30, 2019, the Town reported a total pension liability of \$252,247. 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 \$23,732.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 8,100	\$ 6,590
Changes of assumptions and other inputs	12,137	12,763
Benefit payments and administrative expenses subsequent to the measurement date	-	-
Total	\$ 20,237	\$ 19,353

\$-0- reported as deferred inflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

**Years Ending June 30,**

2020	\$ 500
2021	500
2022	500
2023	500
2024	1,100
Thereafter	(2,216)
	\$ 884

No benefit payments came due subsequent to the measurement date are reported as deferred outflows of resources.

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 pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.64 percent) or one percentage point higher (4.64 percent) than the current rate:

	<b>1% Decrease (2.64%)</b>	<b>Discount Rate (3.64%)</b>	<b>1% Increase (4.64%)</b>
Total pension liability	\$ 275,435	\$ 252,247	\$ 231,043

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 5—Pension plan and postemployment obligations (continued)**

Total pension liability as of December 31, 2017	\$ 247,578
Changes for the year:	
Service cost at end of year	15,409
Interest	7,823
Change in benefit terms	-
Difference between expected and actual experience in the measurement of the total pension liability	(7,685)
Changes of assumptions and other inputs	(10,878)
Benefit payments	-
Other changes	-
Net changes	<u>4,669</u>
Total pension liability as of December 31, 2018	<u>\$ 252,247</u>

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, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

C. Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description* – The Town contributes to the Supplemental Retirement Income Plan (the “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 Town has also elected to have employees not engaged in law enforcement to participate in the Supplemental Retirement Income Plan. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the CAFR for the State of North Carolina. The State’s CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy* – Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2019 were \$43,861 which consisted of \$31,314 from the Town and \$12,547 from the law enforcement officers. The Town has elected to make contributions for each non-law enforcement employee. Also, the non-law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2019 were \$57,864 which consisted of \$36,967 from the Town and \$20,897 from the non-law enforcement employees.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 5—Pension plan and postemployment obligations (continued)**

D. Other Postemployment Benefit

Healthcare Benefits

*Plan Description* – Under a Town resolution, the Town provides healthcare benefits through the Healthcare Benefits Plan (the “HCB Plan”) as a single-employer defined benefit plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

*Benefits Provided* – The HCB Plan covers retirees of the Town on or after December 31, 2007 under the North Carolina Local Governmental Employees’ Retirement System (the “System”) that have at least 15 years of creditable service with the Town. The HCB Plan is available to qualified retirees at 50% to 100% until the age of 65 or until Medicare eligible, whichever is sooner. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

The Town will contribute toward the cost of group health insurance premiums up to the base plan only based on the years of service at retirement using the following schedule:

<b>Years of Town Service at Retirement</b>	<b>Percentage of Premium Paid by the Town</b>
15 - 19	50%
20 - 24	75%
25 - 29	85%
30 or more	100%

Also, the Town’s retirees may continue dependent coverage (and pay the full premium cost) if enrolled in dependent coverage at the time of retirement. Dependent coverage terminates upon the retiree or dependent becoming eligible for Medicare or upon the retiree’s death.

Membership of the HCB Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	33
Total	<u>34</u>

The Town pays the cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by Town Council. The Town’s members pay \$590, \$442, and \$1,032 per month for spousal, children, and family coverage, respectively. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The Town obtains healthcare coverage through private insurers. The Town’s obligation to contribute to HCB Plan is established and may be amended by the Town Council.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 5—Pension plan and postemployment obligations (continued)**

**Total OPEB Liability**

The Town's total OPEB liability of \$835,900 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 employees	3.50 % - 7.35%
Discount rate	3.89%
Healthcare cost trend rates	
Pre-Medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	N/A

The discount rate is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer.

**Changes in the Total OPEB Liability**

Total OPEB Liability as of June 30, 2018	\$ 795,806
Changes for the year:	
Service cost	51,540
Interest	28,095
Change in benefit terms	-
Difference between expected and actual experience	4,326
Changes in assumptions or other inputs	(30,502)
Benefit payments and implicit subsidy credit	(13,365)
Net changes	<u>40,094</u>
Total OPEB Liability as of June 30, 2019	<u><u>\$ 835,900</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.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 5—Pension plan and postemployment obligations (continued)**

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 to December 31, 2014, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

*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 under a discount rate that is 1-percentage-point lower (2.89%) or one percentage point higher (4.89%) than the current healthcare discount rate:

	<b>1% Decrease</b> <b>(2.89%)</b>	<b>Current</b> <b>Discount Rate</b> <b>(3.89%)</b>	<b>1% Increase</b> <b>(4.89%)</b>
Total OPEB liability	\$ 931,867	\$ 835,900	\$ 750,134

*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 and 1-percentage-point higher than the current healthcare cost trend rates:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
Total OPEB liability	\$ 720,848	\$ 835,900	\$ 973,496

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019*

**Note 5—Pension plan and postemployment obligations (continued)**

**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 \$71,046. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 3,859	\$ 2,383
Changes of assumptions or other inputs	-	66,662
Benefit payments and administrative costs made subsequent to the measurement date	13,365	-
Total	<u>\$ 17,224</u>	<u>\$ 69,045</u>

\$13,365 reported as deferred outflows of resources related to OPEB benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of total OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

**Measurement Period Ending June 30:**

2020	\$ (8,589)
2021	(8,589)
2022	(8,589)
2023	(8,589)
2024	(8,589)
Thereafter	<u>(22,241)</u>
	<u>\$ (65,186)</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019*

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**Note 5—Pension plan and postemployment obligations (continued)**

E. 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. 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 postemployment 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.

For the fiscal year ended June 30, 2019, The Town made contributions to the State for death benefits of \$-0-. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

**Note 6—Deferred outflows and inflows of resources**

Deferred outflows of resources is comprised of the following:

<u>Source</u>	<u>Amount</u>
LGERS pension deferrals	\$ 519,042
LEOSSA pension deferrals	20,237
OPEB deferrals	17,224
	<u>\$ 556,503</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019*

**Note 6—Deferred outflows and inflows of resources (continued)**

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

	<b>Government Wide</b>	<b>General Fund</b>
Prepaid taxes (General Fund)	\$ 3,198	\$ 3,198
Taxes receivable (General Fund)	-	9,047
OPEB deferrals	69,045	-
LGERS pension deferrals	26,866	-
LEOSSA pension deferrals	19,353	-
	<u>\$ 118,462</u>	<u>\$ 12,245</u>

**Note 7—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 two 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 \$5 million and \$2 million per occurrence, respectively, property coverage up to the total insurance value of the property policy, and workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town carries flood insurance through the National Flood Insurance Plan ("NFIP"). Because the Town is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency; the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. The Town also is eligible to and has purchased commercial flood insurance for another \$5,000,000 of coverage per occurrence.

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

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

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**Note 8—Claims, judgments, and contingent liabilities**

At June 30, 2019, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

**Note 9—Long-term liabilities**

The Town is indebted under installment purchase agreements as follows:

Serviced by the Governmental Funds:

The Town entered into a \$1,300,000 Installment Financing Contract with United States Department of Agriculture Rural Development on February 10, 2012 to obtain permanent financing for the construction of a community recreation center. The contract note provides for thirty annual payments of \$72,917, including interest at 3.75%, commencing February 10, 2013. The note is secured by the real and personal property under a deed of trust.	\$ 1,110,564
The Town entered into a \$262,400 Installment Financing Contract with First Bank on May 13, 2016 for the purchase of a 40 air packs. The contract note provides for ten annual payments of \$30,526, including interest at 2.85%, beginning on May 13, 2017 and ending May 13, 2026. The note is secured by the equipment purchased.	192,656
The Town entered into a \$1,500,000 Installment Financing Contract with Branch Banking and Trust Company on June 27, 2019 for the purchase and construction of facilities. The contract provides for 15 annual payments of \$100,000 beginning on June 27, 2020, including interest at 3.32%. The note is secured by the building purchased.	1,500,000
The Town entered into a \$112,000 Installment Financing Contract with Branch Banking and Trust Company on March 23, 2018 for the purchase and construction of lighting for Lillington Park. The contract note provides for three annual payments of \$39,885 beginning on May 23, 2019, including interest at 3.38%. The note is secured by the real and personal property purchased.	75,901
Total installment purchase agreements	<u>\$ 2,879,121</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 9—Long-term liabilities (continued)**

Annual debt service payments of the installment purchases as of June 30, 2019, including interest of \$836,273 for governmental activities are as follows:

<u>Years Ending June 30,</u>	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2020	\$ 193,649	\$ 57,826
2021	196,807	52,526
2022	160,188	51,967
2023	162,216	43,079
2024 - 2028	781,972	323,571
2029 - 2033	734,729	196,174
2034 - 2038	382,168	85,733
2039 - 2042	267,392	25,397
2043	-	-
Total principal payments	<u>\$ 2,879,121</u>	
Total interest payments		<u>\$ 836,273</u>

During the year ended June 30, 2019, the following changes occurred in long-term liabilities:

	<b>Balance June 30, 2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2019</b>	<b>Current Portion</b>
Governmental activities:					
Installment purchases (direct of placement)	\$ 4,069,052	\$ 1,500,000	\$ 2,689,931	\$ 2,879,121	\$ 193,649
Compensated absences	228,458	59,429	45,918	241,969	-
Total OPEB liability	795,806	40,094	-	835,900	-
Total pension liability (LGERS)	328,615	189,065	-	517,680	-
Total pension liability (LEO)	247,578	4,669	-	252,247	-
Governmental activities Long-term liabilities	<u>\$ 5,669,509</u>	<u>\$ 1,793,257</u>	<u>\$ 2,735,849</u>	<u>\$ 4,726,917</u>	<u>\$ 193,649</u>
Business-type activities:					
Net pension liability (LGERS)	\$ 95,481	\$ 55,065	\$ -	\$ 150,546	\$ -
Compensated absences	30,537	19,421	10,413	39,545	-
Business-type activities Long-Term Liabilities	<u>\$ 126,018</u>	<u>\$ 74,486</u>	<u>\$ 10,413</u>	<u>\$ 190,091</u>	<u>\$ -</u>
Component unit activities:					
Installment purchases	\$ 40,875	\$ -	\$ 40,875	\$ -	\$ -
Component unit activities Long-term liabilities	<u>\$ 40,875</u>	<u>\$ -</u>	<u>\$ 40,875</u>	<u>\$ -</u>	<u>\$ -</u>

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

General Fund assets have and are used to satisfy net pension liabilities.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019

**Note 10—Operating lease obligations**

The Town has entered into operating leases for various office equipment for terms of five years. Rental expense under these agreements for the current year was \$10,933 for governmental activities.

Future minimum rental payments for the five years ending June 30 are as follows:

<u>Years Ending June 30,</u>	<b>Governmental Activities</b>
2020	\$ 12,039
2021	12,136
2022	4,803
2023	1,817
2024	-
	<u>\$ 30,795</u>

**Note 11—Net investment in capital assets**

	<u>Governmental</u>	<u>Business-Type</u>
Capital assets	\$ 6,577,638	\$ 4,142,852
Less long-term debt	2,879,121	-
Net investment in capital assets	<u>\$ 3,698,517</u>	<u>\$ 4,142,852</u>

**Note 12—Fund balance**

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

Total fund balance - General Fund	\$ 2,997,768
Less:	
Inventories	16,856
Stabilization by State statute	675,456
Streets - Powell Bill	118,705
Remaining fund balance	<u>\$ 2,186,751</u>

The Town's fund balance policy states that the Town shall maintain an unassigned balance in the General Fund of no less than 40% of the total projected expenditures.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019*

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**Note 13—Summary disclosure of contingencies**

*Federal and State Assisted Programs* – The Town has received proceeds from several federal and State grants. For the fiscal year ended June 30, 2019 these programs were subject to audit in accordance with the Single Audit Act Amendments of 1996, the Uniform Grant Guidance, and the State Single Audit Implementation Act. Periodic audit 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 any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

**Note 14—Subsequent events**

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

The Town applied for reimbursement for the Front Street Repair and Sewer System Assessment project through Golden Leaf INC. The reimbursement was approved and the Town received a check in the amount of \$318,686 to reimburse the Water/Sewer Fund for that major project.

**Note 15—Related party transactions**

Glenn McFadden is the mayor of the Town and also the system superintendent of billings and collections for Harnett County. The Town purchases its water and sewer service from Harnett County. During the year ended June 30, 2019, the Town paid Harnett County \$868,665 for these services.

William Baker, Parks and Recreation Director, is part owner of Lillington Printing-Embroidery. During the year ended June 30, 2019, the Town purchased items totaling \$22,323 from the company.



## **TOWN OF LILLINGTON**

### **REQUIRED SUPPLEMENTARY FINANCIAL DATA**

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

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- Law Enforcement Officers' Special Separation Allowance – Schedule of Changes in Total Pension Liability
- Law Enforcement Officers' Special Separation Allowance – Schedule of Total Pension Liability as a Percentage of Covered Payroll
- Other Postemployment Benefits – Schedule of Changes in the Total OPEB Liability and Related Ratios
- Local Government Employees' Retirement System – Schedule of Proportionate Share of Net Pension Liability (Asset)
- Local Government Employees' Retirement System – Schedule of Contributions

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE –**  
**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY**

SCHEDULE 1

*LAST THREE YEARS*

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	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning Pension Liability	\$ 247,578	\$ 199,350	\$ 186,216
Changes for the year:			
Service Cost at end of year	15,409	12,392	12,342
Interest	7,823	7,695	6,648
Change in benefit terms	-	-	-
Difference between expected and actual experience in the measurement of the total pension liability	(7,685)	11,264	-
Changes of assumptions and other inputs	(10,878)	16,877	(5,856)
Benefit payments	-	-	-
Other changes	-	-	-
Net changes	<u>4,669</u>	<u>48,228</u>	<u>13,134</u>
Ending Pension Liability	<u>\$ 252,247</u>	<u>\$ 247,578</u>	<u>\$ 199,350</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 2

**REQUIRED SUPPLEMENTARY INFORMATION****LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE –****SCHEDULE OF TOTAL PENSION OBLIGATION AS A PERCENTAGE OF COVERED PAYROLL***LAST THREE YEARS*

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 252,247	\$ 247,578	\$ 199,350
Covered payroll	\$ 606,533	\$ 519,005	\$ 488,102
Total pension obligation as a percentage of covered payroll	41.59%	47.70%	40.84%

Notes to the schedules:

\*The Town of Lillington has no assets accumulated in a trust that meets criteria in paragraph 4 of GASBS 73 nor does the Plan provide pay related benefits.

\*\* This is the third year of reporting in this format. This will eventually report more years of information.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**OTHER POSTEMPLOYMENT BENEFITS –**  
**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**

SCHEDULE 3

LAST TWO YEARS

	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>		
Service Cost	\$ 51,540	\$ 55,496
Interest	28,095	23,272
Changes in benefit terms	-	-
Difference between expected and actual experience	4,326	(3,039)
Changes of assumptions or other inputs	(30,502)	(50,322)
Benefit payments and implicit subsidy credit	<u>(13,365)</u>	<u>(5,485)</u>
Net change in Total OPEB Liability	40,094	19,922
Total OPEB Liability - beginning	<u>795,806</u>	<u>775,884</u>
Total OPEB Liability - ending	<u>\$ 835,900</u>	<u>\$ 795,806</u>
Covered-employee payroll	\$ 1,375,580	\$ 1,375,580
Total OPEB Liability as a percentage of covered-employee payroll	60.77%	57.85%

**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>
2018	3.56%
2019	3.89%

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) –  
LOCAL GOVERNMENT EMPLOYEES’ RETIREMENT SYSTEM**

*LAST SIX FISCAL YEARS*

**Local Government Employees' Retirement System:**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Town of Lillington's proportion of the net pension liability (asset) (%)	0.02816%	0.02776%	0.02707%	0.02727%	0.02479%	0.02675%
Town of Lillington's proportion of the net pension liability (asset) (\$)	\$ 668,226	\$ 424,096	\$ 574,516	\$ 122,386	\$ (157,816)	\$ 298,935
Town of Lillington's covered-employee payroll	\$ 1,566,394	\$ 1,551,012	\$ 1,393,097	\$ 1,325,081	\$ 1,265,281	\$ 1,222,812
Town of Lillington's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	42.66%	27.34%	41.24%	9.24%	( 12.47%)	24.45%
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. Information is not available for years prior to those presented.

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE 5

**SCHEDULE OF CONTRIBUTIONS – LOCAL GOVERNMENT EMPLOYEES’ RETIREMENT SYSTEM**

*LAST SIX FISCAL YEARS*

**Local Government Employees' Retirement System:**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 147,000	\$ 122,060	\$ 94,893	\$ 95,061	\$ 95,194	\$ 90,534
Contributions in relation to the contractually required contribution	<u>147,000</u>	<u>122,060</u>	<u>94,893</u>	<u>95,061</u>	<u>95,194</u>	<u>90,534</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Lillington's covered-employee payroll	\$ 1,828,061	\$ 1,566,394	\$ 1,551,012	\$ 1,393,097	\$ 1,325,081	\$ 1,265,281
Contributions as a percentage of covered-employee payroll	8.04%	7.79%	6.12%	6.82%	7.17%	7.14%

\* Information is not available for years prior to those presented.



**TOWN OF LILLINGTON**

**INDIVIDUAL FUND STATEMENTS AND SCHEDULES**

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 7

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND**

YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>			
Ad Valorem Taxes:			
Taxes	\$ 1,835,000	\$ 1,887,274	\$ 52,274
Penalties and interest	6,000	4,612	(1,388)
Total Ad Valorem Taxes	<u>1,841,000</u>	<u>1,891,886</u>	<u>50,886</u>
Other Taxes and Licenses:			
Vehicle Licenses	-	15	15
Privilege licenses	-	865	865
Total Other Taxes and Licenses	<u>-</u>	<u>880</u>	<u>880</u>
Unrestricted Intergovernmental:			
Local option sales taxes	875,000	1,012,327	137,327
Utility franchise tax	310,000	326,153	16,153
Solid waste disposal tax	2,000	2,546	546
Beer and wine tax	14,000	14,807	807
Total Unrestricted Intergovernmental	<u>1,201,000</u>	<u>1,355,833</u>	<u>154,833</u>
Restricted Intergovernmental:			
Powell Bill Allocation	101,000	101,156	156
Governor's Highway Safety	35,000	42,437	7,437
Harnett County donation	7,000	27,350	20,350
On-behalf of payments - Fire and Rescue	6,410	6,273	(137)
Part F Grant	250,000	250,000	-
Downtown Revitalization	25,000	25,000	-
Grassroots Arts Program Grant	4,000	-	(4,000)
FEMA	134,800	-	(134,800)
Controlled substance tax	-	865	865
Total Restricted Intergovernmental	<u>563,210</u>	<u>453,081</u>	<u>(110,129)</u>
Permits and Fees:			
Officer fees	156,200	125,658	(30,542)
Building inspection fees	75,000	78,795	3,795
Zoning permits	5,000	5,850	850
Total Permits and Fees	<u>236,200</u>	<u>210,303</u>	<u>(25,897)</u>
Sales and Services:			
Garbage fees	195,000	215,781	20,781
Building rent	18,000	19,166	1,166
Fire/Rescue service fees	118,000	115,439	(2,561)
Mowing fees	8,500	8,903	403
Recreation department fees	177,000	200,418	23,418
Total Sales and Services	<u>516,500</u>	<u>559,707</u>	<u>43,207</u>
Investment Earnings	<u>8,500</u>	<u>54,370</u>	<u>45,870</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 7

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)**

YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES (continued):</b>			
Miscellaneous:			
Christmas Parade	\$ 1,000	\$ 1,410	\$ 410
Insurance Refunds	-	1,705	1,705
Miscellaneous	2,000	7,096	5,096
Miscellaneous Donations	50,000	50,750	750
Total Miscellaneous	<u>53,000</u>	<u>60,961</u>	<u>7,961</u>
Total Revenues	<u>4,419,410</u>	<u>4,587,021</u>	<u>167,611</u>
<b>EXPENDITURES:</b>			
Governing Body:			
Salaries and employee benefits	-	62,115	-
Other operating expenditures	-	259,270	-
Total Governing Body	<u>453,050</u>	<u>321,385</u>	<u>131,665</u>
Administration:			
Salaries and employee benefits	-	181,669	-
Other operating expenditures	-	21,312	-
Total Administration	<u>222,850</u>	<u>202,981</u>	<u>19,869</u>
Finance:			
Salaries and employee benefits	-	142,268	-
Other operating expenditures	-	274,418	-
Total Finance	<u>422,125</u>	<u>416,686</u>	<u>5,439</u>
Planning and Inspection:			
Salaries and employee benefits	-	81,109	-
Other operating expenditures	-	92,763	-
Total Planning and Inspection	<u>225,375</u>	<u>173,872</u>	<u>51,503</u>
Public Works:			
Salaries and employee benefits	-	47,683	-
Utilities	-	178,746	-
Maintenance and repair	-	74,954	-
Contracted services	-	239,593	-
Capital outlay	-	191,438	-
Other operating expenditures	-	63,355	-
Total Public Works	<u>853,075</u>	<u>795,769</u>	<u>57,306</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 7

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)**

YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>EXPENDITURES (continued):</b>			
Police:			
Salaries and employee benefits	\$ -	\$ 906,648	\$ -
Vehicle maintenance	-	20,082	-
Capital outlay	-	101,608	-
Other operating expenditures	-	124,852	-
Total Police	<u>1,208,826</u>	<u>1,153,190</u>	<u>55,636</u>
Fire:			
Salaries and employee benefits	-	234,756	-
Vehicle maintenance	-	24,205	-
Capital outlay	-	15,683	-
Other operating expenditures	-	93,473	-
Total Fire	<u>378,100</u>	<u>368,117</u>	<u>9,983</u>
Flatwoods Fire District:			
Salaries and employee benefits	-	37,693	-
Vehicle maintenance	-	10,583	-
Equipment maintenance	-	4,013	-
Other operating expenditures	-	38,817	-
Capital outlay	-	10,497	-
Total Flatwoods Fire District	<u>115,000</u>	<u>101,603</u>	<u>13,397</u>
Streets:			
Powell Bill	-	254,997	-
Total Streets	<u>357,500</u>	<u>254,997</u>	<u>102,503</u>
Parks and Recreation:			
Salaries and employee benefits	-	453,681	-
Repairs and maintenance	-	22,719	-
Other operating expenditures	-	133,104	-
Capital Outlay	-	397,586	-
Total Parks and Recreation	<u>1,326,050</u>	<u>1,007,090</u>	<u>318,960</u>
Debt Service:			
Principal retirement	-	2,689,931	-
Interest and other charges	-	159,467	-
Total Debt Service	<u>2,869,010</u>	<u>2,849,398</u>	<u>19,612</u>
Total Expenditures	<u>8,430,961</u>	<u>7,645,088</u>	<u>785,873</u>
Revenues over (under) expenditures	<u>(4,011,551)</u>	<u>(3,058,067)</u>	<u>953,484</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 7

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)**

*YEAR ENDED JUNE 30, 2019*

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers from (to) other funds	\$ 450,000	\$ -	\$ (450,000)
Installment obligations issued	-	1,500,000	1,500,000
Insurance recovery	-	10,368	10,368
Appropriation of fund balance	3,561,551	-	(3,561,551)
Total Other Financing Sources (Uses)	<u>4,011,551</u>	<u>1,510,368</u>	<u>(2,501,183)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>(1,547,699)</u>	<u>\$ (1,547,699)</u>
Fund balances, beginning		<u>4,545,467</u>	
Fund balances, end of year		<u>\$ 2,997,768</u>	

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 8

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL (NON-GAAP) – CAPITAL PROJECT FUND – FIRE STATION NUMBER 2**

*FROM INCEPTION TO YEAR ENDED JUNE 30, 2019*

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>					
Unrestricted:					
Interest on Investments	\$ -	\$ 221	\$ 282	\$ 503	\$ 503
Total Revenues	<u>-</u>	<u>221</u>	<u>282</u>	<u>503</u>	<u>503</u>
<b>EXPENDITURES:</b>					
Planning and Design	50,500	24,276	-	24,276	26,224
Total Expenditures	<u>50,500</u>	<u>24,276</u>	<u>-</u>	<u>24,276</u>	<u>26,224</u>
Revenues under expenditures	<u>(50,500)</u>	<u>(24,055)</u>	<u>282</u>	<u>(23,773)</u>	<u>25,721</u>
<b>OTHER FINANCING SOURCES:</b>					
Transfer from General Fund	-	50,500	-	50,500	(50,500)
Total Other Financing Sources	<u>-</u>	<u>50,500</u>	<u>-</u>	<u>50,500</u>	<u>(50,500)</u>
Revenues and other sources over expenditures	<u>\$ (50,500)</u>	<u>\$ 26,445</u>	282	<u>\$ 26,727</u>	<u>\$ 76,221</u>
Fund balance, beginning of year			<u>26,445</u>		
Fund balance, end of year			<u>\$ 26,727</u>		

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SCHEDULE OF REVENUES AND EXPENDITURES –**  
**BUDGET TO ACTUAL (NON-GAAP) – WATER AND SEWER FUND**

SCHEDULE 9

YEAR ENDED JUNE 30, 2019

	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES:</b>			
Water sales	\$ 865,000	\$ 888,551	\$ 23,551
Sewer charges	970,000	1,005,127	35,127
Service fees	40,000	54,709	14,709
Water capacity fees	11,000	41,100	30,100
Sewer capacity fees	11,000	78,800	67,800
Total	<u>1,897,000</u>	<u>2,068,287</u>	<u>171,287</u>
Water and sewer taps	<u>3,500</u>	<u>7,900</u>	<u>4,400</u>
Other Operating Revenues:			
Late fees and reconnections	6,000	6,346	346
FEMA	-	44,682	44,682
Total Other Operating Revenues	<u>6,000</u>	<u>51,028</u>	<u>45,028</u>
Total Operating Revenues	<u>1,906,500</u>	<u>2,127,215</u>	<u>220,715</u>
Nonoperating Revenues:			
Sale of assets	-	643	643
Interest earnings	500	15,023	14,523
Total Nonoperating Revenue	<u>500</u>	<u>15,666</u>	<u>15,166</u>
Total Revenues	<u>1,907,000</u>	<u>2,142,881</u>	<u>235,881</u>
<b>EXPENDITURES:</b>			
Salaries and employee benefits	-	608,842	-
Maintenance	-	72,181	-
Water purchases	-	343,280	-
Wastewater treatment	-	693,567	-
Capital outlay	-	79,538	-
Other operating expenditures	-	882,835	-
Total Expenditures	<u>2,857,300</u>	<u>2,680,243</u>	<u>177,057</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Appropriation of fund balance	<u>950,300</u>	-	<u>950,300</u>
Total Other Financing Sources (Uses)	<u>950,300</u>	-	<u>950,300</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ (537,362)</u>	<u>\$ (537,362)</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SCHEDULE OF REVENUES AND EXPENDITURES –**  
**BUDGET TO ACTUAL (NON-GAAP) – WATER AND SEWER FUND (CONTINUED)**

SCHEDULE 9

*YEAR ENDED JUNE 30, 2019*

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ (537,362)	
Reconciling items:			
Capital outlay		225,044	
Depreciation		(256,769)	
Increase in deferred outflow of resources - pension		46,647	
Increase in deferred inflow of resources - pension		1,315	
Decrease in pension liability		(55,065)	
Bad debt expense		(7,207)	
Total Reconciling Items		<u>(46,035)</u>	
Net income		<u>\$ (583,397)</u>	



## **TOWN OF LILLINGTON**

### **OTHER SCHEDULES**

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This section contains additional information required on property taxes.

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- Schedule of Ad Valorem Taxes Receivable – General Fund
- Analysis of Current Tax Levy – Town-Wide Levy

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SCHEDULE OF AD VALOREM TAXES RECEIVABLE – GENERAL FUND**

SCHEDULE 10

YEAR ENDED JUNE 30, 2019

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Collections And Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 1,887,978	\$ 1,884,693	\$ 3,285
2017-2018	3,493	-	2,099	1,394
2016-2017	1,565	-	195	1,370
2015-2016	1,800	-	116	1,684
2014-2015	1,292	-	256	1,036
2013-2014	1,328	-	12	1,316
2012-2013	1,996	-	20	1,976
2011-2012	836	-	5	831
2010-2011	475	-	(26)	501
2009-2008	372	-	16	356
2008-2009	311	-	311	-
	\$ 13,468	\$ 1,887,978	\$ 1,887,697	13,749
Less allowance for uncollectible accounts:				
General Fund				4,702
Ad valorem taxes receivable - net				\$ 9,047
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				\$ 1,891,886
Reconciling items:				
Miscellaneous				(3,878)
Taxes written off				(311)
Subtotal				(4,189)
Total collections and credits				\$ 1,887,697

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY – TOWN-WIDE LEVY**

SCHEDULE 11

YEAR ENDED JUNE 30, 2019

	City - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current					
Real and personal property	\$ 362,686,937	\$ 0.52	\$ 1,885,972	\$ 1,633,875	\$ 252,097
Penalties	-	-	6,216	6,216	-
Total	<u>362,686,937</u>	<u>\$ 0.52</u>	<u>1,892,188</u>	<u>1,640,091</u>	<u>252,097</u>
Discoveries					
Current year taxes	217,973	\$ 0.52	1,133	1,133	-
Penalties	-		254	254	-
Abatements	(5,598)		(5,598)	(5,598)	-
Total	<u>\$ 362,899,312</u>		<u>1,887,978</u>	<u>1,635,881</u>	<u>252,097</u>
Net levy			1,887,978	1,635,881	252,097
Uncollected taxes at June 30, 2019			(3,285)	(3,285)	-
Current year's taxes collected			<u>\$ 1,884,693</u>	<u>\$ 1,632,596</u>	<u>\$ 252,097</u>
Current levy collection percentage			<u>99.83%</u>	<u>99.80%</u>	<u>100%</u>



**TOWN OF LILLINGTON**

**COMPLIANCE SECTION**

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

To the Honorable Mayor and  
Town Commissioners  
Town of Lillington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Lillington, North Carolina (the “Town”), 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, and have issued our report thereon dated November 26, 2019. Our report includes a reference to another auditor, who audited the financial statements of the Town of Lillington Alcoholic Beverage Control Board (the “ABC Board”), as described in our report on the Town’s financial statements. This report does not include the results of the other auditor’s testing of internal control over financial reporting or compliance and other matters that are reported separately by the other auditor. The financial statements of the Board were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town’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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses.

We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2019-001 and 2019-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's basic 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's Response to Findings**

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

Chemy Bekaert LLP

Raleigh, North Carolina  
November 26, 2019

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS**

YEAR ENDED JUNE 30, 2019

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**SECTION I. – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified  Yes  No
- Significant deficiency identified that is not considered to be a material weakness  Yes  None reported
- Noncompliance material to financial statements noted  Yes  No

**SECTION II. – Financial Statement Findings**

**Material Weakness**

**Finding 2019-001: Segregation of Duties**

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

Condition: There is a lack of segregation of duties among Town personnel.

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. In order to achieve greater segregation, the governing board should consider restructuring employee responsibilities and or adding personnel when financially feasible.

Management Response: The Town agrees with this finding and continues to improve controls as much as possible with the limited number of staff available.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS (CONTINUED)**

*YEAR ENDED JUNE 30, 2019*

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**Finding 2019-002:      Financial Reporting**

Criteria: Management should have sufficient controls over financial reporting such that the financial statements are materially correct without proposed audit adjustments.

Condition: During the audit several material audit adjustments were proposed to management. Auditor also prepared draft financial statements.

Effect: Management agreed with and posted the proposed audit adjustments and draft financial statements.

Recommendation: Management should continue efforts to improve the accuracy of year-end financial reporting by reviewing the procedures that have been implemented and make appropriate changes as needed.

Management Response: Management agrees with this finding and continues to review and implement additional month and year end closing procedures to ensure the accuracy of its financial reporting.



## TOWN OF LILLINGTON

### CORRECTIVE ACTION PLAN

#### **Material Weakness**

##### **Finding 2019-001: Segregation of Duties**

Name of Contact Person: Joseph Jefferies, Town Manager

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. As it becomes feasible, additional staff will be added and duties will be restructured in order to improve segregation of duties.

Proposed Completion Date: The above procedures have been implemented to the extent feasible and additional implementation will be made as they are economically feasible.

##### **Finding 2019-002: Segregation of Duties**

Name of Contact Person: Joseph Jefferies, Town Manager

Corrective Action: The finance officer has begun the process of implementing new month and year-end closing procedures to ensure the accuracy of the statements.

Proposed Completion Date: The procedure the finance officer implemented has improved the accuracy of the statements. However, the finance officer continues to review and implement additional procedures for the month and year-end closing process. This is an ongoing process to improve the efficiency and accuracy of the financial reporting process.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SUMMARY OF PRIOR YEAR FINDINGS**

*YEAR ENDED JUNE 30, 2019*

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**Finding No. 2018-001:** Repeated; not corrected

**Finding No. 2018-002:** Repeated; not corrected