

Town of McDonald, North Carolina

Financial Statements

**For the Year Ended
June 30, 2019**

Town of McDonald, North Carolina
Financial Statements
For the Year Ended June 30, 2019

Board of Town Commissioners

James Taylor, Mayor

Dannie Bacot
William Alan Britt
Dean Carter

Kathleen Bacot, Finance Officer

Town of McDonald, North Carolina
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June 30, 2019

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Financial Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
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Independent Auditor's Report

To the Honorable Mayor and
Board of Town Commissioners
Town of McDonald, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the 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 and opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Town of McDonald, North Carolina as of June 30, 2019, and the respective changes in financial position, 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 Management's Discussion and Analysis 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 McDonald's basic financial statements. The individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



Lumberton, North Carolina
October 25, 2019

Town of McDonald, North Carolina
Management's Discussion and Analysis
June 30, 2019

Management's Discussion and Analysis

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

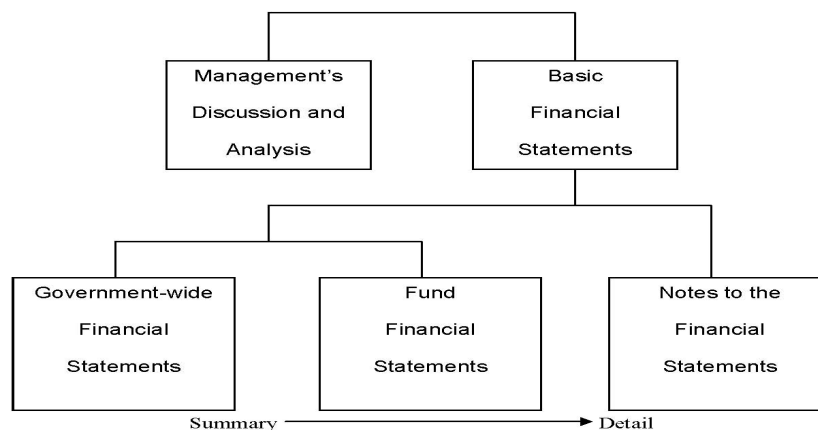
- The assets of the Town of McDonald exceeded its liabilities at the close of the fiscal year by \$186,588 (net position).
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$177,489 with a net change of \$11,923 in fund balance. Approximately 11.75% of this total amount, or \$20,852 is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$156,637 or 580.05% of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Pages 8 and 9) 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 (Pages 10 through 14) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the budgetary comparison 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, **other schedules** are provided to show additional information about property taxes.

Town of McDonald, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2019

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 they have changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements consist of one category: governmental activities. The governmental activities include most of the Town's basic services such as general administration. Property taxes and state and federal grant funds finance most of these activities. The Town has no business-type activities or component units.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

The fund financial statements 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 McDonald, like all other governmental entities in North Carolina, uses fund accounting to ensure and demonstrate compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. The town has only one governmental fund – the General Fund.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the governmental-wide financial statements. All 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 monies that are unexpected at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps 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 Statements of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of McDonald adopts an annual budget for its General Fund, as required by 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 authorized 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 format, language, and classifications as the legal budget document. The statement shows three columns: 1) the original and final budget adopted by the board; 2) the actual resources, charges to appropriations, and ending balances in the General Fund; and 3) the difference or variance between the final budget and the actual resources and charges.

The basic governmental fund financial statements can be found starting on page 10 of this report.

Notes to the Financial Statements – The notes provided 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 can be found starting on page 15 of this report.

Other information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information. Required supplementary information can be found beginning on page 23 of this report.

Town of McDonald, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2019

Government-Wide Financial Analysis

Town of McDonald's Net Position

	Governmental Activities	
	2019	2018
Current and other assets	\$ 177,930	\$ 166,037
Capital assets	8,658	9,523
Total assets	<u>186,588</u>	<u>175,560</u>
Other liabilities	<u>-</u>	<u>-</u>
Net position:		
Net investment in capital assets	8,658	9,523
Restricted	20,852	19,609
Unrestricted	<u>157,078</u>	<u>146,428</u>
Total net position	<u>\$ 186,588</u>	<u>\$ 175,560</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the Town exceeded liabilities by \$186,588 as of June 30, 2019. The Town's net position increased by \$11,028 for the fiscal year ended June 30, 2019. The amount of net position representing investment in capital assets (e.g. buildings and land) is \$8,658. A portion of the Town's net position, \$20,852 (11.18%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$157,078 is unrestricted.

Aspects of the Town's financial operations which positively influenced the total unrestricted governmental net position were the continued diligence in the collection of property taxes by maintaining a tax collection percentage of 92.20%. The statewide average in fiscal year 2019 was 98.78%. There was also an increase in sales tax revenues. Expenses also decreased for the Town compared to the prior year.

Town of McDonald's Changes in Net Position

	Governmental Activities	
	2019	2018
Revenues:		
General revenues:		
Property taxes	\$ 1,819	\$ 1,860
Grants and contributions not restricted to specific programs	31,914	30,524
Restricted investment earnings	6	6
Unrestricted investment earnings	1,446	190
Operating grants and contributions	<u>3,712</u>	<u>3,784</u>
Total revenues	<u>38,897</u>	<u>36,364</u>
Expenses:		
General government	25,044	25,832
Transportation	<u>2,825</u>	<u>2,500</u>
Total expenditures	<u>27,869</u>	<u>28,332</u>
Increase (Decrease) in fund balance	11,028	8,032
Net position, beginning	<u>175,560</u>	<u>167,528</u>
Net position, ending	<u>\$ 186,588</u>	<u>\$ 175,560</u>

Governmental Activities

Governmental activities increased the Town of McDonald's net position by \$11,028. Key elements of this increase are as follows: Revenues slightly increased and expenses decreased compared to the prior year.

Town of McDonald, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2019

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the principal operating fund of the Town of McDonald. At the end of the current fiscal year, the Town's General Fund reported a fund balance of \$177,489. The Governing Body of the Town of McDonald has determined that the Town should maintain an available fund balance of 20% of General Fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of \$156,637 which represents 580.05% of General Fund expenditures.

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

Capital Assets

The Town of McDonald's investment in capital assets for its governmental activities as of June 30, 2019 totals \$8,658 (net of accumulated depreciation). The investments in capital assets include buildings and improvements.

Town of McDonald's Capital Assets
(net of accumulated depreciation)

	Governmental Activities 2019	Governmental Activities 2018
Buildings and improvements	\$ 8,658	\$ 9,523

Additional information on the Town's capital assets can be found in the notes starting on page 20 of this report.

Town of McDonald, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2019

Economic Factors and Next Year's Budgets and Rates

The following key economic indicator reflects the growth and prosperity of the Town.

- The unemployment rate for the Town and surrounding area is 6.2% at June 30, 2019, which is a decrease from a rate of 6.4% a year ago. This comparison is higher than the state's rate of 4.1% and the national rate of 3.7%.

Budget highlights for the fiscal year ending June 30, 2020 include anticipating budgeted revenues from property taxes, sales taxes, and Powell Bill to remain approximately the same as the prior year amounts. Budgeted expenditures are expected to remain approximately the same as the prior year.

Request for Information

This financial report is designed to provide a general overview of the Town of McDonald's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer, Post Office Box 1074, Fairmont, NC 28340.

Basic Financial Statements

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

	<u>Primary</u> <u>Government</u> <u>Governmental</u> <u>Activities</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 156,637
Taxes receivable - net	441
Accounts receivable - other	1,055
Restricted cash and cash equivalents	19,797
Total current assets	177,930
 Non-current assets:	
Capital assets (Note 3)	
Capital assets, net of depreciation	8,658
Total assets	186,588
 <u>LIABILITIES</u>	
Total liabilities	-
 <u>NET POSITION</u>	
Net investment in capital assets	8,658
Restricted for:	
Stabilization by State Statute	1,055
Streets	19,797
Unrestricted	157,078
Total net position	\$ 186,588

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

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:			
Governmental Activities:			
General government	\$ 25,044	\$ -	\$ (25,044)
Transportation	2,825	3,712	887
Total primary government	<u>\$ 27,869</u>	<u>\$ 3,712</u>	<u>(24,157)</u>
 General revenues:			
Property taxes, levied for general purpose			1,819
Grants and contributions not restricted to specific programs			31,914
Restricted investment earnings			6
Unrestricted investment earnings			1,446
Total general revenues			<u>35,185</u>
 Change in net position			 11,028
 Net position, beginning			 <u>175,560</u>
 Net position, ending			 <u>\$ 186,588</u>

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

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

	Governmental Fund
	Major Fund
	General Fund
<u>ASSETS</u>	
Cash and cash equivalents	\$ 156,637
Restricted cash	19,797
Taxes receivable - net	441
Accounts receivable	1,055
Total assets	177,930
<u>LIABILITIES</u>	
Total liabilities	-
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Property taxes receivable	441
Total deferred inflows of resources	441
<u>FUND BALANCES</u>	
Restricted	
Stabilization by State Statute	1,055
Streets	19,797
Unassigned	156,637
Total fund balances	177,489
Total liabilities, deferred inflows of resources, and fund balances	\$ 177,930

Amounts reported for governmental activities in the Statement of Net Position (Page 8) are different because:

Liabilities for earned revenues considered deferred inflows of resources in fund statements	441
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,658
Net position of governmental activities	\$ 186,588

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

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

	Major Fund	Total
	General Fund	Governmental
		Funds
Revenues:		
Ad valorem taxes	\$ 1,849	\$ 1,849
Unrestricted intergovernmental	31,914	31,914
Restricted intergovernmental	3,712	3,712
Investment earnings	1,452	1,452
Total revenues	38,927	38,927
 Expenditures:		
General government	24,179	24,179
Transportation	2,825	2,825
Total expenditures	27,004	27,004
Net change in fund balances	11,923	11,923
 Fund balance, beginning	165,566	165,566
Fund balance, ending	\$ 177,489	\$ 177,489

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

Town of McDonald, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

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

Net change in fund balances - total governmental funds	\$	11,923
Change in unavailable revenue for tax revenues		(30)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		<u>(865)</u>
Change in net position of governmental activities	\$	<u>11,028</u>

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

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

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 1,849	\$ -
Total	<u>1,770</u>	<u>1,849</u>	<u>79</u>
Unrestricted intergovernmental:			
Local option sales tax		28,239	
Telecommunications sales tax		293	
Utilities sales tax		3,027	
Video franchise fee		355	
Total	<u>30,737</u>	<u>31,914</u>	<u>1,177</u>
Restricted intergovernmental			
Powell Bill allocation		3,712	
Total	<u>3,800</u>	<u>3,712</u>	<u>(88)</u>
Investment earnings	<u>199</u>	<u>1,452</u>	<u>1,253</u>
Total revenues	<u>\$ 36,506</u>	<u>\$ 38,927</u>	<u>\$ 2,421</u>

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

Town of McDonald, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General government			
Utilities	\$ -	\$ 6,360	\$ -
Professional fees		3,400	
Insurance		967	
Supplies		62	
Salaries and payroll taxes		9,570	
Meeting costs		1,282	
Dues and subscriptions		1,206	
Miscellaneous		784	
Travel		548	
Repairs and maintenance		-	
Total general government	<u>31,117</u>	<u>24,179</u>	<u>6,938</u>
Transportation			
Contracted services		2,825	
Survey		-	
Total transportation	<u>5,800</u>	<u>2,825</u>	<u>2,975</u>
Total expenditures	<u>36,917</u>	<u>27,004</u>	<u>9,913</u>
Revenues over (under) expenditures	(411)	11,923	12,334
Fund balance appropriated	<u>411</u>	<u>-</u>	<u>(411)</u>
Net change in fund balance	<u>\$ -</u>	<u>11,923</u>	<u>\$ 11,923</u>
Fund balance, beginning		<u>165,566</u>	
Fund balance, ending		<u>\$ 177,489</u>	

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

Town of McDonald, North Carolina
Notes to Financial Statements
June 30, 2019

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Town of McDonald, North Carolina, conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies.

A - Reporting Entity

The Town of McDonald is a municipal corporation that is governed by an elected mayor and a three-member council.

B - Basis of Presentation - Fund Accounting

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.

The statement of activities presents a comparison between direct expenses and program revenues 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. The Town of McDonald has one fund category presented – governmental. The emphasis of fund financial statements is on the major governmental fund – the General Fund.

The Town reports the following major governmental funds:

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

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 Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide 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.

Town of McDonald, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

Note 1 - Summary of Significant Accounting Policies (continued)

C - Measurement Focus and Basis of Accounting (continued)

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

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

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

D - Budgetary Data

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

Town of McDonald, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

Note 1 - Summary of Significant Accounting Policies (continued)

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

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 Super NOW 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).

Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Restricted assets

Powell Bill funds are classified as restricted assets because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4

Town of McDonald Restricted Cash

Governmental Activities

General Fund

Streets	\$ 19,797
Total governmental activities	19,797
Total Restricted Cash	\$ 19,797

Ad Valorem Taxes Receivable

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

Town of McDonald, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

Note 1 - Summary of Significant Accounting Policies (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; buildings and improvements, \$15,000; infrastructure, \$20,000; equipment and furniture, \$5,000; vehicles and motorized equipment, \$10,000; \$5,000 computer software and computer equipment \$500. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and improvements	50 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has no items that meet this criterion for this category. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has one item that meets this criterion for this category – property taxes receivable.

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 three classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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,*

Town of McDonald, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

Note 1 - Summary of Significant Accounting Policies (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

Fund Balances (continued)

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.

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

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

The Town of McDonald has also adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures.

Note 2 - Stewardship, Compliance, and Accountability

A - Noncompliance with North Carolina General Statutes

None

B - Deficit in Fund Balance or Net Position of Individual Funds

None

C - Excess of Expenditures over Appropriations

None

Note 3 - Detail Notes on All Funds

A - Assets

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 these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names.

Town of McDonald, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

Note 3 - Detail Notes on All Funds (continued)

A - Assets (continued)

Deposits (continued)

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, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The 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, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2019, the Town's deposits had a carrying amount of \$176,434 and a bank balance of \$176,434. Federal Deposit Insurance covers all of the Town's deposits.

Capital Assets

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

Governmental activities:	Beginning			Ending
Capital assets not being depreciated:	Balances	Increases	Decreases	Balances
Buildings and improvements	\$ 43,270	\$ -	\$ -	\$ 43,270
Total capital assets being depreciated	43,270	-	-	43,270
Less accumulated depreciation for:				
Buildings and improvements	33,747	865	-	34,612
Total accumulated depreciation	33,747	\$ 865	\$ -	34,612
Governmental activity capital assets, net	<u>\$ 9,523</u>			<u>\$ 8,658</u>

General Government	<u>\$ 865</u>
Total depreciation expense	<u>\$ 865</u>

Town of McDonald, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

Note 3 - Detail Notes on All Funds (continued)

B - Liabilities

Pension Plan Obligations / Postemployment benefits

The Town has no full-time employees. All services are performed on a volunteer or contract basis. Therefore, the Town has no pension or payroll liabilities. There is no postemployment benefit liability for the same reason.

Deferred inflows of resources

Deferred inflows of resources at year-end are comprised of property taxes receivable of \$441.

Note 4 - Commitments

At June 30, 2019, the Town had no contractual commitments.

Note 5 - 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; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

The Town Finance officer is performance bonded in the amount of \$50,000. There are no other employees.

Note 6 - Net Investment in Capital Assets

	Governmental
Capital assets	\$ 8,658
less: long-term debt	-
Net investment in capital assets	\$ 8,658

Town of McDonald, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

Note 7 - Fund Balance

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

Total fund balance - General Fund	\$ 177,489
Less:	
Stabilization by State Statute	1,055
Streets - Powell Bill	19,797
Remaining Fund Balance	156,637

Note 8 - Subsequent Events

Subsequent events were evaluated through October 25, 2019, which is the date the financial statements were available to be issued.

Other Schedules

Town of McDonald, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2019

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2018</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2019</u>
2018-2019	\$ -	\$ 2,051	\$ 1,891	\$ 160
2017-2018	81	-	42	39
2016-2017	90	-	29	61
2015-2016	45	-	3	42
2014-2015	22	-	-	22
2013-2014	23	-	3	20
2012-2013	33	-	-	33
2011-2012	20	-	-	20
2010-2011	30	-	-	30
2009-2010	14	-	-	14
2008-2009	113	-	113	-
	<u>\$ 471</u>	<u>\$ 2,051</u>	<u>\$ 2,081</u>	<u>\$ 441</u>

Less - allowance for uncollectible accounts

General fund	<u>-</u>
Ad valorem taxes receivable - net	<u><u>\$ 441</u></u>

Reconcilement with revenues

Ad valorem taxes - general fund	\$ 1,849
Reconciling items:	
Taxes written off	113
Other	<u>119</u>
Total collections and credits	<u><u>\$ 2,081</u></u>

Town of McDonald, North Carolina
Analysis of Current Year's Tax Levy
For the Year Ended June 30, 2019

	Town Wide Levy			Total Levy	
	Total Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy					
Property taxed at current year's rate	\$ 4,102,000	<u>0.0005</u>	\$ 2,051	\$ 1,840	\$ 211
Total property valuation	<u>\$ 4,102,000</u>				
Net levy on property			<u>2,051</u>	<u>1,840</u>	<u>211</u>
Uncollected taxes - June 30, 2019			<u>(160)</u>	<u>(160)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 1,891</u>	<u>\$ 1,680</u>	<u>\$ 211</u>
Current levy collection percentage			<u>92.20%</u>	<u>91.30%</u>	<u>100.00%</u>