

TOWN OF MILLS RIVER, NORTH CAROLINA

Financial Statements

June 30, 2019

Town Council Members

Chae Davis, Mayor
Roger Snyder, Mayor Pro Tem
Wayne Carland
Brian Caskey
Richmond Meadows

Administrative and Financial Staff

Daniel Cobb, Town Manager
Sue Powell, Finance Officer
Aurelie Taylor, Tax Collector
Patty Brown, Accounting Clerk, Administrative Assistant

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Independent Auditor's Report

To the Honorable Mayor
and Members of the Governing Board
Town of Mills River, North Carolina

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and the major fund of the Town of Mills River, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, based on my 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 Mills River, North Carolina as of June 30, 2019, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Mills River, North Carolina. The individual fund schedule and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Honorable Mayor and
Members of the Governing Board
Independent Auditor's Report
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The individual fund schedule 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 by me. In my opinion, based on my audit, the individual fund schedule and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

October 22, 2019

Carl E. Shaw, CPA, PLLC

Management's Discussion and Analysis

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

Financial Highlights

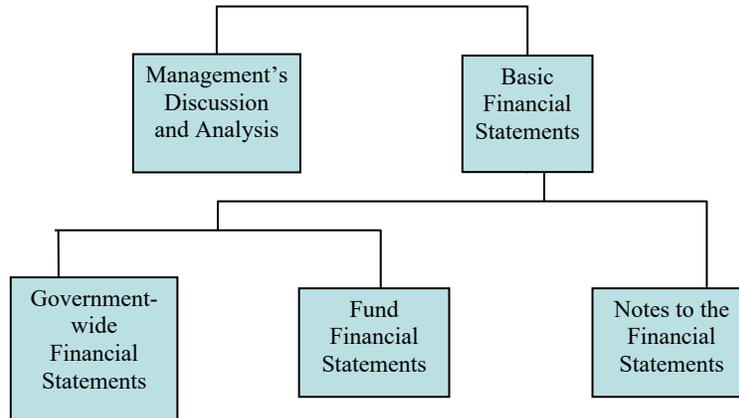
- The assets and deferred outflows of resources of the Town of Mills River *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,930,069.
- The government's total net position *increased* by \$743,200. This year's increase was due to the continued increase in the Town's property tax base and strength of the sales tax revenues received from the State, along with expenditures remaining below budgetary provisions.
- As of the close of the current fiscal year, the Town of Mills River's governmental fund reported an ending fund balance of \$5,083,096, an increase of \$576,381 in comparison with the prior year. Approximately 9% percent of this total amount, or \$437,083, is nonspendable, restricted or assigned.

Overview of the Financial Statements

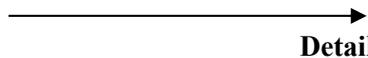
This discussion and analysis are intended to serve as an introduction to Town of Mills River's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements (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 supplemental information that will enhance the reader's understanding of the financial condition of the Town of Mills River.

Figure 1

Required Components of Annual Financial Report



Summary



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 two parts to the Fund Financial Statements: 1) the governmental fund 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, **supplemental information** is provided to show details about the Town's property taxes.

Government-wide Financial Statements

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

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

The government-wide statements could be divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as general government, parks and recreation, and public safety. Property taxes and State-shared revenues finance most of these activities. The Town has no business-type activities. There are no component units.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Mills River, 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. The Town has one governmental fund.

Governmental Fund – The governmental fund is used to account for those functions reported as governmental activities in the government-wide financial statements. The Town's basic services are accounted for in the governmental 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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund is described in a reconciliation that is a part of the fund financial statements.

The Town 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 begin after Exhibit 5.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Mills River’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 26-27.

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

Government-wide Financial Analysis

Figure 2

**Town of Mills River, North Carolina
Condensed Statements of Net Position
June 30**

	<u>2019</u>	<u>2018</u>
Current Assets	\$ 5,205,090	\$ 4,653,284
Capital Assets, Net	5,349,163	5,216,487
Deferred Outflows of Resources	<u>107,280</u>	<u>66,721</u>
Total Assets and Deferred Outflows	<u>10,661,533</u>	<u>9,936,492</u>
Current Liabilities	171,964	157,247
Long-term Liabilities	553,562	580,172
Deferred Inflows of Resources	<u>5,938</u>	<u>12,204</u>
Total Liabilities and Deferred Inflows	<u>731,464</u>	<u>749,623</u>
Net Position		
Net Investment in Capital Assets	4,839,765	4,642,591
Restricted	437,083	298,566
Unrestricted	<u>4,653,221</u>	<u>4,245,712</u>
Total Net Position	<u>\$ 9,930,069</u>	<u>\$ 9,186,869</u>

As noted earlier, net position may serve over time as one useful indicator of a government’s financial condition. The assets and deferred outflows of the Town of Mills River exceeded liabilities and deferred inflows by \$9,930,069 as of June 30, 2019. The Town’s net position *increased* by \$743,200 for the fiscal year ended June 30, 2019. However, approximately 49% of the Town’s net position reflects its investment in capital assets (e.g. land, building, furniture and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Mills River uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s net investment in capital assets is reported net of outstanding related debt, the resources needed to repay the debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Mills River’s net position, \$437,083, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,653,221 is unrestricted.

Several aspects of the Town’s financial operations positively influenced the total unrestricted governmental net position:

- The Town achieved an overall tax collection rate of 99%.
- State-shared revenues such as sales taxes on retail goods and utilities increased over prior year totals.

Figure 3

**Town of Mills River, North Carolina
Condensed Statements of Activities
Years Ended June 30**

	<u>2019</u>	<u>2018</u>
Revenues:		
Program Revenues		
Charges for Services	\$ 7,895	\$ 8,813
Operating Grants and Contributions	24,896	-
Capital Grants and Contributions	116,199	49,175
General Revenues		
Ad Valorem Taxes	2,068,843	1,935,685
Other Taxes	1,284,457	1,214,436
Investment Earnings	84,011	37,971
Miscellaneous	9,373	247,539
Total Revenues	<u>3,595,674</u>	<u>3,493,619</u>
Expenses:		
General Government	673,194	571,045
Public Safety	1,673,633	1,582,922
Transportation	10,873	13,783
Economic and Physical Development	159,736	221,634
Cultural and Recreation	312,521	316,695
Interest and Other Charges	22,517	24,703
Total Expenses	<u>2,852,474</u>	<u>2,730,782</u>
Increase in Net Position	743,200	762,837
Net Position, July 1	<u>9,186,869</u>	<u>8,424,032</u>
Net Position, June 30	<u>\$ 9,930,069</u>	<u>\$ 9,186,869</u>

Financial Analysis of the Town’s Fund

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

Governmental Fund – The focus of the Town of Mills River’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 Mills River’s financing requirements. Specifically, available 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 chief operating fund of the Town of Mills River. At the end of the current fiscal year, the Town’s unassigned fund balance available is \$4,646,013, while total fund balance totals \$5,083,096. As a measure of the general fund’s liquidity, it may be useful to compare available fund balance to total fund expenditures. Available fund balance represents 154% of annual General Fund expenditures.

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

Revenues were more than budgeted amounts primarily because the Town strives to budget with realistic revenue projections. Actual expenditures approximated budgeted amounts. The Town continued to provide required governmental services.

The Town provided \$8,247 to support the Henderson County Library branch in Mills River. The citizens of Mills River provided more than 2,595 volunteer hours in support of the Mills River branch library.

Capital Asset and Debt Administration

Capital Assets – The Town of Mills River’s investment in capital assets for its governmental activities as of June 30, 2019 totals \$5,349,163 (net of accumulated depreciation). These assets consist mainly of real property purchased and the Town Hall/Library building constructed in prior years, and construction-related costs for the Town Park.

During the current year, the Town made a final payment on new accounting software, completed construction on the park basketball courts, made renovations to the dog park and purchased various equipment including a shade structure and swings for the playground. The Town also began construction on a maintenance building for the park department.

Figure 4

**Town of Mills River, North Carolina
Capital Assets - Net of Depreciation
June 30**

	<u>2019</u>	<u>2018</u>
Land	\$ 2,465,677	\$ 2,465,677
Buildings	1,098,479	997,704
Land Improvements	1,558,311	1,598,462
Furniture and Equipment	167,422	96,883
Computer Equipment	55,186	46,839
Vehicles	4,088	10,922
Total	<u>\$ 5,349,163</u>	<u>\$ 5,216,487</u>

Additional information on the capital assets of the Town can be found in Note 3 of the Basic Financial Statements.

Long-term Obligations

The Town made monthly principal and interest payments of \$7,251 on its USDA-based financing used for the construction of the Town Hall/Library building. As of June 30, 2019, \$509,397 was outstanding on the debt. The Town has no other long-term debt. Additional information on this debt can be found in Note 9 of the Basic Financial Statements.

Economic Factors

The Town continues to experience healthy growth of its tax base with new economic development projects. This year the Town welcomes Gaia Herbs and expansion of GF Linamar. With development interest along NC 280 near Ingles and in remaining parcels in Broadpointe and Ferncliff Industrial Parks, the Town is poised to see additional growth in the tax base in coming years. Additional economic factors include:

- Incentive payments to Sierra Nevada, Raumedic, GF Linamar, Smart Products, Norafin, and Gaia Herbs totaling \$49,000.
- Continuing support to the Henderson County Economic Development Partnership and Agribusiness Henderson County with contributions of \$15,000 to each organization.
- Mills River Crossing, a new residential and commercial development, consisting of 52 single-family homes and 45,000 square feet of commercial space is under construction.

Budget Highlights for the Fiscal Year Ending June 30, 2020

- Henderson County completed a revaluation this year. Mills River's property values increased approximately 22% (this includes both the revaluation and new construction).
- The Town decreased its tax rate by \$.01 to account for increased property value assessments.
- The Mills River Fire Department increased its tax rate by \$.02.
- The total tax rate for fiscal year 2020 is \$0.19 per \$100 valuation with \$0.08 going to the Town's General Fund for operating expenses and \$0.11 per \$100 valuation funding the contract with Mills River Fire and Rescue.
- USDA loan payment increased by \$1,000 per month to reduce payoff time for town hall and library building. Payoff is reduced from 7 ½ to six years. Totals \$99,100.
- Expenditures for public safety services provided by Mills River Fire and Rescue at \$1,379,000.
- Expenditures for contractual law enforcement services provided by Henderson County Sheriff at \$738,000.
- The Parks Department is adding one fulltime position and purchasing equipment for park maintenance. Totals \$90,000.
- The Town has applied for a grant to engineer three miles of multi-use path along NC 280 from the intersection of NC 191 to the town limits at the French Broad River, now named the Mills River Valley Trail. The grant is sponsored by the NCDOT and Metropolitan Planning Organization (MPO) and will cover 80% of the expected \$300,000 cost to engineer the project. The Town would cover 20% of the cost, which is expected to be \$60,000. The Mills River Valley Trail will tie into planned bike path improvements as part of the NC 191 widening project.

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 Town Manager at the Town Hall, located at 124 Town Center Drive, Mills River, North Carolina, 28759, or (828) 890-2901.

Town of Mills River, North Carolina
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 4,763,513
Taxes Receivable (net)	35,901
Accrued Interest Receivable on Taxes	9,463
Due from Other Governments	273,832
Restricted Cash and Cash Equivalents	<u>122,381</u>
Total Current Assets	<u>5,205,090</u>
Non-Current Assets	
Capital Assets:	
Land and Non-Depreciable Improvements	2,480,550
Other Capital Assets, Net of Depreciation	<u>2,868,613</u>
	<u>5,349,163</u>
Total Assets	<u>10,554,253</u>
Deferred Outflows of Resources	
Pension Related Deferrals	<u>107,280</u>
Total Deferred Outflows of Resources	<u>107,280</u>

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

Exhibit 1

	<u>Governmental Activities</u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ 72,007
Current Portion of Long-term Liabilities	<u>99,957</u>
Total Current Liabilities	<u>171,964</u>
Long-term Liabilities	
Net Pension Liability	116,719
Due in More than One Year	<u>436,843</u>
Total Long-term Liabilities	<u>553,562</u>
Total Liabilities	<u>725,526</u>
Deferred Inflows of Resources	
Prepaid Taxes	2,514
Prepaid Rent and Rental Deposits	2,109
Pension Related Deferrals	<u>1,315</u>
Total Deferred Inflows of Resources	<u>5,938</u>
Net Position	
Net Investment in Capital Assets	4,839,765
Restricted for:	
Stabilization by State Statute	273,832
Youth Baseball Facilities	102,189
USDA Loan Requirement	40,870
Flood Cleanup and Riverbank Restoration	20,192
Unrestricted	<u>4,653,221</u>
Total Net Position	<u><u>\$ 9,930,069</u></u>

**Town of Mills River, North Carolina
Statement of Activities
Year Ended June 30, 2019**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$ 673,194	\$ 7,895	\$ -	\$ -	\$ (665,299)
Public Safety	1,673,633	-	-	-	(1,673,633)
Transportation	10,873	-	-	-	(10,873)
Economic and Physical Development	159,736	-	-	-	(159,736)
Cultural and Recreation	312,521	-	24,896	116,199	(171,426)
Interest on long-term debt	22,517	-	-	-	(22,517)
Total Governmental Activities	\$ 2,852,474	\$ 7,895	\$ 24,896	\$ 116,199	(2,703,484)
General Revenues					
Taxes:					
Property Taxes, levied for general purpose					
2,068,843					
Other Taxes					
1,284,457					
Unrestricted Investment Earnings					
84,011					
Miscellaneous					
9,373					
Total General Revenues					
3,446,684					
Change in Net Position					743,200
Net Position, July 1					9,186,869
Net Position, June 30					\$ 9,930,069

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

Fund Financial Statements

Town of Mills River, North Carolina
Balance Sheet
Governmental Fund
June 30, 2019

	General
Assets	
Cash and Cash Equivalents	\$ 4,763,513
Taxes Receivable - Net	35,901
Due from Other Governments	273,832
Restricted Cash and Cash Equivalents	122,381
Total Assets	\$ 5,195,627
Liabilities	
Accounts Payable and Accrued Liabilities	\$ 72,007
Total Liabilities	72,007
Deferred Inflows of Resources	
Property Taxes Receivable	35,901
Prepaid Taxes	2,514
Prepaid Rent and Rental Deposits	2,109
Total Deferred Inflows of Resources	40,524
Fund Balance	
Restricted	
Stabilization by State Statute	273,832
Youth Baseball Facilities	102,189
USDA Loan Requirement	40,870
Flood Cleanup and Riverbank Restoration	20,192
Unassigned	4,646,013
Total Fund Balance	5,083,096
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 5,195,627

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

**Town of Mills River, North Carolina
Balance Sheet
Governmental Fund
June 30, 2019**

**Exhibit 3
(Continued)**

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

Total Fund Balance - Governmental Fund		\$ 5,083,096
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.		
Gross capital assets at historical cost	\$ 6,536,248	
Accumulated depreciation	<u>(1,187,085)</u>	5,349,163
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		
		107,280
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and, therefore, are deferred in the fund.		
		9,463
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
		35,901
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the fund.		
Gross long-term debt - beginning of year	(600,971)	
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.)	<u>64,171</u>	(536,800)
Net Pension Liability		(116,719)
Pension related deferrals		<u>(1,315)</u>
Net Position of Governmental Activities		<u><u>\$ 9,930,069</u></u>

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

Town of Mills River, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2019

	General
Revenues	
Ad Valorem Taxes	\$ 2,068,964
Unrestricted Intergovernmental	1,284,457
Restricted Contributions	141,095
Investment Earnings	84,011
Permits and Fees	7,895
Miscellaneous	9,373
Total Revenues	3,595,795
Expenditures	
Current:	
General Government	550,354
Public Safety	1,673,633
Transportation	10,873
Economic and Physical Development	162,027
Cultural and Recreation	219,537
Debt Service:	
Principal	64,498
Interest and Other Charges	22,517
Capital Outlay	315,975
Total Expenditures	3,019,414
Net Change in Fund Balance	576,381
Fund Balance, Beginning	4,506,715
Fund Balance, Ending	\$ 5,083,096

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

Town of Mills River, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2019

Exhibit 4
(Continued)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balance - Total Governmental Fund	\$	576,381
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay expenditures which were capitalized	\$ 315,975	
Depreciation expense for governmental assets	<u>(183,299)</u>	132,676
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		29,110
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.</p>		
Change in accrued interest receivable on taxes		(19,834)
Change in unavailable revenue for tax revenues		(121)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.</p>		
<p>This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments on long-term debt		64,498
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.</p>		
Change in compensated absences		(327)
Pension expense		<u>(39,183)</u>
Total Change in Net Position of Governmental Activities	\$	<u>743,200</u>

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

Town of Mills River, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Annual Budget and Actual
Year Ended June 30, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues				
Ad Valorem Taxes	\$ 1,893,500	\$ 2,058,140	\$ 2,068,964	\$ 10,824
Unrestricted Intergovernmental	911,000	1,264,000	1,284,457	20,457
Restricted Contributions	-	139,000	141,095	2,095
Investment Earnings	8,000	83,000	84,011	1,011
Permits and Fees	6,500	7,700	7,895	195
Miscellaneous	6,030	9,305	9,373	68
	<u>2,825,030</u>	<u>3,561,145</u>	<u>3,595,795</u>	<u>34,650</u>
Expenditures				
Current:				
General Government	577,380	595,413	579,189	16,224
Public Safety	1,679,500	2,143,604	1,673,633	469,971
Transportation	17,000	11,000	10,873	127
Economic and Physical Development	182,100	165,000	162,027	2,973
Cultural and Recreation	281,950	559,028	506,677	52,351
Debt Service:				
Principal Retirement	61,130	64,500	64,498	2
Interest and Other Charges	25,970	22,600	22,517	83
	<u>2,825,030</u>	<u>3,561,145</u>	<u>3,019,414</u>	<u>541,731</u>
Revenues Over (Under) Expenditures	-	-	576,381	576,381
Fund Balance Appropriated	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	576,381	<u>\$ 576,381</u>
Fund Balance, Beginning			<u>4,506,715</u>	
Fund Balance, Ending			<u>\$ 5,083,096</u>	

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

Town of Mills River, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies:

The accounting policies of the Town of Mills River 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 is a municipal corporation, which is governed by a five-member Council. There are no other entities for which the Town is accountable and which should be included in the accompanying financial statements.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the Town's financial activities. 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. 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 reports the following major governmental fund:

General Fund – The General Fund, the general operating fund of the Town, is used to account for all financial resources. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for general government services and public safety.

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 property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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 revenues because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all the municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 are shown as 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 of Mills River because the tax is levied by Henderson County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues that are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town could fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there would be 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 budget is adopted as required by North Carolina General Statutes. An annual budget ordinance is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. The budget is prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. Amendments are required for any revision that alter total expenditures or that change functional appropriations by more than \$2,500. During the year, an amendment to the original budget was 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.

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 SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. The NCCMT – Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT-Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2019, the Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

Cash and Cash Equivalents – The Town's cash and investments are essentially demand deposits and are considered cash and cash equivalents.

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

Allowances for Doubtful Accounts – All receivables that historically experience uncollectible accounts are subject to be shown net of an allowance for doubtful accounts. This amount will be estimated by analyzing the percentage of receivables that were written off in prior years. The Town has not established an allowance due to the immaterial amounts of receivables subject to being uncollectible.

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

Capital Assets – Capital assets are defined by the Town 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 cost is \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The 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:

	Estimated Useful Lives (in years)
Buildings	39
Land Improvements	15
Furniture and Equipment	7
Vehicles	5
Computer Equipment	5

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 two items that meet this criterion, contributions made to the pension plan in the 2019 year and a pension related deferral.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category - prepaid taxes, property taxes receivable, prepaid rent, rental deposits and deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In fund financial statements, governmental fund types recognize the face amount of debt issues as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences – The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. An expense and liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town’s sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position/Fund Balance – Net position in government-wide financial statements are classified as net investment in capital assets; restricted and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

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

The governmental fund types classify fund balances as follows:

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

Prepaid Items – Portion of fund balance that is not an available resource because it represents the year-end balance of prepaid expenses, which are not spendable resources.

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

Restricted for Stabilization by State statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930’s that were designed to improve and maintain the fiscal health of local government units.

Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as “restricted by State statute”. *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is “imposed by law through constitutional provisions or enabling legislation.” RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding encumbrances are included within RSS. RSS is included as a component of restricted net position and restricted fund balance on the face of the balance sheet.

Restricted for Youth Baseball Facilities – Portion of fund balance that is donor restricted for construction of youth baseball facilities.

Restricted for USDA Loan Requirement – Portion of fund balance that is restricted by USDA for building maintenance reserves.

Restricted for Flood Cleanup and Riverbank Restoration-Portion of fund balance that is donor restricted for flood cleanup and riverbank restoration.

Committed Fund Balance – Portion of fund balance that can only be used for specific purpose imposed by majority vote by quorum of the Town’s governing body. Any changes or removal of specific purpose requires majority action by the governing body. The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

The governing board of the Town has made no commitments of its fund balances that would require separate financial statement disclosure.

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

The governing board of the Town has made no assignments of its fund balances that would require separate financial statement disclosure.

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

For purposes of fund balance classification expenditures are to be spent from restricted fund balance first.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Mills River employer contributions are recognized when due and the Town of Mills River has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

Note 2 – Deposits and Investments:

Deposits:

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's 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 in its name. The amount of 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 Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$2,125,969 and a bank balance of \$2,125,970. \$1,750,000 of the bank balance was covered by federal depository insurance and \$375,970 in interest-bearing deposits was covered by collateral held under the Pooling Method. At June 30, 2019, the Town's petty cash fund totaled \$300.

Investments:

At June 30, 2019, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust - Government Portfolio	Amortized Cost	\$ 2,240,868	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value Level 1	518,757	.11 Years (a)	Unrated
Total		<u>\$ 2,759,625</u>		

(a) This is the duration for the Term Portfolio.

All investments are measured using the market approach; using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1 – Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

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

Credit risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2019. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Note 3 – Capital Assets:

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,465,677	\$ -	\$ -	\$ 2,465,677
Land Improvements	14,873	-	-	14,873
Total Capital Assets Not Being Depreciated	<u>2,480,550</u>	<u>-</u>	<u>-</u>	<u>2,480,550</u>
Capital Assets Being Depreciated:				
Buildings	1,215,451	131,722	-	1,347,173
Land Improvements	2,053,284	61,644	-	2,114,928
Furniture and Equipment	287,378	93,774	-	381,152
Vehicles	46,040	-	-	46,040
Computer Equipment	137,570	28,835	-	166,405
Total Capital Assets Being Depreciated	<u>3,739,723</u>	<u>315,975</u>	<u>-</u>	<u>4,055,698</u>
Less: Accumulated Depreciation For:				
Land Improvements	469,695	101,795	-	571,490
Buildings	217,747	30,947	-	248,694
Furniture and Equipment	190,495	23,235	-	213,730
Vehicles	35,118	6,834	-	41,952
Computer Equipment	90,731	20,488	-	111,219
Total Accumulated Depreciation	<u>1,003,786</u>	<u>183,299</u>	<u>-</u>	<u>1,187,085</u>
Total Capital Assets Being Depreciated - Net	<u>2,735,937</u>	<u>132,676</u>	<u>-</u>	<u>2,868,613</u>
Governmental Activity Capital Assets - Net	<u>\$ 5,216,487</u>	<u>\$ 132,676</u>	<u>\$ -</u>	<u>\$ 5,349,163</u>

Depreciation expense of \$183,299 was charged \$86,650 to the Town's general government function and \$96,649 to the Town's cultural and recreation function.

Note 4 – Pension Plan Obligations:

Local Governmental Employees' Retirement System

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Mills River employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Mills River contractually required contribution rate for the year ended June 30, 2019, was 8.06%, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Mills River were \$29,110 for the year ended June 30, 2019.

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The

acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2019, the Town reported a liability of \$116,719 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town’s proportion was 0.00492%, which was a decrease of 0.00073% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$39,183. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,007	\$ 604
Changes of assumptions	30,973	-
Net difference between projected and actual earnings on pension plan investments	16,022	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	13,168	711
Town contributions subsequent to the measurement date	29,110	-
	<u>\$ 107,280</u>	<u>\$ 1,315</u>

\$29,110 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2020	\$ 35,310
2021	24,806
2022	5,802
2023	10,937
2024	-
Thereafter	-
Total	<u>\$ 76,855</u>

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

Inflation	3.0 percent per year
Salary Increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

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

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

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

expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
	100%	

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

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 280,370	\$ 116,719	\$ (20,030)

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

Note 5 – Other Employment Benefits:

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months’ salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Note 6 – Claims, Judgments and Contingent Liabilities:

The Town is periodically involved in legal actions and claims arising in the normal course of operations. The ultimate resolution of these actions is not expected to have a material effect upon the financial position of the Town.

Note 7 – Deferred Outflows and Inflows of Resources:

Deferred outflows of resources at June 30, 2019 is comprised of contributions to the pension plan in the current fiscal year totaling \$107,280.

Deferred inflows of resources at June 30, 2019 is comprised of the following:

Prepaid Taxes	\$	2,514
Prepaid Rent and Rental Deposits		2,109
Taxes Receivable		35,901
Differences between expected and actual experience		604
Changes in proportion and differences between employer contributions and proportionate share of contributions		711
		711
	\$	41,839

Note 8 – Risk Management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability of \$5 million and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town does not carry flood insurance due to the physical location of the Town's facilities and the lack of a risk of potential flood damage, as determined by the Town's management.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$75,000 and the tax collector is bonded for \$25,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

Note 9 – Long-term Debt:

General Obligation Indebtedness

In 2010, the Town entered into a direct borrowing loan agreement with the USDA for construction of the Town Hall/Library. The property is pledged as collateral for the debt while the debt is outstanding. The Town makes monthly principal and interest payments of \$7,251 on the loan, which has an annual interest rate of 4.125%.

A schedule of the changes in long-term debt that occurred during the year ended June 30, 2019 is as follows:

Governmental Activities:	Beginning Balances	Increases	Decreases	Ending Balances	Current Portion
Town Hall/Library	\$ 573,895	\$ -	\$ 64,498	\$ 509,397	\$ 79,406
Net Pension Liability (LGERS)	64,013	52,706	-	116,719	-
Compensated Absences	27,076	327	-	27,403	20,551
Total	\$ 664,984	\$ 53,033	\$ 64,498	\$ 653,519	\$ 99,957

Beginning in July 2019, the Town will pay an additional \$1,000 per month on the USDA loan. This schedule of annual debt service requirements to maturity includes the additional payments.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 79,406	\$ 19,609	\$ 99,015
2021	82,802	16,213	99,015
2022	86,289	12,726	99,015
2023	89,922	9,093	99,015
2024	93,697	5,318	99,015
2025	77,281	1,400	78,681
Total	<u>\$ 509,397</u>	<u>\$ 64,359</u>	<u>\$ 573,756</u>

Note 10 – Commitments:

The Town had the following outstanding commitment at June 30, 2019:

<u>Contract</u>	<u>Remaining Commitment</u>
Maintenance Building Construction	<u>\$ 201,468</u>

**Required
Supplementary Information**

**Town of Mills River, North Carolina
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years ***

Local Governmental Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Mills River's proportion of the net pension liability (asset) (%)	0.00492%	0.00419%	0.00459%	0.00306%	0.00450%	0.00380%
Mills River's proportion of the net pension liability (asset) (\$)	\$ 116,719	\$ 64,013	\$ 97,416	\$ 13,733	\$ (26,539)	\$ 45,805
Mills River's covered-employee payroll	\$ 343,362	\$ 312,393	\$ 298,753	\$ 270,115	\$ 252,053	\$ 181,231
Mills River's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.99%	20.49%	32.61%	5.08%	-10.53%	25.27%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

**Town of Mills River, North Carolina
Schedule of Contributions
Required Supplementary Information
Last Six Fiscal Years**

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 29,110	\$ 26,748	\$ 26,335	\$ 23,034	\$ 21,420	\$ 19,963
Contributions in relation to the contractually required contribution	<u>29,110</u>	<u>26,748</u>	<u>26,335</u>	<u>23,034</u>	<u>21,420</u>	<u>19,963</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Mills River's covered-employee payroll	\$ 361,163	\$ 343,362	\$ 312,393	\$ 298,753	\$ 270,115	\$ 252,053
Contributions as a percentage of covered-employee payroll	<u>8.06%</u>	<u>7.79%</u>	<u>8.42%</u>	<u>7.70%</u>	<u>7.92%</u>	<u>7.92%</u>

Individual Fund Schedule and Other Schedules

Town of Mills River, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad Valorem Taxes:			
Current Year		\$ 2,051,478	
Prior Years		9,122	
Interest and Penalties		8,364	
Total	<u>\$ 2,058,140</u>	<u>2,068,964</u>	<u>\$ 10,824</u>
Unrestricted Intergovernmental:			
Local Option Sales Taxes		797,792	
Sales Tax - Utilities		377,796	
Sales Tax - Telecommunications		53,455	
Sales Tax - Video Programming		23,383	
Beer and Wine Tax		32,031	
Total	<u>1,264,000</u>	<u>1,284,457</u>	<u>20,457</u>
Restricted Contributions	<u>139,000</u>	<u>141,095</u>	<u>2,095</u>
Permits and Fees:			
Building permits	<u>7,700</u>	<u>7,895</u>	<u>195</u>
Investment Earnings	<u>83,000</u>	<u>84,011</u>	<u>1,011</u>
Miscellaneous			
Rental Income	8,605	8,635	30
Other Miscellaneous Income	700	738	38
	<u>9,305</u>	<u>9,373</u>	<u>68</u>
Total Revenues	<u>3,561,145</u>	<u>3,595,795</u>	<u>34,650</u>
Expenditures:			
General Government:			
Governing Body	<u>2,574</u>	<u>2,540</u>	<u>34</u>
Administration:			
Salaries and Employee Benefits	344,506	343,649	
Other Operating Expenditures	<u>144,930</u>	<u>142,693</u>	
Total	<u>489,436</u>	<u>486,342</u>	<u>3,094</u>

**Town of Mills River, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Finance:			
Capital Outlay		\$ 28,836	
Tax Department	2,200	2,160	
Contract Services	67,000	37,397	
Total	<u>\$ 69,200</u>	<u>68,393</u>	<u>\$ 807</u>
Legal:			
Contract Services	<u>4,490</u>	<u>4,488</u>	<u>2</u>
Elections:			
Contracts	<u>-</u>	<u>-</u>	<u>-</u>
Public Building			
Other Operating Expenditures	<u>29,713</u>	<u>17,426</u>	
Total	<u>29,713</u>	<u>17,426</u>	<u>12,287</u>
Total General Government	<u>595,413</u>	<u>579,189</u>	<u>16,224</u>
Public Safety			
Payments to Henderson County Sheriff	1,111,104	718,116	
Payments to Fire Departments	1,030,000	955,055	
Other Operating Expenditures	<u>2,500</u>	<u>462</u>	
Total Public Safety	<u>2,143,604</u>	<u>1,673,633</u>	<u>469,971</u>
Transportation			
Total	<u>11,000</u>	<u>10,873</u>	<u>127</u>
Economic and Physical Development			
Other Operating Expenditures	<u>165,000</u>	<u>162,027</u>	
Total	<u>165,000</u>	<u>162,027</u>	<u>2,973</u>

Town of Mills River, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cultural and Recreation			
Capital Outlay	\$ 300,728	\$ 287,140	
Parks	250,000	211,290	
Library	8,300	8,247	
	<u>559,028</u>	<u>506,677</u>	<u>\$ 52,351</u>
Debt Service			
Principal	64,500	64,498	
Interest	22,600	22,517	
	<u>87,100</u>	<u>87,015</u>	<u>85</u>
Total Expenditures	<u>3,561,145</u>	<u>3,019,414</u>	<u>541,731</u>
Revenues Over (Under) Expenditures	-	576,381	576,381
Fund Balance Appropriated	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>576,381</u>	<u>\$ 576,381</u>
Fund Balance:			
Beginning of Year		<u>4,506,715</u>	
End of Year		<u>\$ 5,083,096</u>	

Other Schedules

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

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Collections And Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 2,049,859	\$ 2,032,392	\$ 17,467
2017-2018	15,462	7,578	15,932	7,108
2016-2017	6,814	7,434	10,603	3,645
2015-2016	3,734	233	1,985	1,982
2014-2015	1,943	39	901	1,081
2013-2014	1,263	39	726	576
2012-2013	1,103	31	845	289
2011-2012	1,561	-	788	773
2010-2011	1,199	-	383	816
2009-2010	2,447	-	283	2,164
2008-2009	497	-	497	-
Totals	\$ 36,023	\$ 2,065,213	\$ 2,065,335	35,901
Less: Allowance for Uncollectible Taxes				-
Ad Valorem Taxes Receivable - Net				<u>\$ 35,901</u>
Reconciliation with Revenues:				
Taxes - Ad Valorem - General Fund				\$ 2,060,600
Reconciling Items:				
Taxes written off				497
Releases, Refunds, and Adjustments				<u>4,238</u>
Total Collections and Credits				<u>\$ 2,065,335</u>

Town of Mills River, North Carolina
Analysis of Current Tax Levy
Year Ended June 30, 2019

	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>		
			<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy	\$ 1,097,014,444	\$ 0.18	\$ 1,974,626	\$ 1,819,586	\$ 155,040
Discoveries	44,822,778		80,681	80,681	-
Releases	<u>(3,026,667)</u>		<u>(5,448)</u>	<u>(5,448)</u>	<u>-</u>
Adjusted Levy	<u>\$ 1,138,810,555</u>				
Net Levy			2,049,859	1,894,819	155,040
Less: Uncollected Taxes at 06/30/2019			<u>17,467</u>	<u>17,467</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 2,032,392</u>	<u>\$ 1,877,352</u>	<u>\$ 155,040</u>
Percent Collected			<u>99.15%</u>	<u>99.08%</u>	<u>100.00%</u>