

TOWN OF MCADENVILLE, NORTH CAROLINA

FINANCIAL STATEMENTS

Year Ended June 30, 2019

Town Council Members

James Robinette, Jr., Mayor
Jay McCosh, Mayor Pro Tem
Carrie B. Bailey
Joe Rankin
Greg Richardson
C. Reid Washam

Administrative and Financial Staff

Lesley Dellinger, Town Clerk / Finance Officer
Angela Bradshaw, Accounts Payable / Billing Clerk

Town of McAdenville, North Carolina
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FINANCIAL SECTION

October 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of McAdenville, North Carolina as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows 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 2 – 11 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 46 – 47 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of McAdenville's basic financial statements. The introductory information, combining and individual fund statements, budgetary schedules, other schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative requirement, cost principles and Audit Requirement for Federal Awards* and 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 financial 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 the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019 on our consideration of the Town of McAdenville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of McAdenville's internal control over financial reporting and compliance.

Butler & Stowe

Management's Discussion and Analysis

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

Financial Highlights

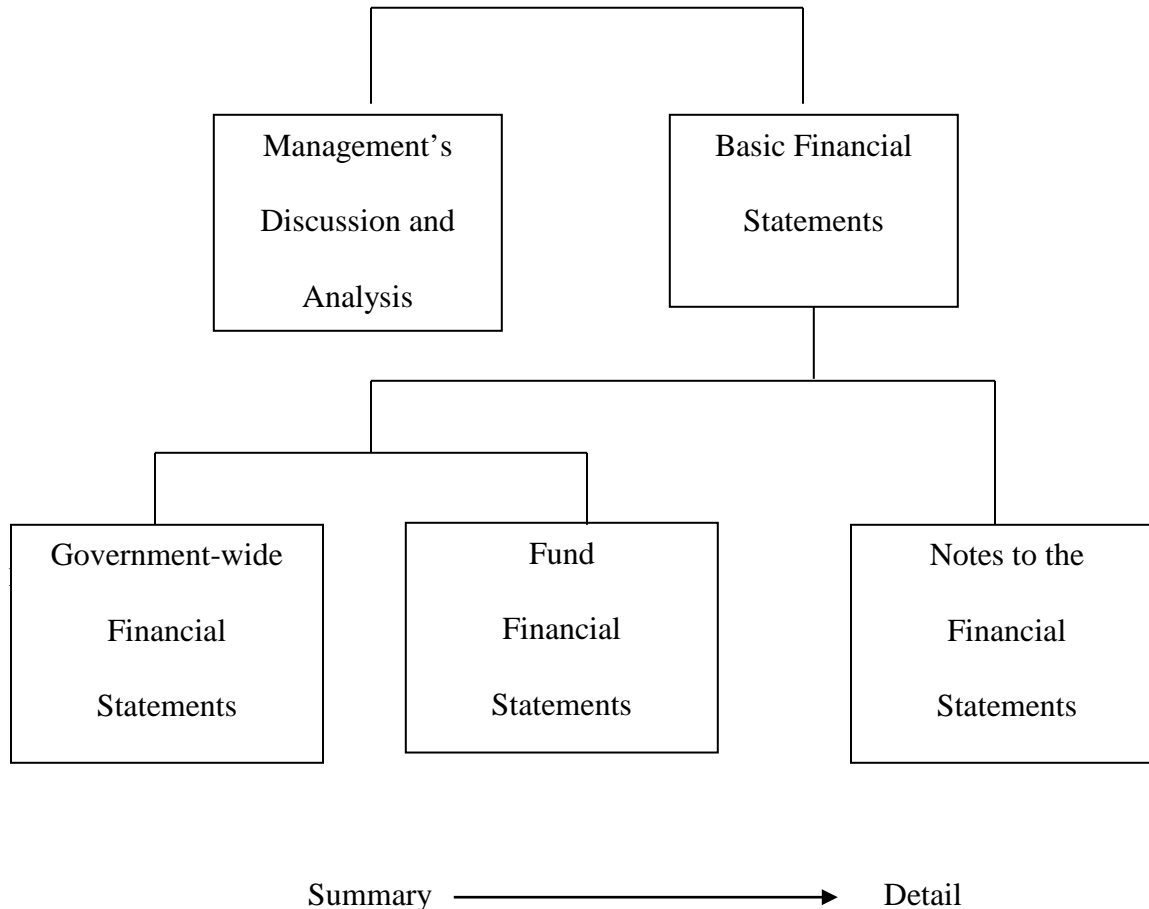
- The assets of the Town of McAdenville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,785,036 (*net position*).
- The government's total net position *increased* by \$3,191,275 primarily due to capital contributions.
- As of the close of the current fiscal year, the Town of McAdenville's governmental funds reported combined ending fund balances of \$1,269,117 with a net change of (\$119,185) in fund balance. Approximately 49.21 percent of this total amount, or \$624,478, is non spendable or restricted.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$644,639 or 61.57 percent of total general fund expenditures for the fiscal year.
- A decision to purchase property for \$205,000 was made in June 2017 for use as a future Town Hall location with renovations beginning in 2018. The Town Hall was completed during the fiscal year ending June 30, 2019.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include basic services such as public safety, and general administration. Utility Franchise Tax, Property Tax Revenue, Local Option Sales Tax and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town.

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

Fund Financial Statements

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

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

Management's Discussion and Analysis Town of McAdenville

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

Proprietary Funds – Town of McAdenville has one proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of McAdenville uses the enterprise fund to account for its water and sewer activity. This fund is the same as the function shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Town of McAdenville has one fiduciary fund, which is an agency fund.

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 22 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes required supplementary information concerning the Town of McAdenville's progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found beginning on page 46 of this report.

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

Management's Discussion and Analysis
Town of McAdenville

Government-Wide Financial Analysis

The Town of McAdenville's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 1,352,675	\$ 1,553,368	\$ 1,590,139	\$ 870,066	\$ 2,942,814	\$ 2,423,434
Capital assets	3,050,486	1,097,328	2,492,572	1,300,436	5,543,058	2,397,764
Deferred outflows of resources	25,828	17,398	6,371	4,379	32,199	21,777
Total assets	<u>4,428,989</u>	<u>2,668,094</u>	<u>4,089,082</u>	<u>2,174,881</u>	<u>8,518,071</u>	<u>4,842,975</u>
Long-term liabilities	29,541	16,233	7,230	4,086	36,771	20,319
Other liabilities	78,335	160,527	615,547	64,420	693,882	224,947
Deferred inflows of resources	1,888	3,154	494	794	2,382	3,948
Total liabilities	<u>109,764</u>	<u>179,914</u>	<u>623,271</u>	<u>69,300</u>	<u>733,035</u>	<u>249,214</u>
Net position:						
Net investment in capital assets	3,050,486	1,097,328	2,492,572	1,300,436	5,543,058	2,397,764
Restricted	624,478	708,182			624,478	708,182
Unrestricted	644,261	682,670	973,239	805,145	1,617,500	1,487,815
Total net position	<u>\$ 4,319,225</u>	<u>\$ 2,488,180</u>	<u>\$ 3,465,811</u>	<u>\$ 2,105,581</u>	<u>\$ 7,785,036</u>	<u>\$ 4,593,761</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of McAdenville exceeded liabilities and deferred inflows by \$7,785,036 as of June 30, 2019. The Town's net position *increased* by \$3,191,275 for the fiscal year ended June 30, 2019. However, a large portion (71.2%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of McAdenville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of McAdenville's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position \$624,478 (8.02%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,617,500 is unrestricted.

Management's Discussion and Analysis
Town of McAdenville

One particular aspect of the Town's financial operations positively influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.76%. The statewide average in fiscal year 2019 was 98.78%.

Town of McAdenville Changes in Net Position

Figure 3

	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 1,625	\$ 2,275	\$ 661,076	\$ 741,641	\$ 662,701	\$ 743,916
Operating grants and contributions	17,636	17,714			17,636	17,714
Capital grants and contributions	1,697,524		1,225,970		2,923,494	-
General revenues:						
Property taxes	467,566	415,705			467,566	415,705
Other taxes	433,685	406,276			433,685	406,276
Other	20,192	12,699	7,077	2,685	27,269	15,384
Total revenues	<u>2,638,228</u>	<u>854,669</u>	<u>1,894,123</u>	<u>744,326</u>	<u>4,532,351</u>	<u>1,598,995</u>
Expenses:						
General Government	418,304	341,559			418,304	341,559
Public safety	284,623	282,808			284,623	282,808
Transportation	95,084	28,495			95,084	28,495
Parks and recreation	9,172	4,886			9,172	4,886
Water and sewer			533,893	578,687	533,893	578,687
Total expenses	<u>807,183</u>	<u>657,748</u>	<u>533,893</u>	<u>578,687</u>	<u>1,341,076</u>	<u>1,236,435</u>
Increase in net position	1,831,045	196,921	1,360,230	165,639	3,191,275	362,560
Net position, beginning	2,488,180	2,291,259	2,105,581	1,939,942	4,593,761	4,231,201
Net position, June 30	<u>\$ 4,319,225</u>	<u>\$ 2,488,180</u>	<u>\$ 3,465,811</u>	<u>\$ 2,105,581</u>	<u>\$ 7,785,036</u>	<u>\$ 4,593,761</u>

Management's Discussion and Analysis
Town of McAdenville

Governmental activities. Governmental activities increased the Town's net position by \$1,831,045 thereby accounting for 57.38% of the total growth in net position of the Town of McAdenville. Key elements of the increase in governmental activities are as follows:

- Capital contributions of \$1,697,524 were received during the fiscal year ending June 30, 2019.

Business-type activities: Business-type activities increased the Town of McAdenville's net position by \$1,360,230, accounting for 42.62% of the total growth in the government's net position.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of McAdenville. At the end of the current fiscal year, the Town of McAdenville's fund balance available in the General Fund was \$644,639, while the total fund balance reached \$1,269,117. The Town currently has an available fund balance of 61.57% of general fund expenditures, while the total fund balance represents 121.2% of the same amount.

At June 30, 2019, the governmental funds of Town of McAdenville reported a combined fund balance of \$1,269,117 with a net decrease in fund balance of \$119,185

General Fund Budgetary Highlights: During the fiscal year, the Town did have a need to revise the budget. 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.

There were several budget transfers made at the function level. There were several line item amendments made within the departments.

Management’s Discussion and Analysis
Town of McAdenville

Proprietary Funds. The Town of McAdenville’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$973,239. The total change in net position for the water and sewer fund was \$1,360,230. The change in net position in the Water and Sewer Fund is a result of development fees for increased system connections attached to the construction of new homes within the McAdenville Village subdivision. In addition, there was a capital contribution for a new Sewer Project.

Capital Asset and Debt Administration

Capital assets. The Town of McAdenville’s investment in capital assets for its governmental and business–type activities as of June 30, 2019, totals \$5,543,058 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, and vehicles.

**Town of McAdenville’s Capital Assets
(net of depreciation)**

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 532,860	\$ 10,360	\$	\$	\$ 532,860	\$ 10,360
Construction in progress	384,016		1,225,970		1,609,986	
Buildings	220,131	235,129			220,131	235,129
Other Improvements	839,502	603,982	1,266,602	1,300,436	2,106,104	1,904,418
Machinery and equipment	69,725	20,536			69,725	20,536
Infrastructure	1,004,252	227,321			1,004,252	227,321
	<u>\$ 3,050,486</u>	<u>\$ 1,097,328</u>	<u>\$ 2,492,572</u>	<u>\$ 1,300,436</u>	<u>\$ 5,543,058</u>	<u>\$ 2,397,764</u>

Additional information on the Town of McAdenville’s capital assets can be found in Note 2 of the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

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

- Pharr Yarns continues to maintain a strong position in the textile specialty market and employment remains stable.
- The final phase of the McAdenville Village subdivision was completed in April 2019 adding one hundred six (106) new single family residential homes within the Town limits. The development fees attached to the new development contributed to the increases in the water / sewer fund balance.
- The McAdenville waste water treatment plant will be going offline in February 2019 upon completion of Phase II of the South Fork Sewer Project lowering contract operations costs by approximately \$15,000 annually.
- Phase II of the South Fork Sewer Project is progressing on schedule with a projected completion date of September 2019. This is a joint project between the Town of McAdenville, the City of Gastonia, and Pharr Yarns to decommission two outdated wastewater treatment plants and install a new force main and pump station with an estimated cost of \$6,028,333.
- Construction began on the McAdenville Park project in September 2018. The project includes a greenway system that loops along the South Fork River and connects to McAdenville's Historic downtown. This project received \$350,000 in matching grant funding from the NC Parks and Recreation authority. The project has a projected completion date of December 2019.
- Renovation of newly purchased property at 163 Main Street began in June 2018. The renovations of Town Hall were completed ahead of schedule and daily operations moved in October 2018. Official ribbon cutting ceremony was held on November 13, 2018.

Budget Highlights for the Fiscal Year Ending June 30, 2019

Governmental Activities: The FY net position budget reflects the goal of maintaining the present level of services provided by the Town. The Town maintained the current property tax rate of \$.33 for each \$100 valuation of taxable property and a \$5.00 vehicle tax.

Business – type Activities: It is anticipated the Water & Sewer operations will continue to support itself without a contribution from the General Fund. The agreement between the City of Gastonia and the Town for the purchase of water and waste treatment will remain in effect until regional consolidation is completed.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Lesley Dellinger, Town Clerk, 163 Main Street, PO Box 9, McAdenville, NC 28101, (704) 824-3190.

BASIC FINANCIAL STATEMENTS

TOWN OF MCADEVILLE, NORTH CAROLINA

STATEMENT OF NET POSITION

June 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 935,465	\$ 980,972	\$ 1,916,437
Taxes receivable	3,485		3,485
Accounts receivable	57,509	68,195	125,704
Due from other governments	277,764	538,613	816,377
Internal balances	22,434	(22,434)	
Restricted cash and cash equivalents	56,018	24,793	80,811
Total current assets	1,352,675	1,590,139	2,942,814
NONCURRENT ASSETS:			
Capital assets:			
Land and construction in progress	916,876	1,225,970	2,142,846
Other capital assets, net of depreciation	2,133,610	1,266,602	3,400,212
Total capital assets	3,050,486	2,492,572	5,543,058
Total assets	\$ 4,403,161	\$ 4,082,711	\$ 8,485,872
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	\$ 25,828	\$ 6,371	\$ 32,199
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	78,335	590,754	669,089
Payable from restricted assets		24,793	24,793
Total current liabilities	78,335	615,547	693,882
LONG-TERM LIABILITIES			
Net pension liability	29,541	7,230	36,771
Total liabilities	107,876	622,777	730,653
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	1,888	494	2,382
NET POSITION			
Net investment in capital assets	3,050,486	2,492,572	5,543,058
Restricted for:			
Stabilization by State Statute	568,460		568,460
Streets	56,018		56,018
Unrestricted	644,261	973,239	1,617,500
Total net position	\$ 4,319,225	\$ 3,465,811	\$ 7,785,036

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

TOWN OF MCADENVILLE, NORTH CAROLINA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 418,304	\$ 1,625	\$	\$	\$ (416,679)	\$	\$ (416,679)
Public safety	284,623				(284,623)		(284,623)
Transportation	95,084		17,636	812,174	734,726		734,726
Parks and recreation	9,172			885,350	876,178		876,178
Total governmental activities	807,183	1,625	17,636	1,697,524	909,602	-	909,602
Business-type activities:							
Water and sewer	533,893	661,076		1,225,970	-	1,353,153	1,353,153
Total business-type activities	533,893	661,076	-	1,225,970	-	1,353,153	1,353,153
Total primary government	\$ 1,341,076	\$ 662,701	\$ 17,636	\$ 2,923,494	909,602	1,353,153	2,262,755
General revenues:							
Taxes:							
Property taxes, levied for general purpose					467,566		467,566
Other taxes					433,685		433,685
Unrestricted investment earnings					15,956	7,077	23,033
Miscellaneous					4,236		4,236
Total general revenues not including transfers					921,443	7,077	928,520
Change in net position					1,831,045	1,360,230	3,191,275
Net position-beginning					2,488,180	2,105,581	4,593,761
Net position-ending					\$ 4,319,225	\$ 3,465,811	\$ 7,785,036

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

TOWN OF MCADENVILLE, NORTH CAROLINA

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2019

	Major Funds		
	General Fund	Non-Major Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 935,465	\$ -	\$ 935,465
Restricted cash	56,018		56,018
Receivables, net:		57,509	57,509
Taxes	3,485		3,485
Due from other funds	22,434		22,434
Due from other governments	277,764		277,764
Total assets	<u>\$ 1,295,166</u>	<u>\$ 57,509</u>	<u>\$ 1,352,675</u>
LIABILITIES			
Accounts payable and accrued liabilities	<u>\$ 20,826</u>	<u>57,509</u>	<u>\$ 78,335</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	<u>5,223</u>		<u>5,223</u>
FUND BALANCES			
Restricted			
Stabilization by State Statute	568,460		568,460
Streets	56,018		56,018
Unassigned	644,639		644,639
Total fund balances	<u>1,269,117</u>		<u>1,269,117</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,295,166</u>		

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in funds.

Gross capital assets	3,929,977
Accumulated depreciation	(879,491)
Deferred outflows of resources related to pensions are not reported in the funds	25,828
Earned revenues considered deferred inflows of resources in fund statements	5,223
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds:	
Net pension liability	(29,541)
Deferred inflows of resources are not reported in the funds	<u>(1,888)</u>
Net position of governmental activities	<u>\$ 4,319,225</u>

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

TOWN OF MCADENVILLE, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Governmental Funds

For the Year Ended June 30, 2019

	Major Funds		
	General Fund	Non-Major Fund	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 466,881	\$	\$ 466,881
Unrestricted intergovernmental	433,685		433,685
Restricted intergovernmental	17,636	180,455	198,091
Licenses and permits	1,625		1,625
Investment earnings	15,956		15,956
Miscellaneous	4,236		4,236
Total revenues	<u>940,019</u>	<u>180,455</u>	<u>1,120,474</u>
EXPENDITURES			
Current:			
General government	621,101		621,101
Public safety	284,623		284,623
Sanitation	86,888		86,888
Parks and recreation	9,172	377,501	386,673
Transportation	45,271		45,271
Total expenditures	<u>1,047,055</u>	<u>377,501</u>	<u>1,424,556</u>
Net change in fund balance	(107,036)	(197,046)	(304,082)
OTHER FINANCING SOURCES (USES)			
Contribution from private entity		184,897	184,897
Transfer	(12,149)	12,149	
Revenues and other financing sources over (under) expenditures	(119,185)	-	(119,185)
FUND BALANCE			
Fund balance-beginning	<u>1,388,302</u>		<u>1,388,302</u>
Fund balance-end of year	<u>\$ 1,269,117</u>	<u>\$ -</u>	<u>\$ 1,269,117</u>

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

TOWN OF MCADENVILLE, NORTH CAROLINA

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

Governmental Funds

For the Year Ended June 30, 2019

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

Net changes in fund balances - total governmental funds		\$ (119,185)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period</p>		
Capital outlay expenditures that were capitalized	738,081	
Depreciation expense for governmental assets	(73,596)	
Loss on disposition of assets	<u>(43,501)</u>	620,984
<p>Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities</p>		
		5,823
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Amount of donated assets	1,332,174	
Change in unavailable revenue for tax revenues	<u>684</u>	1,332,858
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.</p>		
Pension expense		<u>(9,435)</u>
Total changes in net position of governmental activities		<u><u>\$1,831,045</u></u>

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

TOWN OF MCADENVILLE, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE- ANNUAL BUDGET AND ACTUAL

For the Year Ended June 30, 2019

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 384,000	\$ 414,000	\$ 466,881	\$ 52,881
Unrestricted intergovernmental	372,400	372,400	433,685	61,285
Restricted intergovernmental	17,500	17,500	17,636	136
Permits and fees	500	500	1,625	1,125
Investment earnings	2,100	2,100	15,956	13,856
Miscellaneous	709,875	709,875	4,236	(705,639)
Total revenues	<u>1,486,375</u>	<u>1,516,375</u>	<u>940,019</u>	<u>(576,356)</u>
Expenditures:				
Current:				
General government	964,000	907,400	621,101	286,299
Public safety	286,000	286,000	284,623	1,377
Sanitation	80,000	86,600	86,888	(288)
Park maintenance	15,000	15,000	9,172	5,828
Transportation	50,000	50,000	45,271	4,729
Total expenditures	<u>1,395,000</u>	<u>1,345,000</u>	<u>1,047,055</u>	<u>297,945</u>
Revenues over (under) expenditures	91,375	171,375	(107,036)	(278,411)
Other financing sources (uses):				
Transfer to Capital Project Fund	(91,375)	(171,375)	(12,149)	159,226
Total other financing sources (uses)	<u>(91,375)</u>	<u>(171,375)</u>	<u>(12,149)</u>	<u>159,226</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	(119,185)	<u>\$ (119,185)</u>
Fund balance, beginning of year			<u>1,388,302</u>	
Fund balance, end of year			<u>\$ 1,269,117</u>	

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

TOWN OF MCADENVILLE, NORTH CAROLINA

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS

June 30, 2019

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>	<u>Total</u>
ASSETS		
Current assets:		
Cash	\$ 980,972	\$ 980,972
Cash - restricted	24,793	24,793
Accounts receivable (net) - billed	19,680	19,680
Accounts receivable (net) - unbilled	48,302	48,302
Due from governments	538,613	538,613
Prepaid items	213	213
Total current assets	<u>1,612,573</u>	<u>1,612,573</u>
Capital assets:		
Construction in progress	1,225,970	1,225,970
Other capital assets, net of depreciation	1,266,602	1,266,602
Total noncurrent assets	<u>2,492,572</u>	<u>2,492,572</u>
Total assets	<u>\$ 4,105,145</u>	<u>\$ 4,105,145</u>
DEFERRED OUTFLOWS OF RESOURCES		
Contributions to pension plan	<u>\$ 6,371</u>	<u>\$ 6,371</u>
LIABILITIES		
Current liabilities:		
Due to other funds	22,434	22,434
Accounts payable and accrued liabilities	590,754	590,754
Customer deposits	24,793	24,793
Total liabilities	<u>637,981</u>	<u>637,981</u>
Noncurrent liabilities:		
Net pension liability	7,230	7,230
Total noncurrent liabilities	<u>7,230</u>	<u>7,230</u>
Total liabilities	<u>645,211</u>	<u>645,211</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	494	494
NET POSITION		
Net investment in capital assets	2,492,572	2,492,572
Unrestricted	973,239	973,239
Total net position	<u>\$ 3,465,811</u>	<u>3,465,811</u>
Net position of business-type activities		<u>\$ 3,465,811</u>

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

TOWN OF MCADENVILLE, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

For the Year Ended June 30, 2019

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES		
Charges for services	\$ 629,216	\$ 629,216
Water and sewer taps	31,860	31,860
Total operating revenues	<u>661,076</u>	<u>661,076</u>
OPERATING EXPENSES		
Purchase of water	334,166	334,166
Salaries	17,661	17,661
Payroll taxes and benefits	4,463	4,463
Repairs	46,789	46,789
Depreciation	33,834	33,834
Operation of treatment plant	93,576	93,576
Miscellaneous	3,405	3,405
Total operating expenses	<u>533,894</u>	<u>533,894</u>
Operating income	127,182	127,182
NONOPERATING REVENUES		
Interest	<u>7,078</u>	<u>7,078</u>
Income before contributions and transfers	134,260	134,260
Capital contribution	<u>1,225,970</u>	<u>1,225,970</u>
CHANGE IN NET POSITION	1,360,230	1,360,230
Total net position - beginning	2,105,581	
Total net position - ending	<u>\$ 3,465,811</u>	
Change in net position - business-type activities		<u>\$ 1,360,230</u>

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

TOWN OF MCADENVILLE, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2019

	Water and Sewer Fund	Total
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 680,677	\$ 680,677
Cash paid for goods and services	(465,781)	(465,781)
Cash paid to or on behalf of employees for services	(21,270)	(21,270)
Customer deposits received	6,425	6,425
Customer deposits returned	(5,964)	(5,964)
Other operating revenues	4,384	4,384
Net cash provided by operating activities	<u>198,471</u>	<u>198,471</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Increase in due to other funds	20,245	20,245
Total cash flows from noncapital financing activities	<u>20,245</u>	<u>20,245</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,225,970)	(1,225,970)
Capital contributions - State grant	735,582	735,582
Capital contributions - Local grant	490,388	490,388
Net cash provided (used) by capital and related financing	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	7,078	7,078
Net cash provided by investing activities	<u>7,078</u>	<u>7,078</u>
Net increase in cash and cash equivalents	225,794	225,794
Balances-beginning of the year	<u>779,971</u>	<u>779,971</u>
Balances-end of the year	<u>\$ 1,005,765</u>	<u>\$ 1,005,765</u>

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

TOWN OF MCADENVILLE, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2019

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer</u> <u>Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 127,182	\$ 127,182
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	33,834	33,834
Changes in assets and liabilities:		
Decrease in accounts receivable	24,089	24,089
Increase in Due from Governments	(538,613)	(538,613)
Increase in deferred outflows of resources - pensions	(1,992)	(1,992)
Increase in net pension liability	3,144	3,144
Decrease in deferred inflows of resources - pensions	(300)	(300)
Increase in accounts payable and accrued liabilities	550,666	550,666
Increase in customer deposits	461	461
Total adjustments	<u>71,289</u>	<u>71,289</u>
Net cash provided by operating activities	<u>\$ 198,471</u>	<u>\$ 198,471</u>

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

TOWN OF MCADENVILLE, 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 Town of McAdenville, North Carolina conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of McAdenville, North Carolina is a municipal corporation that is governed by an elected mayor and a five-member council.

B. Basis of Presentation

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

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

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

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Town reports the following major governmental fund:

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

The Town reports the following non-major governmental fund:

Park and Recreation Capital Projects Fund. This fund is used to account for the construction of a new town park.

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations. A Water and Sewer Capital Projects Fund has been consolidated into the Water and Sewer Fund for financial reporting purposes. The budgetary comparison for the Water and Sewer Capital Projects Fund has been included in the supplemental information.

The Town reports the following fund type:

Agency Fund. Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the Town holds on behalf of others. The Town maintains the Performance Bond Fund, which accounts for a deposit held by the Town until the Town Hall renovation is complete. The Town returned the funds to the contractor upon completion of the project.

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

C. Measurement Focus and Basis of Accounting

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

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

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

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments,

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of McAdenville because the tax is levied by Gaston County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Projects Special Revenue Fund, the Capital Projects Fund, and the Enterprise Fund Capital Projects Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing board 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 Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT-Term Portfolio is 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 six months.

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Town of McAdenville Restricted Cash

Governmental Activities:

General Fund:

Streets \$ 56,018

Business-type Activities:

Enterprise Fund:

Water & Sewer Fund
Customer deposits \$ 24,793

Total Restricted Cash \$ 80,811

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 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.

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. 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. It is the Town's policy to capitalize any asset with a cost greater than \$500. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

6. Deferred Outflows/Inflows of Resources

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

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

to a future period and so will not be recognized as revenue until then. The Town has two items that meets the criteria for this category – property taxes receivable, and deferrals for pension expense that result from the implementation of GASB Statement 68.

7. 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.

8. Compensated Absences

The Town's vacation policy provides vacation to be earned based on length of employment. However, vacation must be taken within the Town's next fiscal year. Any vacation earned, but not taken as of June 30, 2019 was paid on June 30, 2019. Therefore, there is no liability for compensated absences as of June 30, 2019.

The Town's sick leave policy provides for five days per fiscal year. Forty hours of sick leave may be accumulated and carried over to the next fiscal year. The Town has two full time employees that have this benefit. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

9. Net Position/Fund Balances

Net position

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

Fund Balances

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

TOWN OF MCADENVILLE, 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:

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

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

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

Restricted for Stabilization by State Statute – 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 and Restricted fund balance on the face of the balance sheet.

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

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of McAdenville's governing body (highest level of decision-making authority). The governing body

TOWN OF MCADEVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance – portion of fund balance that Town of McAdenville intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the finance officer to modify the appropriations by resource or appropriation within funds up to 10% of the appropriated monies for the department.

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

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

10. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of McAdenville's employer contributions are recognized when due and the Town of McAdenville 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.

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: **DETAIL NOTES ON ALL FUNDS**

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the 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 Town, these deposits are considered to be held by the Town'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 Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$1,506,336 and a bank balance of \$1,528,525. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$200.

2. Investments

At June 30, 2019, the Town of McAdenville had \$490,712 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

The Town does not have a formal investment policy.

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,360	\$522,500	\$	\$532,860
Construction of park	<u>6,515</u>	<u>377,501</u>	<u> </u>	<u>384,016</u>
Total	<u>16,875</u>	<u>900,001</u>	<u> </u>	<u>916,876</u>
Capital assets being depreciated:				
Buildings	385,907			385,907
Town Hall renovation	311,929	241,772		553,701
Other improvements	395,850	56,720	83,831	368,739
Equipment	86,860	59,587	26,925	119,522
Infrastructure	<u>773,058</u>	<u>812,174</u>	<u> </u>	<u>1,585,232</u>
Total	<u>1,953,604</u>	<u>1,170,253</u>	<u>110,756</u>	<u>3,013,101</u>
Less accumulated depreciation for:				
Buildings	150,778	14,998		165,776
Other improvements	110,312	12,956	40,330	82,938
Equipment	66,324	10,398	26,925	49,797
Infrastructure	<u>545,737</u>	<u>35,243</u>	<u> </u>	<u>580,980</u>
Total	<u>873,151</u>	<u>\$ 73,595</u>	<u>\$ 67,255</u>	<u>879,491</u>
Total capital assets depreciated, net	<u>1,080,453</u>			<u>2,133,610</u>
Governmental activity capital assets, net	<u>\$1,097,328</u>			<u>\$3,050,486</u>

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

General government	\$ 38,352
Transportation	<u>35,243</u>
Total depreciation expense	<u>\$ 73,595</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Construction in progress	\$ _____	<u>\$1,225,970</u>	\$ _____	<u>\$1,225,970</u>
Capital assets being depreciated:				
Other improvements	<u>1,691,705</u>	_____	_____	<u>1,691,705</u>
Less accumulated depreciation for:				
Other improvements	<u>391,269</u>	<u>\$ 33,834</u>	<u>\$ _____</u>	<u>425,103</u>
Water and Sewer capital assets depreciated, net	<u>1,300,436</u>			<u>1,266,602</u>
Business-type activities Capital assets, net	<u>\$1,300,436</u>			<u>\$2,492,572</u>

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Construction commitments

The government has active construction projects as of June 30, 2019. At year-end, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Park and recreation	<u>\$ 384,016</u>	<u>\$ 427,170</u>

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: **DETAIL NOTES ON ALL FUNDS (CONTINUED)**

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of McAdenville employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of McAdenville's contractually required contribution rate for the year ended June 30, 2019, was 7.75% for general employees, 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.

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Contributions to the pension plan from the Town of McAdenville were \$7,162 for the year ended June 30, 2019.

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

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

At June 30, 2019, the Town reported a liability of \$36,771 for its proportionate share of the net pension liability. The net pension liability was measured at June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.00155%, which was an increase of 0.00022% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$11,627. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,673	\$ 190
Changes of assumptions	9,758	
Net differences between projected and actual earnings on pension plan investments	5,047	
Changes in proportion and differences between Town contributions and proportionate share of contributions	4,558	2,192
Town contributions subsequent to the measurement date	<u>7,163</u>	
Total	<u>\$ 32,199</u>	<u>\$ 2,382</u>

\$7,163 reported as deferred outflows of resources related to pensions resulting from the Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$10,499
2021	6,634
2022	2,421
2023	3,099
2024	
Thereafter	
	<u>\$ 22,653</u>

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuations 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 production factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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

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

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

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

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

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

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 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 employees will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease <u>(6.00%)</u>	Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Town’s proportionate share of the net pension liability (asset)	\$88,328	\$36,771	(\$6,310)

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

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

b. Supplemental Retirement Income Plan for General Government Employees

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$0.

The Town has also elected to contribute to the Supplemental Retirement Income Plan for the general employees as well as for the law enforcement officers. The contribution rate for general employees equaled five percent of the employee's salary. The Town's contributions were calculated using a covered payroll amount of \$92,408. Total contributions for the year ended June 30, 2019 were \$4,620 which consisted of \$4,620 from the Town. Voluntary contributions to the plan were \$2,800.

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

2. Deferred Outflows and Inflows of Resources

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

Source	Amount
Contributions to pension plan in current fiscal year	\$ 7,163
Differences between expected and actual experience	5,673
Changes of assumptions	9,758
Net difference between projected and actual	5,047
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,558
	<u>\$32,199</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes receivable (General Fund), less penalties	\$	\$ 5,223
Differences between expected and actual experience	190	
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,192	
	<u>\$ 2,382</u>	<u>\$ 5,223</u>

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has secured insurance coverage with an insurance company and is a participant in an employee accident and health insurance pool administered by the North Carolina League of Municipalities. The Town's insurance coverage provides the following types of major coverage for the amounts of retained risk noted; general liability (\$1,000,000), auto (\$1,000,000), and worker's compensation (\$1,000,000 per occurrence). The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Town Council each year. 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.

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

Through the health insurance pool, the Town obtains employee health coverage up to a \$2 million lifetime limit. The pool is reinsured for annual employee health claims in excess of \$150,000.

The Town does not maintain any flood insurance.

In accordance with G.S. 159-29, the Town’s employees that have access to \$100 or more at any given time of the Town’s funds is performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The remaining employees are insured under a blanket bond of \$10,000 (per occurrence) for employee dishonesty and forgery or alteration. In addition, the Town maintains insurance on employees of \$5,000 (per occurrence) for theft of money and securities both inside and outside the premises.

4. Changes in Long-Term Liabilities

	Beginning Balance	Increase	Decrease	Ending Balance	Current Portion of Balance
Governmental Activities:					
Net pension liability (LGERS)	<u>\$ 16,233</u>	<u>\$13,308</u>	<u>\$ 0</u>	<u>\$ 29,541</u>	<u>\$ 0</u>
Business-type Activities:					
<u>Water & Sewer Fund</u>					
Net pension liability (LGERS)	<u>\$ 4,086</u>	<u>\$ 3,144</u>	<u>\$ 0</u>	<u>\$ 7,230</u>	<u>\$ 0</u>

5. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2019 consist of the following:

Due to the General Fund for the allocation of costs from the:

Water & Sewer Fund	<u>\$22,434</u>
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TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 2: DETAIL NOTES ON ALL FUNDS (CONTINUED)

The interfund balance resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from other funds at June 30, 2019, consist of the following:

From the General Fund to the Park and Recreation Fund to fund the local match required by the grant agreement	<u>\$12,149</u>
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Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided by matching funds for various grant agreements.

6. Fund Balances

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	\$1,269,117
Less:	
Stabilization by State Statute	568,460
Streets- Powell Bill	<u>56,018</u>
Remaining Fund Balance	<u>\$ 644,639</u>

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

<u>Encumbrances</u>	<u>General Fund</u>	<u>Non-Major Funds</u>
	\$270,000	\$427,170

TOWN OF MCADENVILLE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

NOTE 3: SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

In conjunction with the Community Development Block Grant completed during fiscal year end June 30, 2013, the Town entered into an agreement with the owner of the residential real property that was rehabilitated. The agreement specifies that the owner follow all requirements of the Grant program. Failure to comply with the guidelines will result in the owner reimbursing the Town for monies spent on the residential unit. The total amount of the agreement is \$360,000 at zero percent interest rate. No repayment of the grant money will be required if all the guidelines are followed. The agreement is in effect for a period of eight years and expires in January 2020.

NOTE 4: INTERLOCAL AGREEMENTS

The Town has entered into an agreement with Town of Cramerton for police safety and fire safety. The total contract amount for police services is \$215,000 per year. The contract amount for fire safety is \$55,000 per year.

NOTE 5: SEWER REVOLVING LOAN

The North Carolina Local Government Commission approved a sewer revolving loan in the amount of \$320,494. The rate as established under this program for the respective loan, State or Federal, is not to exceed 4%. This loan will be used by the Town to help finance their portion of the South Fork Sewer Project – Phase II. As of June 30, 2019, there were no outstanding draws made on this loan.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

TOWN OF MCADENVILLE, NORTH CAROLINA

**TOWN OF MCADENVILLE'S PROPORTIONATE SHARE
OF NET PENSION LIABILITY (ASSET)**

REQUIRED SUPPLEMENTARY INFORMATION

Last Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
McAdenville's proportion of the net pension liability (asset)	0.00155%	0.00133%	0.00065%	0.00184%	0.00100%	0.00128%
McAdenville's proportion of the net pension liability (asset) (\$)	\$ 36,771	\$ 20,319	\$ 13,793	\$ 8,256	\$ (7,550)	\$ 12,054
McAdenville's covered-employee payroll	\$ 86,237	\$ 80,743	\$ 75,930	\$ 88,052	\$ 64,247	\$ 47,211
McAdenville's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	42.64%	25.17%	18.17%	9.38%	-11.75%	25.53%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

TOWN OF MCADENVILLE, NORTH CAROLINA

TOWN OF MCADENVILLE'S CONTRIBUTIONS

REQUIRED SUPPLEMENTARY INFORMATION

Last Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 7,162	\$ 6,468	\$ 5,878	\$ 5,080	\$ 6,225	\$ 10,305
Contributions in relation to the contractually required	<u>7,162</u>	<u>6,468</u>	<u>5,878</u>	<u>5,080</u>	<u>6,225</u>	<u>10,305</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
McAdenville's covered-employee payroll	\$ 92,408	\$ 86,237	\$ 80,743	\$ 75,930	\$ 88,052	\$ 64,247
Contribution as a percentage of covered-employee payroll	7.75%	7.50%	7.28%	6.69%	7.07%	16.04%

INDIVIDUAL FUND FINANCIAL STATEMENTS

TOWN OF MCADENVILLE, NORTH CAROLINA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2019

	2019		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Ad valorem taxes			
Taxes	\$ 414,000	\$ 466,069	\$ 52,069
Interest		812	812
Total	414,000	466,881	52,881
Unrestricted intergovernmental:			
Local option sales tax	110,000	156,655	46,655
Telecommunications sales tax		5,554	5,554
Utilities sales tax	260,000	260,521	521
Piped natural gas sales tax		2,716	2,716
Video franchise fee		4,750	4,750
Solid waste disposal fees	400	512	112
Beer and wine tax	2,000	2,977	977
Total	372,400	433,685	61,285
Restricted intergovernmental:			
Powell Bill allocation	17,500	17,636	136
Licenses and permits			
Building permits	500	1,625	1,125
Investment earnings			
Investment earnings	2,100	15,956	13,856
Miscellaneous			
Other	11,000	4,236	(6,764)
Fund balance appropriated	698,875		(698,875)
Total	709,875	4,236	(705,639)
TOTAL REVENUES	1,516,375	940,019	(576,356)

TOWN OF MCADENVILLE, NORTH CAROLINA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2019

	2019		
	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES			
General government			
Administrative salaries	99,700	97,203	2,497
Professional service	80,000	44,606	35,394
Retirement	6,500	5,823	677
FICA expense	7,800	7,436	364
401-K	4,000	3,737	263
Unemployment insurance reimbursement	500		500
Group insurance	21,000	18,847	2,153
General insurance	7,000	5,847	1,153
Telephone	7,700	7,461	239
Travel	6,500	726	5,774
Supplies	3,000	1,635	1,365
Dues and subscriptions	3,500	2,717	783
Advertisements	1,000	64	936
Miscellaneous	8,500	8,536	(36)
Maintenance	7,000	5,585	1,415
Equipment maintenance	16,400	10,478	5,922
Capital outlay	550,000	360,579	189,421
Street repairs	40,000	14,570	25,430
Water and trash	1,900	1,302	598
Security - fire /burglar	500	341	159
Cleaning service-Town Hall	5,900	5,840	60
Bridge lighting	22,000	12,272	9,728
Utilities	7,000	5,496	1,504
	907,400	621,101	286,299
Total general government	907,400	621,101	286,299

TOWN OF MCADENVILLE, NORTH CAROLINA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2019

	2019		
	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES (CONTINUED)			
Public safety			
Professional services	16,000	14,623	1,377
Contract services	215,000	215,000	-
Fire Department contribution	55,000	55,000	-
Total public safety	286,000	284,623	1,377
Sanitation			
Garbage disposal	86,600	86,888	(288)
Parks and recreation:			
Park maintenance	15,000	9,172	5,828
Transportation			
Street capital outlay and maintenance	50,000	45,271	4,729
TOTAL EXPENDITURES	1,345,000	1,047,055	297,945
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	171,375	(107,036)	(278,411)
OTHER FINANCING SOURCES (USES)			
Transfer to other funds			
Transfer to Capital Project Fund	(171,375)	(12,149)	159,226
Total other financing sources (uses)	(171,375)	(12,149)	159,226
Revenues and other financing sources over (under) expenditures	\$ -	(119,185)	\$ (119,185)
FUND BALANCE:			
Fund balance, beginning of year		1,388,302	
Fund balance, end of year		\$1,269,117	

TOWN OF MCADENVILLE, NORTH CAROLINA

**CAPITAL PROJECT FUND -
PARKS AND RECREATION PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

From Inception and For the Fiscal Year Ended June 30, 2019

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
REVENUES:					
Restricted intergovernmental:					
Grants - State	\$ 350,000	\$ -	\$ 180,455	\$ 180,455	\$ (169,545)
Total	350,000	-	180,455	180,455	(169,545)
EXPENDITURES:					
McAdenville Park					
Professional services	37,903	6,515	34,829	41,344	(3,441)
Natural surface trails	19,410		6,419	6,419	12,991
Hard surface trails	468,426		206,799	206,799	261,627
Bridges	217,607		129,454	129,454	88,153
Parking lot	17,870			-	17,870
Miscellaneous	35,000			-	35,000
Contingency	50,000			-	50,000
Total	846,216	6,515	377,501	384,016	462,200
REVENUES OVER (UNDER) EXPENDITURES	(496,216)	(6,515)	(197,046)	(203,561)	292,655
OTHER FINANCING SOURCES:					
Contribution from private entity	316,216		184,897	184,897	(131,319)
Transfer from general fund	180,000	6,515	12,149	18,664	(161,336)
	496,216	6,515	197,046	203,561	(292,655)
Revenues and other sources over (under) expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

TOWN OF MCADENVILLE, NORTH CAROLINA

**WATER AND SEWER FUND
STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL (NON-GAAP)**

For the Fiscal Year Ended June 30, 2019

	2019		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Operating revenues			
Water and sewer charges	\$ 490,000	\$ 629,216	\$ 139,216
Water and sewer hookups and fees	42,250	31,860	(10,390)
TOTAL OPERATING REVENUES	532,250	661,076	128,826
Nonoperating revenues			
Interest	1,000	7,078	6,078
TOTAL REVENUES	533,250	668,154	134,904
OPERATING EXPENSES			
Purchase of water	345,000	334,166	10,834
Salaries	18,000	17,661	339
Payroll taxes and benefits	3,750	3,610	140
Repairs	73,000	46,789	26,211
Operation of treatment plant	88,000	93,576	(5,576)
Miscellaneous	5,500	3,405	2,095
	533,250	499,207	34,043
TOTAL EXPENSES	533,250	499,207	34,043
REVENUES OVER EXPENSES	\$ -	\$ 168,947	\$ 168,947

TOWN OF MCADENVILLE, NORTH CAROLINA

**WATER AND SEWER FUND
STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL (NON-GAAP)**

For the Fiscal Year Ended June 30, 2019

	2019		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES OVER EXPENSES	<u>\$ -</u>	\$ 168,947	<u>\$ 168,947</u>
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL			
RECONCILING ITEMS			
Capital contributions		1,225,970	
Increase in deferred outflows of resources - pensions		1,992	
Increase in net pension liability		(3,144)	
Increase in deferred inflows of resources - pensions		299	
Depreciation		(33,834)	
Total		<u>1,191,283</u>	
CHANGE IN NET POSITION		<u>\$1,360,230</u>	

TOWN OF MCADENVILLE, NORTH CAROLINA
SOUTH FORK SEWER CAPITAL PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

From Inception and For the Fiscal Year Ended June 30, 2019

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
REVENUES:					
Restricted intergovernmental:					
Grants - State	\$ 750,000	\$ -	\$ 735,582	\$ 735,582	\$ (14,418)
Grants - Local	500,000		490,388	490,388	(9,612)
Total	<u>1,250,000</u>	<u>-</u>	<u>1,225,970</u>	<u>1,225,970</u>	<u>(24,030)</u>
EXPENDITURES:					
Sewer Project Construction	<u>1,570,494</u>		<u>1,225,970</u>	<u>1,225,970</u>	<u>344,524</u>
Total	<u>1,570,494</u>	<u>-</u>	<u>1,225,970</u>	<u>1,225,970</u>	<u>344,524</u>
REVENUES OVER EXPENDITURES	<u>(320,494)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,494</u>
OTHER FINANCING SOURCES:					
Proceeds from DWI Loan	<u>320,494</u>		<u>-</u>	<u>-</u>	<u>(320,494)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF MCADENVILLE, NORTH CAROLINA

**PERFORMANCE BOND - AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

For the Fiscal Year Ended June 30, 2019

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Assets:				
Cash and cash equivalents	<u>\$ 471,000</u>	<u>\$ -</u>	<u>\$ 471,000</u>	<u>\$ -</u>
Liabilities:				
Performance bond	<u>\$ 471,000</u>	<u>\$ -</u>	<u>\$ 471,000</u>	<u>\$ -</u>

OTHER SCHEDULES

TOWN OF MCADENVILLE, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE

June 30, 2019

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
2008-2009	\$ 294	\$	\$ 294	\$ -
2009-2010	389		223	166
2010-2011	318		216	102
2011-2012	338		227	111
2012-2013	367		217	150
2013-2014	326		149	177
2014-2015	198		170	28
2015-2016	314		218	96
2016-2017	956		366	590
2017-2018	1,039		96	943
2018-2019	<u>-</u>	<u>465,016</u>	<u>463,893</u>	<u>1,123</u>
	<u>\$ 4,539</u>	<u>\$ 465,016</u>	<u>\$ 466,069</u>	<u>\$ 3,486</u>

Reconcilement with revenues:

Taxes-ad valorem-general fund \$ 466,881

Reconciling items:

Interest collected (812)

Total collections and credits \$ 466,069

TOWN OF MCADENVILLE, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY

Year Ended June 30, 2019

	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	Total Levy
Total valuation	\$132,528,951	\$ 8,384,848	\$140,913,799
Rate	<u>0.0033</u>	<u>0.0033</u>	<u>0.0033</u>
Levy (net of adjustments)	437,346	27,670	465,016
Uncollected at June 30, 2019	<u>1,123</u>	<u></u>	<u>1,123</u>
Current year taxes collected	<u>\$ 436,223</u>	<u>\$ 27,670</u>	<u>\$ 463,893</u>
Ratio of taxes collected to net levy	<u>99.74%</u>	<u>100.00%</u>	<u>99.76%</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

October 30, 2019

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of McAdenville, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the Town of McAdenville's basic financial statements, and have issued our report thereon dated October 30, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2019-1 that we considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of McAdenville'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 don't express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of McAdenville's Response to Findings

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

Purpose of this Report

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

Butler & Stone

**Report On Compliance With Requirements Applicable to Each Major State Program And
Internal Control Over Compliance In Accordance With OMB Uniform Guidance and the
State Single Audit Implementation Act**

Independent Auditor's Report

October 30, 2019

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

Report on Compliance For Each Major State Program

We have audited the Town of McAdenville's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of McAdenville's major state programs for the year ended June 30, 2019. The Town of McAdenville's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of McAdenville's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina* and the *State Single Audit Implementation Act*. Those standards, Uniform Guidance and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of McAdenville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town of McAdenville's compliance.

Opinion on Each Major State Program

In our opinion, the Town of McAdenville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with applicable sections of the Uniform Guidance as described in the *Audit Manual for Governmental Auditors in North Carolina* and which is described in the accompanying schedule of findings and questioned costs as item 2019-1. Our opinion on each major state program is not modified with respect to these matters.

The Town of McAdenville's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The Town of McAdenville's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Town of McAdenville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of McAdenville's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of McAdenville's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2019-2 to be a material weakness.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-1 that we consider to be a material weakness.

The Town of McAdenville's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The Town of McAdenville's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Butler & Spivey

TOWN OF MCADENVILLE, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2019

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State Pass-through Grantor's Number	Fed. (Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
State Grants:					
Cash Assistance:					
<u>N.C. Department of Natural and Cultural Resources:</u>					
N. C. Parks and Recreation Trust Fund Project		2016-801	_____	180,455	180,455
<u>N.C. Department of Commerce</u>					
<u>Industrial Development Fund Utility Account</u>					
Pharr Yarns Wastewater Project		U-474	_____	735,582	490,388
<u>N.C. Department of Transportation:</u>					
Powell Bill		37818	_____	45,271	_____
Total assistance - State programs			_____	961,308	670,843
Total assistance			\$ -	\$ 961,308	\$ 670,843

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of McAdenville under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in the SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of McAdenville, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of McAdenville.

Note 2: Summary of Significant Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

The Town of McAdenville has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

TOWN OF MCADENVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2019

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted

yes no

Federal awards

No federal awards.

State Awards

Internal control over financial reporting:

- Material weakness identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Type of auditor's report issued on compliance for major State programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State

Single Audit Implementation Act yes no

Identification of Major State Programs

N.C. Parks and Recreation Trust Fund Project – Contract 2016-801

Industrial Development Fund Utility Account – Contract U-474

TOWN OF MCADENVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2019

Section II – Financial Statement Findings

Finding: 19-1

MATERIAL WEAKNESS

Segregation of duties

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

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

Effect: Transactions could be mishandled.

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

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

Views of responsible officials and planned corrective actions: The Town agrees with this finding.

TOWN OF MCADENVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2019

Section III. Federal Award Findings and Questioned Costs

No federal awards.

Schedule IV. State Award Findings and Questioned Costs

Finding: 19-2

MATERIAL WEAKNESS

Segregation of duties

See Comment 19 – 1 above for the detailed reporting of segregation of duties.

None reported.

**TOWN OF MCADENVILLE
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2019**

Section II – Financial Statement Findings

Finding: 19-1

Name of Contact Person: James Robinette, Jr., Mayor

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

Proposed Completion Date: The Board will implement the above procedures immediately.