

CITY OF LOCUST, NORTH CAROLINA

Audited Financial Statements

For the Fiscal Year Ended June 30, 2019

City Council Members

Stephen Huber, Mayor
Larry Baucom, Mayor Pro Tem
Harry Fletcher
Mandy Watson
Mike Haigler
J.C. Burris
Roger Hypes
Russell Efird

Administrative and Financial Staff

Cesar Correa, City Administrator
Stephania Morton, Finance Director

CITY OF LOCUST, NORTH CAROLINA

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
and Members of City Council
City of Locust, 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 City of Locust, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City'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 City of Locust ABC Board, which represents 100% of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Locust ABC Board, is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 City of Locust ABC Board were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit 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 City of Locust, North Carolina as of June 30, 2019, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 and the Law Enforcement Officers' Special Separation Allowance - Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, on pages 61-62, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 63 and 64 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 and the other auditors 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 City of Locust, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 6, 2019, on our consideration of City of Locust'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 City of Locust's internal control over financial reporting and compliance.

Rowell, Craven & Short, P.A.

Rowell, Craven & Short P.A.
Charlotte, North Carolina
November 6, 2019

Management's Discussion and Analysis

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

Financial Highlights

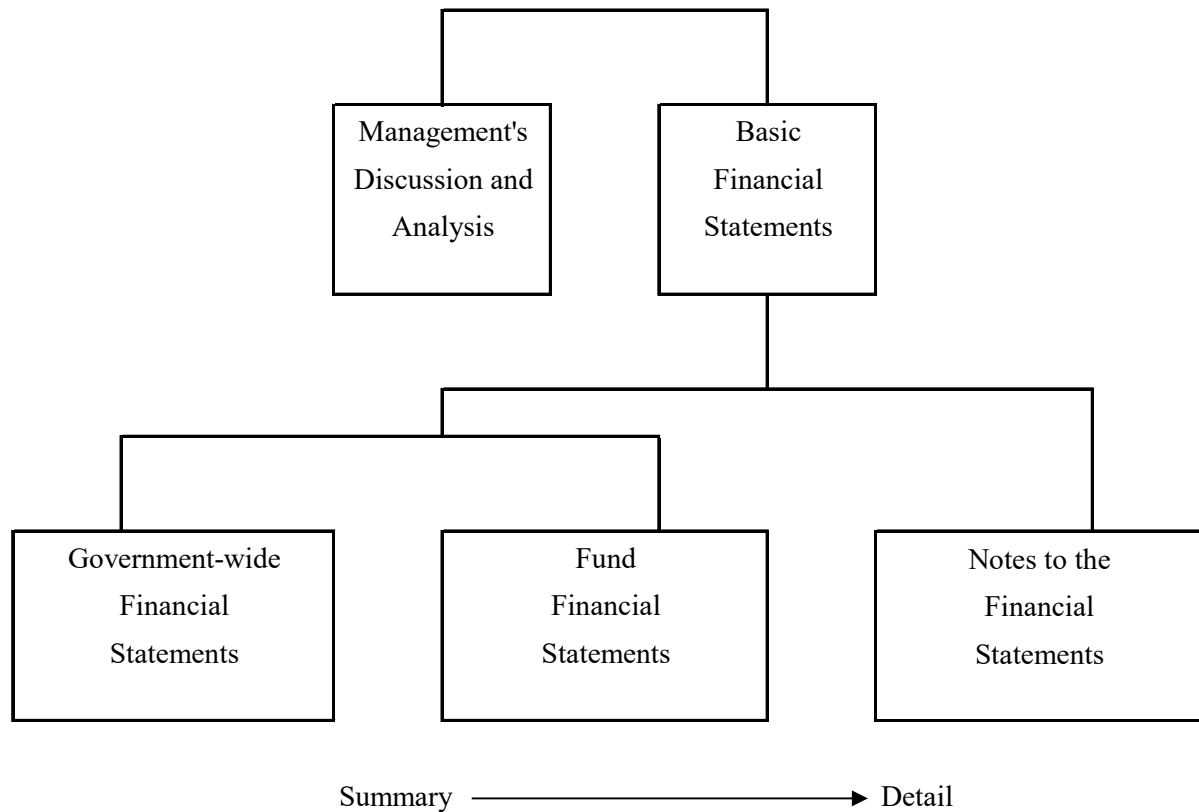
- The assets and deferred outflows of resources of the City of Locust exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$21,297,009 (net position).
- The government's total net position increased by \$882,334 primarily due to an increase in actual revenues compared to budgeted revenues, particularly wastewater revenues while expenditures remained steadfast throughout the year.
- As of the close of the current fiscal year, the City of Locust's General Fund reported an ending fund balance of \$3,033,528, an increase of \$368,445 in comparison with the prior year. Approximately 9.05% of this total amount or \$274,497 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,359,263 or 83.15% of total General Fund expenditures for the 2018-2019 fiscal year.
- During the year, the installment purchase agreement executed in 2003 for expansion of wastewater disposal system was paid off. The amount paid was \$854,172.93 and represents an early payoff of approximately 5.5 years. Annual payments on this loan were \$181,224 per year.
- In May of 2019, an extra payment in the amount of \$100,000 was made against the USDA governmental center loan.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

Government-wide Financial Statements

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

Government-wide Financial Statements - Continued

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the sewer services offered by the City of Locust. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City. The City exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the City.

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

Fund Financial Statements

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

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

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

Proprietary Funds – City of Locust has one on-going proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Locust uses enterprise funds to account for its sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities. Capital projects funds have been established to account for additions to the sewer infrastructure.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 25 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Locust’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 60 of this report.

Interdependence with Other Entities – The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

The City of Locust’s Net Position

Figure 2

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|---------------|-----------------------------|--------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Current and other assets | \$ 3,578,766 | \$ 4,097,595 | \$ 1,651,978 | \$ 1,451,036 | \$ 5,230,744 | \$ 5,548,631 |
| Capital assets | 10,356,734 | 10,739,051 | 9,417,450 | 9,554,675 | 19,774,184 | 20,293,726 |
| Deferred outflows of resources | 324,157 | 272,727 | 48,591 | 9,015 | 372,748 | 281,742 |
| Total assets | 14,259,657 | 15,109,373 | 11,118,018 | 11,014,726 | 25,377,675 | 26,124,099 |
| Long-term liabilities | | | | | | |
| outstanding | 2,568,447 | 2,524,552 | 713,256 | 1,388,531 | 3,281,703 | 3,913,083 |
| Other liabilities | 647,416 | 1,504,215 | 102,381 | 262,145 | 749,797 | 1,766,360 |
| Deferred inflows of resources | 44,764 | 28,926 | 4,403 | 1,055 | 49,167 | 29,981 |
| Total liabilities and deferred inflows of resources | 3,260,627 | 4,057,693 | 820,040 | 1,651,731 | 4,080,667 | 5,709,424 |
| Net position: | | | | | | |
| Net investment in capital assets | 8,456,451 | 8,765,278 | 8,721,535 | 7,968,487 | 17,177,985 | 16,733,765 |
| Restricted | 274,497 | 364,389 | - | - | 274,497 | 364,389 |
| Unrestricted | 2,268,082 | 1,922,013 | 1,576,444 | 1,394,508 | 3,844,526 | 3,316,521 |
| Total net position | \$ 10,999,030 | \$ 11,051,680 | \$ 10,297,979 | \$ 9,362,995 | \$ 21,297,009 | \$ 20,414,675 |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Locust exceeded liabilities and deferred inflows of resources by \$21,297,009 as of June 30, 2019. The City's net position increased \$882,334 for the fiscal year ended June 30, 2019. However, the largest portion (80.66%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Locust uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Locust's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. Restricted net position relating to state Powell Bill revenues and stabilization required by state statutes total \$274,497. The remaining balance of \$3,844,526 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a relatively high tax collection percentage of just over 98%.
- Increase in sales tax due to business growth in the city.
- Continue increase in new development and sewer tap fees.

City of Locust Changes in Net Position
Figure 3

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------|-----------------------------|--------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 80,085 | \$ 69,624 | \$ 1,964,485 | \$ 1,507,285 | \$ 2,044,570 | \$ 1,576,909 |
| Operating grants and contributions | 145,358 | 111,748 | - | - | 145,358 | 111,748 |
| Capital grants and contributions | - | 346,681 | - | - | - | 346,681 |
| General revenues: | | | | | | |
| Property taxes | 1,562,474 | 1,532,589 | - | - | 1,562,474 | 1,532,589 |
| Other taxes | 163,639 | 101,605 | - | - | 163,639 | 101,605 |
| Grants and contributions not restricted to specific programs | 1,277,079 | 1,165,987 | - | - | 1,277,079 | 1,165,987 |
| Other | 40,802 | 17,319 | - | - | 40,802 | 17,319 |
| Total revenues | 3,269,437 | 3,345,553 | 1,964,485 | 1,507,285 | 5,233,922 | 4,852,838 |
| Expenses: | | | | | | |
| General government | 712,870 | 683,204 | - | - | 712,870 | 683,204 |
| Public safety | 1,103,178 | 983,829 | - | - | 1,103,178 | 983,829 |
| Transportation | 656,811 | 527,329 | - | - | 656,811 | 527,329 |
| Environmental protection | 238,672 | 216,078 | - | - | 238,672 | 216,078 |
| Culture and recreation | 368,806 | 379,333 | - | - | 368,806 | 379,333 |
| Interest on long-term debt | 124,210 | 71,238 | - | - | 124,210 | 71,238 |
| Wastewater | - | - | 1,013,038 | 924,216 | 1,013,038 | 924,216 |
| Total expenses | 3,204,547 | 2,861,011 | 1,013,038 | 924,216 | 4,217,585 | 3,785,227 |
| Increase(decrease) in net position before transfers | 64,890 | 484,542 | 951,446 | 583,069 | 1,016,337 | 1,067,611 |
| Transfers | - | 30,000 | - | (30,000) | - | - |
| Increase(decrease) in net position | 64,890 | 514,542 | 951,446 | 553,069 | 1,016,337 | 1,067,611 |
| Net position, July 1 (consolidated) | 11,051,680 | 10,537,138 | 9,362,995 | 8,809,926 | 20,414,675 | 19,347,064 |
| Net position, beginning, restated | 10,934,140 | 10,537,138 | 9,346,533 | 8,809,926 | 20,280,673 | 19,347,064 |
| Net position, June 30 | \$ 10,999,030 | \$ 11,051,680 | \$ 10,297,979 | \$ 9,362,995 | \$ 21,297,010 | \$ 20,414,675 |

Governmental Activities. Governmental activities increased the City's net position by \$64,890.

Business-type Activities. Business-type activities increased the City of Locust's net position by \$951,446.

Financial Analysis of the City Funds

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

Governmental Funds. The focus of the City of Locust's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Locust's financing requirements.

The general fund is the chief operating fund of the City of Locust. At the end of the current fiscal year, City of Locust's fund balance available in the General Fund was \$2,609,461 while total fund balance reached \$3,033,528. The City follows the Local Government Commission's recommendation in order to maintain an adequate cash flow in the General Fund. The Fund Balance available for appropriation should not drop below 8.0% of total expenditures. This represents approximately one month's average expenditures. The City currently has an available fund balance of 91.96% of general fund expenditures, while total fund balance represents 106.91% of the same amount.

At June 30, 2019, the governmental funds of City of Locust reported a combined fund balance of \$3,033,528 with a net increase in fund balance of \$450,177.

General Fund Budgetary Highlights: During the fiscal year, the City 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. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. Revenues were higher than budgeted amounts primarily due to the fact that the City historically budgets conservatively. Expenditures were held in check to comply with its budgetary requirements.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the wastewater fund at the end of the fiscal year amounted to \$1,576,444. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The City of Locust's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$19,774,184 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions:

- City purchased 2 police vehicles.
- City purchased ATV and new truck for public works use.
- City had construction in progress totaling \$7,167 related to Market Street Sidewalks project and \$12,654 related to the new City entrance sign.
- City had construction in progress totaling \$75,379 related to Redah and North Basin wastewater system improvements.
- City purchased sewer cleaner and camera equipment for wastewater department use.

City of Locust's Capital Assets Net of Depreciation

Figure 4

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Land | \$ 693,782 | \$ 693,782 | \$ - | \$ - | \$ 693,782 | \$ 693,782 |
| Buildings and systems | 2,812,549 | 2,963,309 | 9,417,450 | 9,554,675 | 12,229,999 | 12,517,983 |
| Machinery and equipment | 143,911 | 177,493 | - | - | 143,911 | 177,493 |
| Infrastructure | 6,402,467 | 6,672,579 | - | - | 6,402,467 | 6,672,579 |
| Vehicles and motorized equipment | 271,044 | 218,728 | - | - | 271,044 | 218,728 |
| Construction in progress | 32,981 | 13,160 | - | - | 32,981 | 13,160 |
| Total | \$ 10,356,734 | \$ 10,739,051 | \$ 9,417,450 | \$ 9,554,675 | \$ 19,774,184 | \$ 20,293,725 |

Additional information on the City's capital assets can be found in Note 2 of the Basic Financial Statements.

**City of Locust's Outstanding Debt
Capitalized Leases and Installment Purchases**

Long-term Debt. As of June 30, 2019, the City of Locust had total debt outstanding of \$2,596,198.

Figure 5

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|----------------------------|--------------|-----------------------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Governmental Center loan | \$ 1,900,283 | \$ 1,973,773 | \$ - | \$ - | \$ 1,900,283 | \$ 1,973,773 |
| Installment purchases | - | - | 695,915 | 1,586,188 | 695,915 | 1,586,188 |
| Total | \$ 1,900,283 | \$ 1,973,773 | \$ 695,915 | \$ 1,586,188 | \$ 2,596,198 | \$ 3,559,961 |

City of Locust's Outstanding Debt

The City of Locust's total debt had a net decrease of \$963,763 during the past fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Locust is \$35,303,970. Additional information regarding City of Locust's long-term debt can be found in Note 2 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City of Locust:

- The City's unemployment rate remained stable from the prior year.
- Occupancy rates on office and retail space remained steady through the year.
- Commercial growth is increasing as evidenced by the increased sales taxes collected.

Budget Highlights for the Fiscal Year Ending June 30, 2019

Governmental Activities: Property taxes and revenues from permits and fees are expected to remain steady as compared to the current year. Budgeted expenditures in the General Fund are expected to remain steady for budget year 2019-2020

Business – type Activities: The Enterprise Fund is expected to remain steady compared to the current year. General operating expenses will remain steady for budget year 2019-2020.

Requests for Information

This report is designed to provide an overview of the **City of Locust** finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the office of Cesar Correa, P.O. Box 190, Locust N.C. 28097 or e-mail to CityAdmin@locustnc.com.

BASIC FINANCIAL STATEMENTS

CITY OF LOCUST, NORTH CAROLINA

Exhibit 1

Statement of Net Position
June 30, 2019

| | Primary Government | | | City of Locust ABC Board |
|---|----------------------------|-----------------------------|---------------|-----------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 2,669,276 | \$ 951,833 | \$ 3,621,109 | \$ 248,275 |
| Taxes receivable | 66,628 | - | 66,628 | - |
| Accounts receivable (net) | 3,138 | 151,726 | 154,864 | - |
| Internal balances | - | 459,418 | 459,418 | |
| Due from other governments | 173,052 | | 173,052 | |
| Prepaid items | 81,305 | - | 81,305 | 15,364 |
| Inventories | - | - | - | 231,570 |
| Restricted cash and cash equivalents | 585,367 | 89,001 | 674,368 | - |
| Total current assets | 3,578,766 | 1,651,978 | 5,230,744 | 495,209 |
| Non-current assets: | | | | |
| Capital assets (Note 1): | | | | |
| Land, non-depreciable improvements, and construction in progress | 726,763 | - | 726,763 | - |
| Other capital assets, net of depreciation | 9,629,971 | 9,417,450 | 19,047,421 | 3,786 |
| Total capital assets | 10,356,734 | 9,417,450 | 19,774,184 | 3,786 |
| Other Assets: | - | - | - | 40 |
| Total assets | 13,935,500 | 11,069,428 | 25,004,928 | 499,035 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Contributions to pension plan in current fiscal year | 89,163 | 6,433 | 95,596 | - |
| Deferred outflows related to pensions | 216,925 | 42,158 | 259,083 | 471 |
| Deferred outflows related to pensions - LEOSSA | 18,069 | - | 18,069 | |
| Total deferred outflows of resources | 324,157 | 48,591 | 372,748 | |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | 43,384 | - | 43,384 | 143,815 |
| Accrued interest payable | 64,689 | 2,307 | 66,996 | - |
| Internal balances | 459,418 | - | 459,418 | - |
| Customer deposits | - | 53,680 | 53,680 | - |
| Current portion of long-term liabilities | 79,925 | 46,394 | 126,319 | - |
| Total current liabilities | 647,416 | 102,381 | 749,797 | 143,815 |
| Long-term liabilities: | | | | |
| Due in more than one year | 1,916,768 | 649,521 | 2,566,289 | - |
| Pension liability - LGERS | 401,481 | 63,735 | 465,216 | 12,601 |
| Pension liability - LEOSSA | 250,198 | - | 250,198 | - |
| Total long-term liabilities | 2,568,447 | 713,256 | 3,281,703 | 12,601 |
| Total liabilities | 3,215,863 | 815,637 | 4,031,500 | 156,416 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension deferrals | 31,504 | 4,403 | 35,907 | 334 |
| Pension deferrals - LEOSSA | 13,260 | - | 13,260 | - |
| Total deferred inflows of resources | 44,764 | 4,403 | 49,167 | 334 |
| NET POSITION | | | | |
| Net investment in capital assets | 8,456,451 | 8,721,535 | 17,177,986 | 3,786 |
| Restricted for: | | | | |
| Stabilization by state statue | 216,813 | - | 216,813 | - |
| Streets - Powell Bill | 57,684 | - | 57,684 | - |
| Working capital | - | - | - | 60,276 |
| Unrestricted | 2,268,082 | 1,576,444 | 3,844,526 | 278,694 |
| Total net position | \$ 10,999,030 | \$ 10,297,979 | \$ 21,297,009 | \$ 342,756 |

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

CITY OF LOCUST, NORTH CAROLINA

***Statement of Activities
For the Fiscal Year Ended June 30, 2019***

| | | Program Revenues |
|----------------------------------|-----------------|-------------------------|
| | | Charges |
| | Expenses | for |
| <u>Functions/Programs</u> | | Services |
| Primary government: | | |
| Governmental Activities: | | |
| General government | \$ 712,870 | \$ 6,118 |
| Public safety | 1,103,178 | - |
| Transportation | 656,811 | - |
| Environmental protection | 238,672 | - |
| Cultural and recreational | 368,806 | 73,967 |
| Interest on long-term debt | 124,210 | - |
| | <hr/> | <hr/> |
| Total governmental activities | 3,204,547 | 80,085 |
| | <hr/> | <hr/> |
| Business-type activities: | | |
| Wastewater | 1,013,038 | 1,964,485 |
| | <hr/> | <hr/> |
| Total business-type activities | 1,013,038 | 1,964,485 |
| | <hr/> | <hr/> |
| Total primary government | \$ 4,217,585 | \$ 2,044,570 |
| | <hr/> | <hr/> |
| Component Unit: | | |
| ABC Board | \$ 1,912,577 | \$ 2,028,669 |
| Total component unit | \$ 1,912,577 | \$ 2,028,669 |
| | <hr/> | <hr/> |

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

Exhibit 2

| Operating Grants and Contributions | Capital Grants and Contributions | Net (Expense) Revenues and Changes in Net Position Primary Government | | Total | City of Locust ABC Board |
|--|--|---|-----------------------------|----------------|-----------------------------|
| | | Governmental Activities | Business Type Activities | | |
| \$ 1,609 | \$ - | \$ (705,143) | \$ - | \$ (705,143) | \$ - |
| 36,296 | - | (1,066,882) | - | (1,066,882) | - |
| 107,453 | - | (549,358) | - | (549,358) | - |
| - | - | (238,672) | - | (238,672) | - |
| - | - | (294,839) | - | (294,839) | - |
| - | - | (124,210) | - | (124,210) | - |
| 145,358 | - | (2,979,104) | - | (2,979,104) | - |
| - | - | - | 951,446 | 951,446 | - |
| - | - | - | 951,446 | 951,446 | - |
| \$ 145,358 | \$ - | \$ (2,979,104) | \$ 951,446 | \$ (2,027,658) | \$ - |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 116,092 |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 116,092 |
| General revenues: | | | | | |
| Taxes | | | | | |
| Property taxes levied for general purposes | | 1,562,474 | - | 1,562,474 | - |
| Other taxes and licenses | | 163,639 | - | 163,639 | - |
| Unrestricted intergovernmental revenue | | 1,277,079 | - | 1,277,079 | - |
| Unrestricted investment earnings | | 18,275 | - | 18,275 | - |
| Miscellaneous | | 22,527 | - | 22,527 | (39,313) |
| Total general revenues, not including transfers: | | 3,043,994 | - | 3,043,994 | (39,313) |
| Transfers | | - | - | - | - |
| Total general revenues and transfers | | 3,043,994 | - | 3,043,994 | (39,313) |
| Change in net position | | 64,890 | 951,446 | 1,016,336 | 76,779 |
| Net position, beginning, previously reported | | 11,051,680 | 9,362,995 | 20,414,675 | 265,977 |
| Restatement | | (117,540) | (16,462) | (134,002) | - |
| Net position, beginning restated | | 10,934,140 | 9,346,533 | 20,280,673 | 265,977 |
| Net position, ending | | \$ 10,999,030 | \$ 10,297,979 | \$ 21,297,009 | \$ 342,756 |

Balance Sheet
Governmental Funds
June 30, 2019

| | Major Funds | | Total |
|---|-------------------------|----------------------------------|-------------------------------|
| | General Fund | Capital Project Funds | Governmental Funds |
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,669,277 | \$ - | \$ 2,669,277 |
| Restricted cash | 585,366 | - | 585,366 |
| Taxes receivable | 69,766 | - | 69,766 |
| Due from other governments | 173,052 | - | 173,052 |
| Prepaid expenses | 81,305 | - | 81,305 |
| | | | |
| Total assets | 3,578,766 | - | 3,578,766 |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 43,386 | - | 43,386 |
| Due to other funds | 459,417 | - | 459,417 |
| Total liabilities | 502,803 | - | 502,803 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes receivable | 42,435 | - | 42,435 |
| Total deferred inflows of resources | 42,435 | - | 42,435 |
| FUND BALANCES | | | |
| Restricted | | | |
| Stabilization by state statute | 216,813 | - | 216,813 |
| Streets - Powell Bill | 57,684 | - | 57,684 |
| Nonspendable | | | |
| USDA Reserves | 68,265 | - | 68,265 |
| Prepaid expenses | 81,305 | - | 81,305 |
| Assigned - LEOSSA liability | 250,198 | - | 250,198 |
| Unassigned | 2,359,263 | - | 2,359,263 |
| Total fund balances | 3,033,528 | - | 3,033,528 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 3,578,766 | \$ - | \$ 3,578,766 |

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 3
Continued*Reconciliation of Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2019*

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

| | | | |
|--|----|--------------------|--------------------------|
| Total Fund Balance, Governmental Funds | | \$ | 3,033,528 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds statement. | | | |
| Gross capital assets at historical cost | \$ | 15,780,729 | |
| Accumulated depreciation | | <u>(5,423,995)</u> | 10,356,734 |
| Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position. | | | 89,162 |
| Liabilities for earned revenues considered deferred inflows of resources | | | 42,435 |
| Accrued interest | | | (64,689) |
| Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds: | | | |
| Pension related liabilities and deferrals, net | | | (461,450) |
| Some liabilities, including leases payable, installment loan, compensated absences payable, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the funds. | | | <u>(1,996,691)</u> |
| Net position of governmental activities | | \$ | <u>10,999,030</u> |

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 4

*Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
June 30, 2019*

| | Major Funds | | |
|--|-------------------------|---|---|
| | General Fund | Market Street Sidewalks Capital Project Fund | Total Governmental Funds |
| REVENUES | | | |
| Ad valorem taxes | \$ 1,587,954 | \$ - | \$ 1,587,954 |
| Other taxes and licenses | 118,449 | | 118,449 |
| Unrestricted intergovernmental | 1,277,079 | | 1,277,079 |
| Restricted intergovernmental | 143,750 | | 143,750 |
| Sales and services | 80,085 | | 80,085 |
| Investment earnings | 18,275 | | 18,275 |
| Miscellaneous | 69,327 | | 69,327 |
| | | | |
| Total revenues | <u>3,294,919</u> | <u>-</u> | <u>3,294,919</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 598,409 | 7,167 | 605,576 |
| Public safety | 1,052,652 | | 1,052,652 |
| Transportation | 460,908 | | 460,908 |
| Environmental protection | 238,673 | | 238,673 |
| Economic and physical development | - | | - |
| Culture and recreation | 288,242 | | 288,242 |
| Debt Service: | | | |
| Principal retirement | 73,490 | | 73,490 |
| Interest and other charges | 125,202 | | 125,202 |
| | | | |
| Total expenditures | <u>2,837,575</u> | <u>7,167</u> | <u>2,844,742</u> |
| | | | |
| Excess (deficiency) of revenues over expenditures | <u>457,344</u> | <u>(7,167)</u> | <u>450,177</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfer to Capital Project Fund | (7,167) | | (7,167) |
| Transfer from Water and Sewer Fund | - | | - |
| Transfer from General Fund | - | 7,167 | 7,167 |
| | | | |
| Total other financing sources | <u>(7,167)</u> | <u>7,167</u> | <u>-</u> |
| Net change in fund balance | 450,177 | - | 450,177 |
| Fund balance, beginning, previously stated | 2,665,083 | - | 2,665,083 |
| Restatement | (81,732) | - | (81,732) |
| Fund Balance, beginning, restated | 2,583,351 | | 2,583,351 |
| Fund balance, end of year | <u>\$ 3,033,528</u> | <u>\$ -</u> | <u>\$ 3,033,528</u> |

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 5

***Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities of Governmental Funds
For the Fiscal 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 | | \$ 450,177 |
| 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 | \$ 131,822 | |
| Construction in progress- current year | 19,821 | |
| Depreciation expense for governmental assets | <u>(533,959)</u> | (382,316) |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. | | (89,162) |
| 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 | <u>(25,480)</u> | (25,480) |
| 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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | |
| Principal payments on long-term debt | 73,490 | |
| Decrease in accrued interest payable | <u>992</u> | 74,482 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures. | | |
| Compensated absences | (7,744) | |
| Pension expense | <u>44,932</u> | <u>37,188</u> |
| Total changes in net position of governmental activities | | <u>\$ 64,890</u> |

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 6

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019

| | General Fund | | | Variance with Final Budget- Positive (Negative) |
|---|--------------------|-----------------|-------------------|--|
| | Original Budget | Final Budget | Actual Amounts | |
| Revenues: | | | | |
| Ad valorem taxes | \$ 1,460,000 | \$ 1,460,000 | \$ 1,587,954 | \$ 127,954 |
| Other taxes and licenses | 22,500 | 77,388 | 118,449 | 41,061 |
| Unrestricted intergovernmental | 978,500 | 1,031,639 | 1,277,079 | 245,440 |
| Restricted intergovernmental | 397,751 | 403,291 | 143,750 | (259,541) |
| Sales and services | 65,000 | 74,995 | 80,085 | 5,090 |
| Investment earnings | 6,000 | 6,600 | 18,275 | 11,675 |
| Miscellaneous | 22,500 | 26,685 | 69,327 | 42,642 |
| Total revenues | 2,952,251 | 3,080,598 | 3,294,919 | 214,321 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 646,653 | 646,808 | 598,409 | 48,399 |
| Public safety | 1,129,991 | 1,133,732 | 1,052,652 | 81,080 |
| Transportation | 463,487 | 496,257 | 460,908 | 35,349 |
| Environmental protection | 238,596 | 238,596 | 238,673 | (77) |
| Economic and physical development | 1,000 | 1,000 | - | 1,000 |
| Culture and recreation | 292,499 | 302,724 | 288,242 | 14,482 |
| Debt service: | | | | |
| Principal retirement | 47,542 | 73,490 | 73,490 | - |
| Interest and other charges | 69,695 | 125,203 | 125,202 | 1 |
| Total expenditures | 2,889,463 | 3,017,810 | 2,837,575 | 180,234 |
| Revenues over (under) expenditures | 62,788 | 62,788 | 457,344 | 394,555 |
| Other financing sources (uses): | | | | |
| Transfers to Capital Project Fund (Market Street) | (250,000) | (250,000) | (7,167) | (242,833) |
| Total other financing sources (uses) | (250,000) | (250,000) | (7,167) | 242,833 |
| Fund balance appropriated | 187,212 | 187,212 | - | (187,212) |
| Net change in fund balance | \$ - | \$ - | 450,177 | \$ 450,176 |
| Fund balance, beginning, previously stated | | | 2,665,083 | |
| Restatement | | | (81,732) | |
| Fund balance, beginning, restated | | | 2,583,351 | |
| Fund balance, end of year | | | \$ 3,033,528 | |

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 7

Statement of Net Position
Proprietary Fund
June 30, 2019

| | <u>Major Enterprise Fund</u> |
|--|------------------------------|
| | <u>Wastewater Fund</u> |
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 951,833 |
| Accounts receivable, net | 151,727 |
| Due from other funds | 459,418 |
| Restricted cash and cash equivalents | 89,001 |
| Total current assets | <u>1,651,978</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Capital assets, net of depreciation | 9,417,450 |
| Total noncurrent assets | <u>9,417,450</u> |
| Total assets | <u>11,069,428</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Contributions to pension plan | 6,433 |
| Deferred outflows related to pensions | 42,158 |
| Total deferred outflows of resources | <u>48,591</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accrued liabilities | 2,307 |
| Customer deposits | 53,680 |
| Installment obligations payable - current | 46,394 |
| Total current liabilities | <u>102,381</u> |
| Noncurrent liabilities: | |
| Net pension liability | 63,735 |
| Installment obligations payable - noncurrent | 649,521 |
| Total noncurrent liabilities | <u>713,256</u> |
| Total liabilities | <u>815,637</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension deferrals | 4,403 |
| NET POSITION | |
| Net investment in capital assets | 8,721,535 |
| Restricted | - |
| Unrestricted | <u>1,576,444</u> |
| Total net position | <u>\$ 10,297,979</u> |

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

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2019

| | <u>Major Enterprise Fund</u> |
|---|------------------------------|
| | <u>Wastewater Fund</u> |
| OPERATING REVENUES | |
| Charges for services | \$ 1,098,292 |
| Sewer taps and fees | 450,624 |
| System development fees | 402,400 |
| Other operating revenues | 13,169 |
| Total operating revenues | <u>1,964,485</u> |
| OPERATING EXPENSES | |
| Administration | 153,244 |
| Waste collection and treatment | 551,072 |
| Depreciation | 287,292 |
| Total operating expenses | <u>991,608</u> |
| Operating income | <u>972,876</u> |
| NON-OPERATING EXPENSES | |
| Interest and other charges | 21,430 |
| Total non-operating expenses | <u>21,430</u> |
| Income before contributions and transfers | 951,446 |
| Change in net position | 951,446 |
| Total net position, previously reported | <u>9,362,995</u> |
| Restatement | <u>(16,462)</u> |
| Total net position, beginning restated | 9,346,533 |
| Total net position, ending | <u><u>\$ 10,297,979</u></u> |

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

Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2019

| | <u>Major Enterprise Fund</u> |
|--|------------------------------|
| | <u>Wastewater Fund</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 1,919,305 |
| Cash paid for goods and services | (585,261) |
| Cash paid to or on behalf of employees for services | (117,551) |
| Customer deposits received | 4,750 |
| Other operating revenues | 13,169 |
| | <hr/> |
| Net cash provided by operating activities | 1,234,412 |
| | <hr/> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | |
| Net due to (from) other fund | 835,117 |
| | <hr/> |
| Total cash flows provided by non-capital financing activities | 835,117 |
| | <hr/> |
| CASH FLOWS FROM CAPITAL AND RELATED | |
| Acquisition of capital assets | (150,067) |
| Principal paid on installment financing agreements | (890,272) |
| Transfer to General Fund | - |
| Interest and fees paid on installment financing agreements | (25,141) |
| | <hr/> |
| Net cash used by capital and related financing activities | (1,065,480) |
| | <hr/> |
| Net increase in cash and cash equivalents | 1,004,049 |
| Balances, beginning | 36,785 |
| | <hr/> |
| Balances, ending | \$ 1,040,834 |
| | <hr/> <hr/> |
| Details on cash and cash equivalents: | |
| Cash and cash equivalents | \$ 951,833 |
| Restricted cash and cash equivalents | 89,001 |
| Total | <hr/> <hr/> \$ 1,040,834 |

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

CITY OF LOCUST, NORTH CAROLINA

Exhibit 9
Continued

Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2019

| | <u>Major Enterprise Fund</u> |
|---|------------------------------|
| | <u>Wastewater Fund</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 972,876 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 287,292 |
| Change in assets, deferred outflows of resources and liabilities: | - |
| Increase in current year pension deferred outflows | 1,504 |
| Increase in accounts receivable | (32,010) |
| Increase in customer deposits | 4,750 |
| | <u> </u> |
| Net cash provided by operating activities | <u>\$ 1,234,412</u> |

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

City of Locust ABC Board

The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by state statute to distribute its surpluses to the General Fund of the City. 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 City of Locust ABC Board, 1008 Main Street, Locust, NC 28097.

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 *governmental* and *business-type activities* of the City. 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 City and for each function of the City'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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements: The fund financial statements provide information about the City'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. Non-operating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The City reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the City. 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.

Capital Project Funds. These funds are used to account for the construction of sidewalks and improvements under the Market Street Sidewalks project.

The City reports the following major enterprise funds:

Wastewater Fund. This fund is used to account for the City's wastewater operations.

Capital Project Funds. These funds are used to account for the construction of wastewater system major improvements and additions.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City 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 City 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.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting 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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Locust because the tax is levied by Stanly and Cabarrus Counties and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the program. It is the City'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 City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Project Fund. 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. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred inflows of Resources, and Fund Equity

1. Deposits and Investments

All deposits of the City and the ABC Board are made in board-designated official depositories and are secured as required by State Law (G.S. 159-31). The City 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 City 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 City and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The City's and the ABC Board's investments are reported at fair value.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Assets, Liabilities, Deferred inflows of Resources, and Fund Equity

1. Deposits and Investments - Continued

The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2019, the Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

Powell Bill funds are also classified as restricted cash because it can be expended only for purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136.41.4.

| | | |
|--|----|----------------|
| Governmental Activities | | |
| General Fund | | |
| Streets - Powell Bill | \$ | 57,684 |
| USDA Reserves | | 68,265 |
| Due to Wastewater Fund | | 459,418 |
| Total governmental activities | | <u>585,367</u> |
| Business-type Activities | | |
| Wastewater Fund | | |
| Customer deposits | | 53,680 |
| Delinquent accounts offset by state garnishments | | 35,321 |
| Total Business-type Activities | | <u>89,001</u> |
| Total Restricted Cash | \$ | <u>674,368</u> |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

4. Ad Valorem Taxes Receivable

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

5. Inventory and Prepaid Items

The inventory of the ABC Board is valued at lower of cost (first-in, first out), which approximates market.

The inventory of the ABC Board consists of materials and supplies held for subsequent use. The cost of this inventory is expensed when consumed rather than when purchased.

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, buildings, and improvements, \$20,000; infrastructure, \$100,000; equipment and furniture, \$5,000; computer software and computer equipment, \$5,000; vehicles and motorized equipment, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The City has elected not to report major general infrastructure assets, such as the road network, retroactively as permitted for Phase Three governments. Thus, any amounts expended for infrastructure prior to July 1, 2003, are not reported as capital assets. 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.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**– Continued

6. Capital Assets – continued

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

| Asset Class | Estimated Useful Lives |
|-------------------------|---------------------------|
| Infrastructure | 50 |
| Buildings | 30 |
| Improvements | 25 |
| Vehicles | 6 |
| Furniture and equipment | 10 |
| Computer equipment | 5 |
| Computer software | 3 |

Property and equipment of the ABC Board are stated at cost and are being depreciated over their useful lives on a straight-line basis as follows:

| Asset Class | Estimated Useful Lives |
|------------------------|---------------------------|
| Equipment | 10 |
| Leasehold improvements | 10 |
| Furniture and fixtures | 5-10 |
| Office equipment | 3-7 |

7. 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 consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City of Locust has two items that meets this criterion, contributions made to the pension plan in the 2019 fiscal year and an unamortized pension expense. 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 City of Locust has two items that meet the criterion for this category – property taxes receivable and pension deferrals.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

8. 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.

9. Compensated Absences

The vacation policy of the City provides for the accumulation of leave without any maximum until December 31 of each year. Effective with the last payroll in the calendar year, any employee with more than 5 days of accumulated leave shall have the excess accumulation removed so that only 5 days are carried forward to January 1 of the next calendar year. For the City's government-wide funds and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The City'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 City does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position/Fund Balances

Net Position

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

Fund Balances

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

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The governmental fund types classify fund balances as follows:

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 - No North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position

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

Restricted for Working Capital – North Carolina Alcoholic Beverage Control Commission Rule [.0902] defines working capital as the total of cash, investments and inventory less all unsecured liabilities. An ABC board shall set its working capital requirements at not less than two weeks' average gross sales of the last fiscal year or greater than four months' average gross sales of the last fiscal year. Average gross sales mean gross receipts from the sale of alcoholic beverages less distributions required by State law [G.S. 18B-805(b), (2), (3), (4)].

Assigned fund balance – portion of fund balance that City of Locust 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 City of Locust 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.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

10. Net Position/Fund Balances

Fund Balances – continued

The City of Locust follows the Local Government Commission's recommendation in order to maintain an adequate cash flow in the General Fund. The Fund Balance available for appropriation should not drop below 8.0% of total expenditures. This represents approximately one month's average expenditures.

11. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to or 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 City of Locust's employer contributions are recognized when due and the City of Locust 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 - DETAIL NOTES ON ALL FUNDS

A. ASSETS

1. Deposits

All the deposits of the City of Locust 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 City's or the ABC Board's agent in these unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the ABC Board, these deposits are considered to be held by the City's and the ABC Board's agent 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 City, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City and the ABC Board under the Pooling Method, the potential exists for under-collateralization and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City 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

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CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 2 - **DETAIL NOTES ON ALL FUNDS** – Continued

A. ASSETS

1. Deposits – continued

method financial institutions and to monitor them for compliance. The City 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 risk for deposits.

At June 30, 2019, the City's deposits had a carrying amount of \$1,752,549 and a bank balance of \$1,816,116. Bank balances of the City, totaling \$250,000 were fully covered by federal depository insurance. The remaining balance of \$1,566,116 was collateralized under the Pooling Method. The carrying amount of deposits for the ABC Board was \$246,276 and the bank balance was \$283,128. All of the bank balance was covered by federal depository insurance. As of June 30, 2019, the City's petty cash fund totaled \$200, and the ABC Board's cash on hand totaled \$2,000.

2. Investments

At June 30, 2019, the City of Locust had \$2,542,728 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAm by Standard and Poor's. The City has no policy regarding credit risk.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

A. ASSETS

3. Capital Assets

Primary Government

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|----------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 693,782 | \$ - | \$ - | \$ 693,782 |
| Construction in process | 13,160 | 19,821 | - | 32,981 |
| Total capital assets not being depreciated | 706,942 | 19,821 | - | 726,763 |
| Capital assets being depreciated: | | | | |
| Buildings | 2,546,843 | - | - | 2,546,843 |
| Other improvements | 1,797,763 | - | - | 1,797,763 |
| Furniture and equipment | 652,697 | - | - | 652,697 |
| Computer equipment | 202,920 | - | - | 202,920 |
| Vehicles and motorized equipment | 760,798 | 131,822 | 29,707 | 862,913 |
| Infrastructure | 8,990,830 | - | - | 8,990,830 |
| Total capital assets being depreciated | 14,951,851 | 131,822 | 29,707 | 15,053,966 |
| Less accumulated depreciation for: | | | | |
| Buildings | 584,886 | 80,360 | - | 665,246 |
| Other improvements | 796,411 | 70,400 | - | 866,811 |
| Furniture and equipment | 475,205 | 33,581 | - | 508,786 |
| Computer equipment | 202,920 | - | - | 202,920 |
| Vehicles and motorized equipment | 542,070 | 79,506 | 29,707 | 591,869 |
| Infrastructure | 2,318,251 | 270,112 | - | 2,588,363 |
| Total accumulated depreciation | 4,919,743 | 533,959 | 29,707 | 5,423,995 |
| Total capital assets being depreciated, net | 10,032,108 | | | 9,629,971 |
| Governmental activity capital assets, net | <u>\$ 10,739,050</u> | | | <u>\$ 10,356,734</u> |

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

| | |
|----------------------------|-------------------|
| General government | \$ 108,718 |
| Public safety | 80,807 |
| Transportation | 269,200 |
| Culture and recreation | 75,234 |
| Total depreciation expense | <u>\$ 533,959</u> |

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CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

A. ASSETS

3. Capital Assets – continued

Business-type activities

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|---------------------|
| <i>Wastewater Fund</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 58,171 | \$ 75,379 | \$ - | \$ 133,550 |
| Total capital assets not being depreciated | 58,171 | 75,379 | - | 133,550 |
| Capital assets being depreciated: | | | | |
| Plant and distribution system | 13,628,125 | - | - | 13,628,125 |
| Furniture and maintenance equipment | 98,926 | 74,688 | - | 173,614 |
| Total capital assets being depreciated | 13,727,051 | 74,688 | - | 13,801,739 |
| Less accumulated depreciation for: | | | | |
| Plant and distribution system | 4,164,985 | 275,230 | - | 4,440,215 |
| Furniture and maintenance equipment | 65,562 | 12,062 | - | 77,624 |
| Total accumulated depreciation | 4,230,547 | 287,292 | - | 4,517,839 |
| Total capital assets being depreciated, net | 9,496,504 | | | 9,283,900 |
| Business-type activity capital assets, net | \$ 9,554,675 | | | \$ 9,417,450 |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

A. ASSETS

4. Construction Commitments

The City of Locust has construction in process for sidewalks and improvements related to the Market Street Sidewalks and Improvements capital project as of June 30, 2019. Completion of the project is anticipated during fiscal year ending June 30, 2020.

The City also has construction in process for wastewater improvements related to Redah Pump Station and the North Basin Sanitary Improvement project

5. Discretely presented component unit

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| ABC Board | | | | |
| Capital assets being depreciated: | | | | |
| Furniture and fixtures | \$ 7,259 | \$ - | \$ - | \$ 7,259 |
| Equipment | 15,895 | - | - | 15,895 |
| Leasehold improvements | - | - | - | - |
| Office equipment | 30,832 | - | - | 30,832 |
| Total capital assets being depreciated | 53,986 | - | - | 53,986 |
| Less accumulated depreciation for: | | | | |
| Furniture and fixtures | 5,532 | 126 | - | 5,658 |
| Equipment | 12,369 | 549 | - | 12,918 |
| Office equipment | 30,652 | 972 | - | 31,624 |
| Total accumulated depreciation | \$ 48,553 | \$ 1,647 | \$ - | \$ 50,200 |
| Total capital assets being depreciated, net | 5,433 | | | 3,786 |
| ABC capital assets, net | <u>\$ 5,433</u> | | | <u>\$ 3,786</u> |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 2 - **DETAIL NOTES ON ALL FUNDS** – Continued

B. Liabilities

1. Pension Plan and Post-employment Obligations

a. Local Governmental Employees' Retirement System

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

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

a. Local Governmental Employees' Retirement System – continued

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 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 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. City of Locust employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Locust's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Locust were \$95,596 for the year ended June 30, 2019.

Refunds of Contributions – City 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 City reported a liability of \$465,216 for its proportionate share of the net pension liability. The net pension asset was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset 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.

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CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

a. Local Governmental Employees' Retirement System - continued

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

The City's proportion of the net pension asset was based on a projection of the City'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 City's proportion was 0.01961%, which was a decrease of 0.00098% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$117,189. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ 71,772 | \$ 2,408 |
| Changes of assumptions | 123,450 | |
| Net difference between projected and actual earnings on pension plan investments | 63,861 | - |
| Changes in proportion and differences between City of Locust contributions and proportionate share of contributions | - | 33,499 |
| City of Locust contributions subsequent to the measurement date | 95,595 | - |
| Total | <u>\$ 354,678</u> | <u>\$ 35,907</u> |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

a. Local Governmental Employees' Retirement System - continued

\$95,596 reported as deferred outflows of resources related to pensions resulting from City of Locust contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | |
|----------------------------|-------------------|
| 2020 | \$ 111,248 |
| 2021 | 71,108 |
| 2022 | 8,128 |
| 2023 | 32,692 |
| 2024 | - |
| Thereafter | - |
| | <u>\$ 223,176</u> |

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

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

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

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

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

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

1. Pension Plan and Post-employment Obligations – continued

a. Local Governmental Employees' Retirement System – 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, 2017 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|--------------------------|---|
| Fixed Income | 29.0% | 1.4% |
| Global Equity | 42.0% | 5.3% |
| Real Estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation Protection | 6.0% | 4.0% |
| Total | 100.0% | |

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

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

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

1. Pension Plan and Post-employment Obligations – continued

a. Local Governmental Employees' Retirement System – continued

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

| | 1% Decrease 6.00% | Discount Rate 7.00% | 1% Increase 8.00% |
|---|----------------------------------|------------------------------------|----------------------------------|
| City's proportionate share of the net pension liability (asset) | \$ 1,117,490 | \$ 465,216 | \$ (79,834) |

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

b. Supplemental Retirement Income Plan

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute, each month, an amount equal to five percent of each law enforcement officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers and other full-time City employees may make voluntary contributions to the plan. The City will match full-time City employees' contributions up to five percent collectively. The City made contributions of \$46,941 for the year ended June 30, 2019.

-Continued-

CITY OF LOCUST, NORTH CAROLINA/

***Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019***

NOTE 2 - DETAIL NOTES ON ALL FUNDS – Continued

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

c. Law Enforcement Officers Special Separation Allowance

Plan Description

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

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2016, the Separation Allowance’s membership consisted of:

| Category | Number |
|---|---------------|
| Inactive Members Currently Receiving Benefits | - |
| Active Plan Members | 12 |
| Total | 12 |

Summary of Significant Accounting Policies

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

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

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

c. Law Enforcement Officers Special Separation Allowance

Actuarial Assumptions

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

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

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

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

Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

c. Law Enforcement Officers Special Separation Allowance

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

At June 30, 2019, the City reported a total pension liability of \$250,198. 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 City recognized pension expense of \$23,382.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 6,905 | \$ 146 |
| Changes of assumptions and other inputs | 11,164 | 12,772 |
| Benefit payments and administrative expenses subsequent to the measurement date | - | 342 |
| Total | <u>\$ 18,069</u> | <u>\$ 13,260</u> |

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

Year ended June 30:

| | |
|------------|-----------------|
| 2020 | \$ 972 |
| 2021 | 972 |
| 2022 | 972 |
| 2023 | 972 |
| 2024 | 1,354 |
| Thereafter | (91) |
| | <u>\$ 5,151</u> |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

1. Pension Plan and Post-employment Obligations - continued

c. Law Enforcement Officers Special Separation Allowance

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

| | 1% Decrease (2.64%) | Discount Rate (3.64%) | 1% Increase (4.64%) |
|-------------------------|------------------------------------|--------------------------------------|------------------------------------|
| Total Pension Liability | \$ 273,553 | \$ 250,198 | \$ 228,933 |

| | 2019 | 2018 | 2017 |
|---|------------------|------------------|------------------|
| Beginning Balance | \$231,033 | \$195,905 | \$182,271 |
| Service Cost | 14,767 | 12,284 | 12,753 |
| Interest on the total pension liability | 7,301 | 7,562 | 6,507 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 8,039 | (202) | - |
| Changes of assumptions or other inputs | (10,942) | 15,484 | (5,626) |
| Benefit payments | - | - | - |
| Other changes | - | - | - |
| Ending balance of the total pension liability | <u>\$250,198</u> | <u>\$231,033</u> | <u>\$195,905</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, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

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

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

| | <u>LGERS</u> | <u>LEOSSA</u> | <u>Total</u> |
|--|--------------|---------------|--------------|
| Pension Expense | \$ 117,189 | \$ 23,382 | \$ 140,571 |
| Pension Liability | 465,216 | 250,198 | 715,414 |
| Proportionate share of the net pension liability | 0.01961% | N/A | |
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | 71,772 | 6,905 | 78,677 |
| Changes of Assumptions | 123,450 | 11,164 | 134,614 |
| Net difference between projected and actual earnings on plan investments | 63,861 | - | 63,861 |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - | - |
| Benefit payments and administrative costs paid subsequent to the measurement date | - | - | - |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | 8,904 | 146 | 9,050 |
| Changes of Assumptions | - | 12,772 | 12,772 |
| Net difference between projected and actual earnings on plan investments | - | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 24,844 | - | 24,844 |
| Benefit payments and administrative costs paid subsequent to the measurement date | | 342 | 342 |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

3. Deferred outflows and Inflows of Resources

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

| Source | Amount |
|---|------------|
| <i>Local Government Employees Retirement Plan:</i> | |
| Contributions to pension plan in current fiscal year | \$ 95,595 |
| Differences between expected and actual experience | 71,772 |
| Changes of assumptions | 123,450 |
| Net difference between projected and actual earnings | 63,861 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - |
| <i>Law Enforcement Officers' Special Separation Allowance:</i> | |
| Benefit payments made and administrative expenses for LOESSA | - |
| Differences between expected and actual experience | 6,905 |
| Changes of assumptions | 11,164 |
| | \$ 372,747 |

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

| Source | Statement of Net Position | General Fund Balance Sheet |
|---|---------------------------------|-------------------------------|
| Prepaid taxes (General Fund) | \$ - | \$ - |
| Property taxes receivable (General Fund) | - | 42,435 |
| <i>Local Government Employees Retirement Plan:</i> | | |
| Differences between expected and actual experience | 2,408 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 33,499 | - |
| <i>Law Enforcement Officers' Special Separation Allowance:</i> | | |
| Benefit payments made and administrative expenses for LOESSA | 342 | - |
| Differences between expected and actual experience | 146 | - |
| Changes of assumptions | 12,772 | - |
| | \$ 49,167 | \$ 42,435 |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 2 - **DETAIL NOTES ON ALL FUNDS** – Continued

B. Liabilities

4. Risk Management

The City 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. Through commercial insurance carriers, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health insurance.

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 City of Locust does not hold any flood insurance. The City is not located in an area of the State that is designated as a flood plain or located close to a river, lake, or stream.

In accordance with G.S. 159-29, the City's employee who handles or has in his custody more than one hundred dollars (\$100) at any given time shall, before being entitled to assume his duties, give a faithful performance bond with sufficient sureties payable to the City. The finance officer is bonded for \$50,000. The remaining employees that have access to funds are insured against theft in the amount of \$5,000 per occurrence.

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

B. Liabilities

5. Long-Term Obligations

a. Capital Leases

Historically, the City has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. At June 30, 2019 there were no leases still open.

b. Installment Purchases

On July 18, 2012, the City converted the construction loan for its Government Center into a long-term loan of \$2,107,446 with the U.S. Department of Agriculture, payable on July 18 of each year consisting of principal and interest with total annual payments for each fiscal year of \$98,692 through July 2052 including interest at 3.5%.

\$ 3,355,528

The future minimum principal and interest payments of the Governmental Center's installment purchase agreement as of June 30, 2019, are as follows:

| Governmental Center Loan | | | |
|--------------------------|---------------------|---------------------|---------------------|
| Year Ending June 30 | Principal | Interest | Total |
| 2020 | \$ 30,647 | \$ 68,045 | \$ 98,692 |
| 2021 | 31,720 | 66,972 | 98,692 |
| 2022 | 32,830 | 65,862 | 98,692 |
| 2023 | 33,979 | 64,713 | 98,692 |
| 2024 | 35,168 | 63,524 | 98,692 |
| Thereafter | 1,735,939 | 1,126,129 | 2,862,068 |
| Total | <u>\$ 1,900,283</u> | <u>\$ 1,455,245</u> | <u>\$ 3,355,528</u> |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019*

NOTE 2 - **DETAIL NOTES ON ALL FUNDS – Continued**

5. Long-Term Obligations

b. Installment Purchases - continued

The City has entered into agreements to finance the acquisition and/or construction of certain assets such as land, facilities, sewer lines and equipment for use in the City's sewer operations. Installment purchase agreements at June 30, 2019 consist of one agreement as described below:

| | |
|---|-------------------|
| Installment purchase agreement for expansion of the wastewater disposal system, payable on May 1 of each year in installments of \$46,394 through May 2034, including interest at 2.0%, secured by equipment. | \$ 695,916 |
| Total installment purchase agreements serviced by the Enterprise Fund. | <u>\$ 695,916</u> |

The future minimum principal and interest payments of the Enterprise Fund's installment purchase agreements as of June 30, 2019, are as follows:

| Year Ending June 30 | Business-Type Activities | | Total |
|---------------------|--------------------------|-------------------|-------------------|
| | Principal | Interest | |
| 2020 | \$ 46,394 | \$ 13,918 | \$ 60,312 |
| 2021 | 46,394 | 12,990 | 59,384 |
| 2022 | 46,394 | 12,063 | 58,457 |
| 2023 | 46,394 | 11,135 | 57,529 |
| 2024 | 46,394 | 10,207 | 56,601 |
| 2025-2034 | 463,946 | 51,034 | 514,980 |
| Total | <u>\$ 695,916</u> | <u>\$ 111,347</u> | <u>\$ 807,263</u> |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

***Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019***

NOTE 2 - DETAIL NOTES ON ALL FUNDS – Continued

5. Long-Term Obligations – continued

c. Changes in Long-Term Liabilities

| | Balance July 01, 2018 | Increases | Decreases | Balance June 30, 2019 | Current Portion of Balance |
|------------------------------|--------------------------|-------------------|-------------------|--------------------------|-------------------------------|
| Governmental Activities: | | | | | |
| Governmental Center loan | \$ 1,973,773 | \$ - | \$ 73,490 | \$ 1,900,283 | \$ 31,720 |
| Capitalized leases | - | - | - | - | - |
| Installment purchases | - | - | - | - | - |
| Net pension liability (LGRS) | 305,017 | 96,464 | - | 401,481 | - |
| Compensated absences | 88,666 | 7,744 | - | 96,410 | 48,205 |
| Law Enforcement Separation | 231,033 | 19,165 | - | 250,198 | - |
| Governmental Activity: | | | | | |
| Long-term liabilities | <u>\$ 2,598,489</u> | <u>\$ 123,373</u> | <u>\$ 73,490</u> | <u>\$ 2,648,372</u> | <u>\$ 79,925</u> |
| Business-type Activities: | | | | | |
| Installment purchases | \$ 1,586,188 | \$ - | \$ 890,272 | \$ 695,916 | \$ 46,394 |
| Net pension liability (LGRS) | <u>9,540</u> | <u>54,194</u> | <u>-</u> | <u>63,734</u> | <u>-</u> |
| Business-type Activity: | | | | | |
| Long-term liabilities | <u>\$ 1,595,728</u> | <u>\$ 54,194</u> | <u>\$ 890,272</u> | <u>\$ 759,650</u> | <u>\$ 46,394</u> |
| ABC Board: | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Compensated absences typically have been liquidated in the General Fund.

6. 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 | 3,033,528 |
| Less: | |
| Stabilization by state statute | 216,813 |
| Streets - Powell Bill | 57,684 |
| Nonspendable - USDA Reserves | 68,265 |
| Nonspendable - Prepaid expenses | 81,305 |
| Assigned - LEOSA Pension Liability | 250,198 |
| Unassigned | 2,359,263 |

-Continued-

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements *For the Fiscal Year Ended June 30, 2019*

NOTE 3 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

6. Fund Balance – continued

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

| Encumbrances | General Fund | Non-Major Funds |
|--------------|--------------|-----------------|
| | \$ 16,430 | \$ - |

Federal and State Assisted Programs

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

NOTE 4 - INTERFUND BALANCES AND ACTIVITY

The City maintains one operating checking account from which all disbursements are made and into which all deposits are made for both the general fund and the wastewater fund. That checking account is recorded in the general fund. Typically, there are no true transfers between these two funds recorded. Rather, a payable is recorded for monies deposited into the checking account for items such as monthly wastewater fees income and a receivable is recorded for disbursements made for expenditures appropriately recorded in the wastewater fund. For the year ended June 30, 2019, there were no transactions recorded as a transfer between the funds, hence the balances below.

These internal balances represent the net receivables and payables remaining after the elimination of any interfund activity within governmental and business-type activities.

| | Receivable | Payable |
|-----------------|-------------------|-------------------|
| General Fund | \$ - | \$ 459,418 |
| Wastewater Fund | 459,418 | - |
| | <u>\$ 459,418</u> | <u>\$ 459,418</u> |

NOTE 5 - SUBSEQUENT EVENTS

The City of Locust has evaluated all subsequent events through November 6, 2019, the date the financial statements were available to be issued.

CITY OF LOCUST, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2019

NOTE 6 - **RESTATEMENTS**

During the fiscal year ended June 30, 2019, the City determined that certain amounts related to the total of deferred outflows and deferred inflows recorded in relation to the Local Government Employees' Retirement System pension were not properly calculated at the end of fiscal year June 30, 2018. Deferred outflows and deferred inflows were adjusted to reflect accurate beginning of the year balances for GASB presentation in the government-wide statements. The effect was a \$35,808 decrease to governmental funds net position and a \$16,462 decrease to business type activities net position. There is no effect on beginning governmental funds fund balances in the modified accrual basis statements for this restatement.

During the fiscal year ended June 30, 2019, the City determined that accounts receivable for intergovernmental revenues was overstated by \$81,732. This overstatement was a result of the probable cumulative effect of small increases each year in the City's 1% sales tax revenues issued by the State of North Carolina. Accounts receivable were adjusted to actual at June 30, 2019 by the City and fund balance adjusted to actual at the beginning of the fiscal year ended June 30, 2019.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

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

- Schedule of Changes in Total Pension Liability -
Law Enforcement Officers Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll –
Law Enforcement Officers Special Separation Allowance
- City of Locust's Proportionate Share of Net Pension Liability (Asset) for Local Government
Employees' Retirement System
- City of Locust's Contributions to Local Government Employees' Retirement System

CITY OF LOCUST, NORTH CAROLINA

*Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2019*

| | 2019 | 2018 | 2017 |
|---|-------------------------|-------------------------|-------------------------|
| Beginning Balance | \$231,033 | \$195,905 | \$182,271 |
| Service Cost | 14,767 | 12,284 | 12,753 |
| Interest on the total pension liability | 7,301 | 7,562 | 6,507 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 8,039 | (202) | - |
| Changes of assumptions or other inputs | (10,942) | 15,484 | (5,626) |
| Benefit payments | - | - | - |
| Other changes | - | - | - |
| Ending balance of the total pension liability | <u>\$250,198</u> | <u>\$231,033</u> | <u>\$195,905</u> |

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

CITY OF LOCUST, NORTH CAROLINA

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

| | 2019 | 2018 | 2017 |
|--|-------------|-------------|-------------|
| Total pension liability | \$250,198 | \$231,033 | \$195,905 |
| Covered payroll | 537,259 | 513,445 | 505,898 |
| Total pension liability as a percentage of covered employee payroll | 46.57% | 45.00% | 38.72% |

Notes to the schedules:

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

CITY OF LOCUST, NORTH CAROLINA

City of Locust's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years*

Local Governmental Employees' Retirement System

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|--------------|--------------|-------------|
| City of Locust's proportion of the net pension liability (asset) (%) | 0.01961% | 0.02059% | 0.02001% | 0.02056% | 0.02097% | 0.01940% |
| City of Locust's proportion of the net pension liability (asset) (\$) | \$ 465,216 | \$ 314,558 | \$ 424,680 | \$ 92,273 | \$ (123,670) | \$ 233,844 |
| City of Locust's covered-employee payroll | \$ 1,063,607 | \$ 1,042,867 | \$ 1,001,802 | \$ 1,010,818 | \$ 983,047 | \$ 860,277 |
| of the net pension liability (asset) as a percentage of its covered-employee payroll | 43.74% | 30.16% | 42.39% | 9.13% | (12.58%) | 27.18% |
| Plan fiduciary net position as a percentage of the total pension liability** | 91.63% | 94.18% | 91.47% | 98.09% | 102.64% | 94.35% |

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

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

CITY OF LOCUST, NORTH CAROLINA

*City of Locust's Contributions
Required Supplementary Information
Last Six Fiscal Years*

Local Governmental Employees' Retirement System

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|--------------|-------------|
| Contractually required contribution | \$ 95,596 | \$ 83,548 | \$ 78,045 | \$ 69,147 | \$ 70,138 | \$ 70,137 |
| Contributions in relation to the contractually required contribution | 95,596 | 83,548 | 78,045 | 69,147 | 70,138 | 70,137 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City of Locust's covered-employee payroll | \$ 1,177,953 | \$ 1,063,607 | \$ 1,042,867 | \$ 1,001,802 | \$ 1,010,818 | \$ 983,047 |
| Contributions as a percentage of covered-employee payroll | 8.12% | 7.86% | 7.48% | 6.90% | 6.94% | 7.13% |

SUPPLEMENTAL STATEMENTS

CITY OF LOCUST, NORTH CAROLINA

Statement 1

Page 1 of 3

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019

| | Budget | Actual | Variance Positive (Negative) |
|------------------------------------|--------------|--------------|------------------------------------|
| Revenues: | | | |
| Ad valorem taxes: | | | |
| Taxes | \$ 1,460,000 | \$ 1,580,070 | \$ 120,070 |
| Interest | - | 7,884 | 7,884 |
| Total | 1,460,000 | 1,587,954 | 127,954 |
| Other taxes and licenses: | | | |
| Motor vehicle fees | - | 33,490 | 33,490 |
| Vision cable franchise | 17,500 | 17,921 | 421 |
| Business registrations and permits | 59,888 | 67,038 | 7,150 |
| Total | 77,388 | 118,449 | 41,061 |
| Unrestricted intergovernmental: | | | |
| Local option sales taxes | 658,139 | 835,228 | 177,089 |
| Utility franchise tax | 170,000 | 213,243 | 43,243 |
| Solid waste fee | 190,000 | 213,947 | 23,947 |
| Beer and wine tax | 13,500 | 14,661 | 1,161 |
| Total | 1,031,639 | 1,277,079 | 245,440 |
| Restricted intergovernmental: | | | |
| Powell Bill allocation | 107,370 | 107,372 | 2 |
| Powell Bill interest | 100 | 82 | (18) |
| Court fees | 5,000 | 2,962 | (2,038) |
| Powell Fund Reserve | 40,821 | - | (40,821) |
| Other state grants | 250,000 | 33,334 | (216,666) |
| Total | 403,291 | 143,750 | (259,541) |
| Sales and service: | | | |
| Recreation proceeds | 69,995 | 73,967 | 3,972 |
| Building rental | 5,000 | 6,118 | 1,118 |
| Total | 74,995 | 80,085 | 5,090 |
| Investment earnings | 6,600 | 18,275 | 11,675 |
| Miscellaneous | 26,685 | 69,327 | 42,642 |
| Total revenues | 3,080,598 | 3,294,919 | 214,321 |

CITY OF LOCUST, NORTH CAROLINA

Statement 1

Page 2 of 3

General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---------------------------------|------------------|------------------|---|
| Expenditures: | | | |
| General government: | | | |
| Salaries and employee benefits | 426,621 | 417,734 | 8,887 |
| Professional services | 25,500 | 20,310 | 5,190 |
| Membership dues | 10,100 | 10,069 | 31 |
| Other operating expenditures | 184,587 | 150,296 | 34,291 |
| Total general government | <u>646,808</u> | <u>598,409</u> | <u>48,399</u> |
| Public safety: | | | |
| Police: | | | |
| Salaries and employee benefits | 897,231 | 836,849 | 60,382 |
| Vehicle maintenance | 52,580 | 44,597 | 7,983 |
| Other operating expenditures | 99,921 | 102,267 | (2,346) |
| Capital outlay | 84,000 | 68,938 | 15,062 |
| Total public safety | <u>1,133,732</u> | <u>1,052,651</u> | <u>81,081</u> |
| Transportation: | | | |
| Streets and highways: | | | |
| Salaries and employee benefits | 176,420 | 168,656 | 7,764 |
| Paving and repairs | 52,869 | 52,867 | 2 |
| Other operating expenditures | 193,761 | 163,847 | 29,914 |
| Capital outlay | 73,207 | 75,538 | (2,331) |
| Total transportation | <u>496,257</u> | <u>460,908</u> | <u>35,349</u> |
| Environmental protection: | | | |
| Solid waste contracted services | 238,596 | 238,673 | (77) |
| Total environmental protection | <u>238,596</u> | <u>238,673</u> | <u>(77)</u> |
| Economic development: | | | |
| Economic development | 1,000 | - | 1,000 |
| Total economic development | <u>1,000</u> | <u>-</u> | <u>1,000</u> |
| Culture and recreation: | | | |
| Salaries and employee benefits | 147,239 | 146,049 | 1,190 |
| Other operating expenditures | 155,485 | 142,193 | 13,292 |
| Capital outlay | 0 | 0 | - |
| Total culture and recreation | <u>302,724</u> | <u>288,242</u> | <u>14,482</u> |

CITY OF LOCUST, NORTH CAROLINA

*Statement 1
Page 3 of 3*

General Fund

***Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019***

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|--------------------|----------------------------|---|
| Debt service: | | | |
| Principal retirement | 73,490 | 73,490 | - |
| Interest and other charges | <u>125,203</u> | <u>125,202</u> | <u>1</u> |
| Total debt service | <u>198,693</u> | <u>198,692</u> | <u>1</u> |
| Total expenditures | <u>3,017,810</u> | <u>2,837,575</u> | <u>180,235</u> |
| Revenues over (under) expenditures | <u>62,788</u> | <u>457,344</u> | <u>394,556</u> |
| Other financing sources (uses): | | | |
| Transfer to Market Street Capital Project Fund | <u>(250,000)</u> | <u>(7,167)</u> | <u>(242,833)</u> |
| Total other financing uses | <u>(250,000)</u> | <u>(7,167)</u> | <u>(242,833)</u> |
| Fund balance appropriated | <u>187,212</u> | <u>-</u> | <u>187,212</u> |
| Net change in fund balance | <u><u>\$ -</u></u> | <u>450,177</u> | <u><u>\$ 338,935</u></u> |
| Fund balance, beginning, previously reported | | 2,665,083 | |
| Restatement | | <u>(81,732)</u> | |
| Fund balance, beginning, restated | | <u>2,583,351</u> | |
| Fund balance, end of year | | <u><u>\$ 3,033,528</u></u> | |

CITY OF LOCUST, NORTH CAROLINA

Statement 2

Market Street Sidewalks Capital Project Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|--|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | | | | | |
| Safe Route to Schools Grant | \$ 250,000 | \$ - | \$ - | \$ - | \$ (250,000) |
| Total revenues | 250,000 | - | - | - | (250,000) |
| Expenditures - Market Street Sidewalks | | | | | |
| Construction | 250,000 | - | - | - | 250,000 |
| Legal and administration | 19,900 | 13,160 | 7,167 | 20,327 | (427) |
| Total expenditures | 269,900 | 13,160 | 7,167 | 20,327 | 249,573 |
| Other financing sources and uses | | | | | |
| Transfer from general fund | 19,900 | 13,160 | 7,167 | 20,327 | (427) |
| Total other financing sources | 19,900 | 13,160 | 7,167 | 20,327 | (427) |
| Net change in fund balance | \$ - | \$ - | - | \$ - | \$ - |
| Fund balance, beginning of year | | | - | | |
| Fund balance, end of year | | | \$ - | | |

CITY OF LOCUST, NORTH CAROLINA

Statement 3

Page 1 of 2

Wastewater Fund
Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2019

| | Budget | Actual | Variance Positive (Negative) |
|--|------------|--------------|------------------------------------|
| Revenues: | | | |
| Sewer charges | \$ 926,200 | \$ 1,098,375 | \$ 172,175 |
| Sewer taps and fees | 251,555 | 450,624 | 199,069 |
| System development fee collections | 175,385 | 402,400 | 227,015 |
| Other operating revenues | 550 | 13,169 | 12,619 |
| Total operating revenues | 1,353,690 | 1,964,568 | 610,878 |
| Expenditures: | | | |
| Wastewater administration: | | | |
| Salaries and employee benefits | 136,272 | 119,055 | 17,217 |
| Other operating expenditures | 38,431 | 32,685 | 5,746 |
| Total wastewater administration | 174,703 | 151,740 | 22,963 |
| Waste collection and treatment: | | | |
| Sewage collection system: | | | |
| Maintenance | 88,175 | 87,823 | 352 |
| Other operating expenditures | 41,000 | 26,562 | 14,438 |
| Utility service fees | 83,350 | 82,207 | 1,143 |
| Primary waste treatment | 364,161 | 354,482 | 9,679 |
| Total waste collection and treatment | 576,686 | 551,074 | 25,612 |
| Debt service: | | | |
| Interest and other charges | 25,260 | 25,141 | 119 |
| Principal retirement | 898,391 | 890,272 | 8,119 |
| Total debt service | 923,651 | 915,413 | 8,238 |
| Capital Outlay: | | | |
| Maintenance equipment | 76,130 | 74,688 | 1,442 |
| Total capital outlay | 76,130 | 74,688 | 1,442 |
| Total expenditures | 1,751,170 | 1,692,915 | 58,255 |
| Other financing sources: | | | |
| Transfers (to) from other funds: | | | |
| Wastewater capital projects funds | (75,385) | (75,379) | (6) |
| Capital Reserve fund | (100,000) | - | 100,000 |
| Total transfers (to) from other funds | (175,385) | (75,379) | 99,994 |
| Fund Balance Reserves | 572,865 | - | (572,865) |
| Total other financing sources | 397,480 | (75,379) | (472,871) |
| Revenues and other sources over expenditures and other uses | \$ - | \$ 196,274 | \$ 196,274 |

CITY OF LOCUST, NORTH CAROLINA

*Statement 3
Page 2 of 2*

***Wastewater Fund
Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2019***

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

| | |
|--|--------------------------|
| Revenues and other sources over expenditures and other uses | \$ 196,274 |
| Reconciling items: | |
| Principal retirement | 890,272 |
| Pension expense | (1,586) |
| Accrued interest payable | 3,711 |
| Capital outlay | 150,067 |
| Depreciation | <u>(287,292)</u> |
| Total reconciling items | <u>755,172</u> |
| Net Income | <u><u>\$ 951,446</u></u> |

CITY OF LOCUST, NORTH CAROLINA

Statement 4

Redah P/S Improvement Capital Project Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|---|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total revenues | - | - | - | - | - |
| Expenditures - Redah PS & FM Improvements | | | | | |
| Construction | 949,685 | - | - | - | 949,685 |
| Easement and land acquisition | 15,000 | - | - | - | 15,000 |
| Technical services | 78,755 | 39,895 | 16,241 | 56,136 | 22,619 |
| Legal and administration | 42,900 | - | - | - | 42,900 |
| Total expenditures | 1,086,340 | 39,895 | 16,241 | 56,136 | 1,030,204 |
| Other financing sources and uses | | | | | |
| Transfer from wastewater fund | 1,086,340 | 39,895 | 16,241 | 56,136 | 1,030,204 |
| Total other financing sources | 1,086,340 | 39,895 | 16,241 | 56,136 | 1,030,204 |
| Net change in fund balance | \$ - | \$ - | - | \$ - | \$ - |
| Fund balance, beginning of year | | | - | | |
| Fund balance, end of year | | | \$ - | | |

CITY OF LOCUST, NORTH CAROLINA

Statement 5

***N Basin Sanitary Improvement Capital Project Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019***

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|--|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total revenues | - | - | - | - | - |
| Expenditures - N Basin Sanitary Improvements | | | | | |
| Construction | 2,847,189 | - | - | - | 2,847,189 |
| Legal and administration | 480,772 | 2,651 | 59,138 | 61,789 | 418,983 |
| Total expenditures | 3,327,961 | 2,651 | 59,138 | 61,789 | 3,266,172 |
| Other financing sources and uses | | | | | |
| Transfer from general fund | 3,327,961 | 2,651 | 59,138 | 61,789 | 3,266,172 |
| Total other financing sources | 3,327,961 | 2,651 | 59,138 | 61,789 | 3,266,172 |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | - | <u>\$ -</u> | <u>\$ -</u> |
| Fund balance, beginning of year | | | - | | |
| Fund balance, end of year | | | <u>\$ -</u> | | |

OTHER SCHEDULES

This section contains additional information required on property taxes.

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

CITY OF LOCUST, NORTH CAROLINA

Schedule 1

*Schedule of Ad Valorem Taxes Receivable
June 30, 2019*

| | Uncollected Balance June 30, 2018 | Additions | Collections and Credits | Uncollected Balance June 30, 2019 |
|-------------|---|---------------------|----------------------------|---|
| 2018 - 2019 | \$ - | \$ 1,588,679 | \$ 1,561,615 | \$ 27,064 |
| 2017 - 2018 | 28,670 | - | 15,949 | 12,721 |
| 2016 - 2017 | 15,346 | - | 5,183 | 10,163 |
| 2015 - 2016 | 6,536 | - | 2,950 | 3,586 |
| 2014 - 2015 | 3,634 | - | 889 | 2,745 |
| 2013 - 2014 | 2,642 | - | 32 | 2,610 |
| 2012 - 2013 | 3,031 | - | 442 | 2,589 |
| 2011 - 2012 | 2,358 | - | 1,462 | 896 |
| 2010 - 2011 | 2,098 | - | (473) | 2,571 |
| 2009 - 2010 | 1,909 | - | 227 | 1,682 |
| 2008 - 2009 | 1,691 | - | 1,691 | - |
| | <u>\$ 67,915</u> | <u>\$ 1,588,679</u> | <u>\$ 1,589,966</u> | <u>\$ 66,628</u> |

Reconcilement with revenues:

| | |
|---------------------------------|-----------|
| Ad Valorem Taxes - General Fund | 1,587,954 |
|---------------------------------|-----------|

Reconciling items:

| | |
|--------------------|--------------|
| Discounts | 8,331 |
| Interest collected | (7,884) |
| Taxes written off | 1,565 |
| | <u>1,565</u> |

| | |
|-------------------------------|---------------------|
| Total collections and credits | <u>\$ 1,589,966</u> |
|-------------------------------|---------------------|

CITY OF LOCUST, NORTH CAROLINA

Schedule 2

*Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2019*

| | Property Valuation | City-wide | | Total Levy | |
|--|-----------------------|-----------|---------------------|--|---------------------------------|
| | | Rate | Amount of Levy | Property Excluding Registered Motor Vehicles | Registered Motor Vehicles |
| Original levy: | | | | | |
| Property taxed at current year's rate | \$ 440,900,892 | 0.36 | \$ 1,587,243 | \$ 1,447,946 | \$ 139,297 |
| Discoveries: | | | | | |
| Current year taxes | 1,873,658 | 0.36 | 6,745 | 6,745 | - |
| Abatements | | | | | |
| Current year rate | (1,474,922) | 0.36 | (5,310) | (5,310) | - |
| Total property valuation | <u>\$ 441,299,628</u> | | | | |
| Net levy | | | 1,588,679 | 1,449,382 | 139,297 |
| Less, uncollected tax at June 30, 2019 | | | <u>27,064</u> | <u>27,064</u> | <u>-</u> |
| Current year's taxes collected | | | <u>\$ 1,561,615</u> | <u>\$ 1,422,318</u> | <u>\$ 139,297</u> |
| Current levy collection percentage | | | <u>98.30%</u> | <u>98.13%</u> | <u>100.00%</u> |

| |
|---------------------------|
| COMPLIANCE SECTION |
|---------------------------|

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

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Locust, 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 accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregated remaining fund information of the City of Locust, North Carolina as of and for the year ended June 30, 2019, which collectively comprise the City of Locust's basic financial statements, and have issued our report thereon dated November 6, 2019. Our report includes a reference to other auditors who audited the financial statements of the City of Locust ABC Board, as described in our report on the City of Locust's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Locust's internal control over financial reporting 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 City of Locust's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Locust's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rouell, Craven & Short, P.A.

Charlotte, North Carolina
November 6, 2019

CITY OF LOCUST, NORTH CAROLINA

Schedule 3
Page 1 of 2

*Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019*

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified? yes X no

• Significant Deficiency(ies) identified that are
are not considered to be material weaknesses yes X no

Noncompliance material to financial statements
noted yes X no

CITY OF LOCUST, NORTH CAROLINA

Schedule 3

Page 2 of 2

*Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019*

Section II. Financial Statement Findings

None Reported.

CITY OF LOCUST, NORTH CAROLINA

Schedule 4

***Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2019***

MATERIAL WEAKNESS

Finding: None

Status:

CITY OF LOCUST, NORTH CAROLINA

Schedule 5

***Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2019***

| <u>Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Federal (Direct and Pass-Through) Expenditures</u> | <u>State Expenditures</u> | <u>Local Expenditures</u> |
|---|------------------------------------|--|---|-------------------------------|-------------------------------|
| State Grants: | | | | | |
| N.C. State Public School Fund | | | | | |
| Stanly County Administrative Unit | | | \$ - | \$ 33,334 | \$ 22,225 |
| N.C. Department of Transportation: | | | | | |
| Powell Bill | | | - | 107,372 | - |
| Total assistance- State programs | | | - | 140,706 | 22,225 |
| Total assistance | | | \$ - | \$ 140,706 | \$ 22,225 |

Notes to the Schedule of Expenditures of Federal and State Awards:

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City of Locust and is presented on the modified accrual basis of accounting.