

**TOWN OF MCFARLAN, NORTH CAROLINA**

**FINANCIAL STATEMENTS**

**June 30, 2019**

TOWN OF MCFARLAN, NORTH CAROLINA

TOWN OFFICIALS

JUNE 30, 2019

MAYOR

DIANE TIMMONS

TOWN COUNCIL

DEBBIE BRYANT  
MICHAEL FOSTER  
GENE HARNEY  
KIM GAINEY  
GAIL WHITTINGTON

OTHER OFFICIALS

CATHY KELLY, TOWN CLERK

**TOWN OF MCFARLAN, NORTH CAROLINA**  
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**June 30, 2019**

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## **FINANCIAL SECTION**



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Other Office Locations:  
Seven Lakes, North Carolina  
Gastonia, North Carolina  
Statesville, North Carolina

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of McFarlan, 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 internal control relevant to the entity's preparation and fair presentation of the financial statements in order design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, each major fund and the aggregate remaining fund information of the Town of McFarlan, North Carolina as of June 30, 2019, and the respective changes in financial position, and where appropriate, thereof and the 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 3 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Supplementary and Other Information

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

The individual fund statements and budgetary 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, the individual fund statements and budgetary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Anderson Smith + Wike PLLC*

Rockingham, NC  
October 15, 2019

## Management's Discussion and Analysis

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

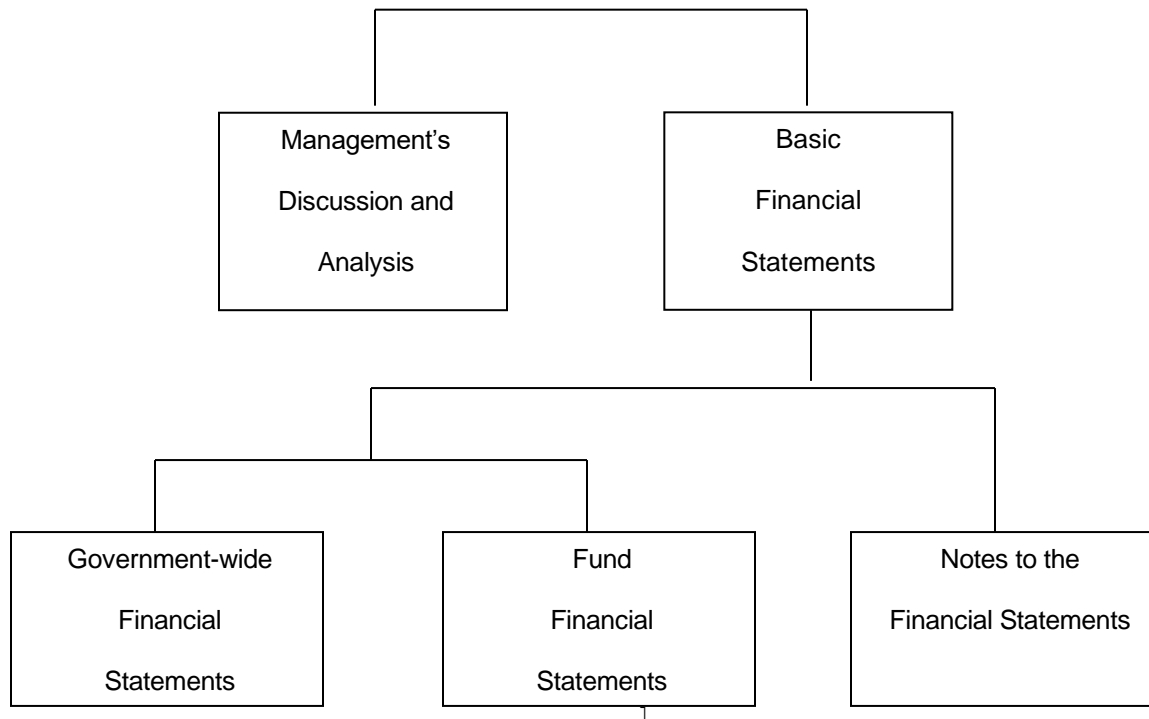
### Financial Highlights

- The assets of the Town of McFarlan exceeded its liabilities at the close of the fiscal year by \$216,718 (*net position*).
- The government's total net position increased by \$2,794 primarily due to revenues exceeding expenditures in the governmental type activities.
- As of the close of the current fiscal year, the Town of McFarlan's general fund reported an ending fund balance of \$209,352, an increase of \$3,552 in comparison with the prior year. Approximately 90.5 percent of fund balance, or \$189,360, is available for spending at the government's discretion (unreserved fund balance).

### Overview of the Financial Statements

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

### Required Components of Annual Financial Report



Summary → Detail

## 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 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's general fund. 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 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 are governmental activities. The governmental activities include most of the Town's basic services such as general government and transportation. Other taxes finance most of these activities.

The government-wide financial statements are on Exhibits 1 and 2 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 McFarlan, 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.

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



The Town of McFarlan 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 Council 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.

**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 are on pages 13-17 of this report.

**Interdependence with Other Entities** – The Town depends on financial resources flowing from, or associated with, 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 State laws and appropriations.

**Government-Wide Financial Analysis**

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Town as a whole.

The following table provides a summary of the Town’s net position:

**The Town of McFarlan’s Net Position**

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 210,037	\$ 203,601
Capital assets	<u>6,681</u>	<u>7,623</u>
Total assets	<u>216,718</u>	<u>213,924</u>
Current liabilities	<u>-</u>	<u>-</u>
Net position		
Net investment in capital assets	6,681	7,623
Restricted	19,992	27,204
Unrestricted	<u>190,045</u>	<u>179,097</u>
Total net position	<u>\$ 216,718</u>	<u>\$ 213,924</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 McFarlan exceeded liabilities by \$216,7178 as of June 30, 2019. The Town's net position increased by \$2,794 for the fiscal year ended June 30, 2019. A large portion of net position (87.7%) reflects the Town's unrestricted portion. The remaining balance of \$6,681 represents the Town's net investment in capital assets (e.g. land, buildings and improvements), the Town of McFarlan uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending, and \$5,238 is restricted for Stabilization by State Statute and \$14,754 restricted or other functions.

### Town of McFarlan Changes in Net Position

	Governmental Activities	
	2019	2018
Revenues:		
Program revenues		
Operating grants and contributions	\$ 4,500	\$ 4,562
General revenues		
Property taxes	9,679	8,971
Other taxes	32,561	28,867
Unrestricted investment earnings	1,261	625
Total revenues	48,001	43,025
Expenses:		
General Government	33,178	26,251
Transportation	12,029	292
Total expenses	\$ 45,207	\$ 26,543
Increase (decrease) in net position	2,794	16,482
Net position, July 1, as previously reported	213,924	197,342
Restatement	-	100
Net position, July 1, restated	213,924	197,442
Net position, June 30	\$ 216,718	\$ 213,924

**Governmental activities.** Governmental activities increased the Town's net position by \$2,794.

### Financial Analysis of the Town's Funds

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

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

The general fund is the only fund of the Town of McFarlan. At the end of the current fiscal year, unreserved fund balance of the general fund was \$189,360, while the total fund balance reached \$209,352. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 427.8 percent of total expenditures, while total fund balance represents 473.0 percent of that same amount.

**General Fund Budgetary Highlights:** The Town did not revise the budget during the fiscal year. Revenues were more than the budgeted amounts primarily because miscellaneous income was higher than anticipated. In addition, expenditures were within the budget and the town was able to comply with its budgetary requirements.

**Capital Asset and Debt Administration**

**Capital assets.** The Town of McFarlan’s capital assets, at cost, for its governmental activities as of June 30, 2019, totals \$6,681 (net of accumulated depreciation). These assets include buildings and improvements and land.

There were no capital transactions during the year.

**Town of McFarlan’s Capital Assets**

Net of Accumulated Depreciation

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Non-depreciable assets		
Land	\$ 1,000	\$ 1,000
Depreciable assets		
Buildings	249	498
Equipment	<u>5,432</u>	<u>6,125</u>
Total	<u>\$ 6,681</u>	<u>\$ 7,623</u>

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

**Long-term debt.** As of June 30, 2019, the Town did not have any long-term debt.

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

**Governmental Activities:** The governmental funds’ primary revenue resources are property taxes, local option sales taxes and intergovernmental revenues. For the fiscal year ending June 30, 2020, the Town does not expect much change from prior year.

**Requests for Information**

This report is designed to provide an overview of the Town’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Mayor, Town of McFarlan, Post Office Box 13, McFarlan, North Carolina 28367.

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**  
**June 30, 2019**

**Exhibit 1**

	<u>Primary Government Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 189,360
Tax receivable	685
Due from other governments	5,238
Restricted cash and cash equivalents	<u>14,754</u>
Total current assets	<u>210,037</u>
Non-current assets:	
Capital assets	
Land	1,000
Buildings, net of depreciation	<u>5,681</u>
Total capital assets	<u>6,681</u>
Total assets	<u>\$ 216,718</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	<u>-</u>
Total liabilities	<u>\$ -</u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 6,681
Restricted for:	
Stabilization by State Statute	5,238
Other functions	14,754
Unrestricted	<u>190,045</u>
Total net position	<u>\$ 216,718</u>

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2019**

**Exhibit 2**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities</u>
Primary government				
Governmental activities				
General government	\$ 33,178	\$ -	\$ -	\$ (33,178)
Transportation	12,029	-	4,500	(7,529)
Total primary governmental activities	<u>45,207</u>	<u>-</u>	<u>4,500</u>	<u>(40,707)</u>
General revenues				
Property taxes, levied for general purpost				9,679
Other taxes				32,561
Unrestricted investment earnings				<u>1,261</u>
Total general revenues				<u>43,501</u>
Change in net position				2,794
Net position, beginning				<u>213,924</u>
Net position, ending				<u>\$ 216,718</u>

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2019**

**Exhibit 3**

	<u>Major Fund</u>
	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 189,360
Restricted cash and cash equivalents	14,754
Receivables, net	
Taxes	685
Due from other governments	<u>5,238</u>
Total assets	<u>\$ 210,037</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	<u>-</u>
Total liabilities	<u>\$ -</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax receivable	\$ 685
Total deferred inflows of resources	<u>685</u>
<b>FUND BALANCES</b>	
Restricted	
Stabilization by State Statute	\$ 5,238
Streets	14,754
Assigned	
Unassigned	<u>189,360</u>
Total fund balances	<u>\$ 209,352</u>
Reconciliation of fund balance as reported in the balance sheet - governmental funds with net position - governmental activities	
Fund balance as reported in the balance sheet - governmental funds	\$ 209,352
Amounts reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	6,681
Liabilities for earned but deferred revenues in fund statements	<u>685</u>
Net position of governmental activities	<u>\$ 216,718</u>

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**For the Year Ended June 30, 2019**

**Exhibit 4**

	<u>Major Fund</u> <u>General</u>
REVENUES	
Ad valorem taxes	\$ 9,494
Unrestricted intergovernmental	32,561
Restricted intergovernmental	4,500
Investment earnings	<u>1,261</u>
Total revenues	<u>47,816</u>
EXPENDITURES	
Current	
General Government	32,484
Transportation	<u>11,780</u>
Total expenditures	<u>44,264</u>
Net change in fund balance	3,552
Fund balance - beginning	<u>205,800</u>
Fund balance - ending	<u>\$ 209,352</u>
Reconciliation of net change in fund balance in the statement of revenues, expenditures, and changes in fund balances - governmental funds to change in net position - governmental activities	
Net change in fund balance - total governmental fund	\$ 3,552
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 expense in the current period.	
Depreciation expense for governmental assets	(942)
Revenues in the statement of activities that do not provide current financial resources are not reported in the funds	
Change in deferred revenues for tax revenues	<u>184</u>
Total change in net position of governmental activities	<u>\$ 2,794</u>



**TOWN OF MCFARLAN, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended June 30, 2019**

**Exhibit 5**

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>REVENUES</b>				
Ad valorem taxes	\$ 9,800	\$ 9,800	\$ 9,494	\$ (306)
Unrestricted intergovernmental	21,000	21,000	32,561	11,561
Restricted intergovernmental	19,650	19,650	4,500	(15,150)
Investment earnings	200	200	1,261	1,061
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total revenues	<u>51,650</u>	<u>51,650</u>	<u>47,816</u>	<u>(3,834)</u>
<b>EXPENDITURES</b>				
Current				
General government	36,550	36,550	32,484	4,066
Transportation	<u>15,100</u>	<u>15,100</u>	<u>11,780</u>	<u>3,320</u>
Total expenditures	<u>51,650</u>	<u>51,650</u>	<u>44,264</u>	<u>7,386</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	3,552	<u>\$ 3,552</u>
Fund balance - beginning			<u>205,800</u>	
Fund balance - ending			<u>\$ 209,352</u>	

## **NOTES TO THE FINANCIAL STATEMENTS**

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statement themselves. The notes supplement the financial statements, and are an integral part thereof, and are intended to be read in conjunction with the financial statements.

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

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

The accounting policies of the Town of McFarlan, 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 McFarlan, 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 Town. These statements include the financial activities of the overall government. 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. 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 maintains only one fund, a governmental fund, which is described as follows:

**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 various other taxes, grants and investment earnings. The primary expenditures are for general government and transportation.

**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 Financial 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 donations. Revenue from other taxes and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*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. General capital asset acquisitions are reported as expenditures in governmental funds.

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus and Basis of Accounting (Continued)**

The Town considers all revenues available if they are collected within 90 days after year-end. The Town does not assess ad valorem taxes.

Sales taxes 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 McFarlan because the tax is levied by Richmond 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.

**D. Budgetary Data**

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

**E. Assets, Liabilities 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 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 nonguaranteed 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 cash 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.

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: Buildings and improvements, \$10,000; infrastructure, \$5,000; and furniture and equipment, \$1,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Assets, Liabilities and Fund Equity (Continued)**

Capital Assets (Continued)

prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition values. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Other Improvements	20
Equipment	10
Vehicles and motorized equipment	5
Infrastructure	40

Net Position

Net position in government-wide financial statements are classified as invested 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 for Stabilization by State Statute – portion of fund balance that is restricted by State Statute (G.S. 159-8(a)).

Assigned fund balance – portion of fund balance that the Town of McFarlan 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. The governing body approves the appropriation.

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

**F. Other**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

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**NOTE 2 - 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 agent in the units' name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in their name. The amount of the pledged collateral is based on an approved averaging method for noninterest 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 Town has no formal policy regarding custodial credit risks 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 \$204,114 and a bank balance of \$204,114. Of the bank balance, \$204,114 was covered by federal depository insurance and none was covered by collateral held under the pooling method.

Capital Assets

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

Primary Government:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Capital assets being depreciated				
Buildings	51,376	-	-	51,376
Equipment	15,967	-	-	15,967
Total capital asset being depreciated	67,343	-	-	67,343
Less accumulated depreciation				
Buildings	50,878	249	-	51,127
Equipment	9,842	693	-	10,535
Total accumulated depreciation	60,720	942	-	61,662
Total capital assets, being depreciated, net	6,623	(942)	-	5,681
Governmental activity capital assets, net	<u>\$ 7,623</u>	<u>\$ (942)</u>	<u>\$ -</u>	<u>\$ 6,681</u>

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

General government	\$ 693
Transportation	249
Total depreciation expense	<u>\$ 942</u>

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

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**NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)**

**A. Assets (Continued)**

Due from Other Governmental Agencies

At June 30, 2019, funds due from other governmental agencies consisted of the following:

	<u>Governmental Activities-General</u>
Local option sales tax	\$ 4,604
Franchise tax	520
Vehicle/Real property tax	<u>114</u>
Total	\$ 5,238

**B. Liabilities**

1. Deferred Outflows and Inflows of Resources

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

Taxes receivable	\$ <u>685</u>
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2. 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 maintains insurance of \$62,000 on the Town Hall and \$5,000 on its contents, \$70,000 on the Community Building and \$8,000 on its contents and \$40,000 on a third building. In addition, general liability insurance coverage is maintained for all three properties for \$100,000 per occurrence and \$100,000 in the aggregate. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Town does not carry flood insurance as it has only three small buildings with minimal contents and they are not located in flood prone areas.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Town Clerk and the Finance Officer are individually bonded for \$50,000 each. The Mayor is covered for \$10,000.

**C. 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	\$ <u>209,352</u>
Less:	
Stabilization by State Statute	5,238
Streets – Powell Bill	14,754
Unassigned	189,360

**INDIVIDUAL FUND  
FINANCIAL STATEMENTS**



## **MAJOR GOVERNMENTAL FUNDS**

***General Fund*** – This fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit A-1**  
**Page 1 of 2**

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues			
Ad valorem taxes:			
Taxes	\$ -	\$ 9,434	\$ -
Interest	-	60	-
Total	<u>9,800</u>	<u>9,494</u>	<u>(306)</u>
Unrestricted intergovernmental revenues			
Local option sales tax	-	30,116	-
Utility franchise tax / piped natural gas tax	-	2,445	-
Total unrestricted intergovernmental revenues	<u>21,000</u>	<u>32,561</u>	<u>11,561</u>
Restrictd intergovernmental revenues			
Powell Bill allocation	-	4,500	-
Total restrictd intergovernmental revenues	<u>19,650</u>	<u>4,500</u>	<u>(15,150)</u>
Investment earnings	<u>200</u>	<u>1,261</u>	<u>1,061</u>
Miscellaneous	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total revenues	<u>51,650</u>	<u>47,816</u>	<u>(3,834)</u>
Expenditures			
General government			
Salaries and employee benefits	-	12,291	-
Other operating expenditures	-	20,193	-
Total general government	<u>36,550</u>	<u>32,484</u>	<u>4,066</u>
Transportation			
Streets and Highways			
Other operating expenditures	-	11,780	-
Total transportation	<u>15,100</u>	<u>11,780</u>	<u>3,320</u>
Total expenditures	<u>51,650</u>	<u>44,264</u>	<u>7,386</u>

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues over (under) expenditures	<u>-</u>	<u>3,552</u>	3,552
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and Fund balance appropriated over expenditures	<u>\$ -</u>	3,552	<u>\$ 3,552</u>
Fund balance, beginning		<u>205,800</u>	
Fund balance, ending		<u>\$ 209,352</u>	

## **Other Schedules**

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This section includes additional information on property taxes.

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

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**SCHEDULE OF AD VALOREM TAXES RECEIVABLE**  
**June 30, 2019**

**Exhibit B-1**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018-2019	\$ -	\$ 9,757	9,434	323
2017-2018	177	-	73	104
2016-2017	105	-	-	105
2015-2016	104	-	-	104
2014-2015	49	-	-	49
2013-2014	49	-	49	-
2012-2013	17	-	17	-
2011-2012	-	-	-	-
2010-2011	-	-	-	-
2009-2010	-	-	-	-
2008-2009	-	-	-	-
	<u>501</u>	<u>9,757</u>	<u>9,573</u>	685
Less: Allowance for uncollectible accounts:				
Ad valorem taxes receivable				<u>-</u>
Ad valorem taxes receivable - net				<u>\$ 685</u>
Reconciliation with revenues:				
Taxes - ad valorem - General Fund				\$ 9,494
Releases and adjustments				139
Penalties and interest				<u>(60)</u>
Total collections and credits				<u>\$ 9,573</u>

**TOWN OF MCFARLAN, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY**  
**TOWN-WIDE LEVY**  
**For the Fiscal Year Ended June 30, 2019**

**Exhibit B-2**

	Town-Wide Levy			Total Levy	
	Property	Rate	Total	Property	Registered
	Valuation		Levy	excluding	Motor
				Registered	Motor
				Vehicles	Vehicles
Original levy:					
Property taxes at current year's rate	\$ 1,434,853	\$.68	\$ 9,757	\$ 8,175	\$ 1,582
Penalties	-		-	-	-
Total	<u>\$ 1,434,853</u>	<u>\$.68</u>	<u>\$ 9,757</u>	<u>\$ 8,175</u>	<u>\$ 1,582</u>
Abatements:	-	\$.68	-	-	-
Total property valuation	<u>\$ 1,434,853</u>				
Net levy			9,757	8,175	1,582
Uncollected taxes at June 30, 2019			<u>323</u>	<u>323</u>	<u>-</u>
Current year's taxes collected			<u>\$ 9,434</u>	<u>\$ 7,852</u>	<u>\$ 1,582</u>
Current levy collection percentage			<u>96.69%</u>	<u>96.05%</u>	<u>100.00%</u>