

TOWN OF NORLINA

NORTH CAROLINA

ANNUAL FINANCIAL REPORT

Town Commissioners

Dwight Pearce, Mayor

Wayne Aycock, Finance Commissioner

Claude Edwards, Jr., Police Commissioner

James Overby, Public Works Commissioner

Claude O'Hagan, Zoning, Economic Development Commissioner

Bill Harris, Library, Park, Museum Commissioner

Administrative and Financial Staff

Christina Allman, Town Clerk/Finance Director

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Town of Norlina, North Carolina
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June 30, 2019

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FINANCIAL SECTION

May & Place, PA

CERTIFIED PUBLIC ACCOUNTANTS

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SCOTT H. MAY, CPA
DALE R. PLACE, CPA, CFE

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Commission
Norlina, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit includes 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 from fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Norlina, North Carolina as of June 30, 2019, and the respective changes in financial position and, where appropriate, cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 9 through 16, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 54 and 55, respectively, and the Schedule of Changes in Total Pension Liability – LEOSA and the Schedule of Total Pension Liability as a Percentage of Covered Payroll, on pages 56 and 57, respectively, 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. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Norlina's basic financial statements. The combining and individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2020 on our consideration of the Town of Norlina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Norlina's internal control over financial reporting and compliance.

May & Place, PA

May & Place, PA
Louisburg, NC
October 10, 2020

Management's Discussion and Analysis

Management's Discussion and Analysis

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

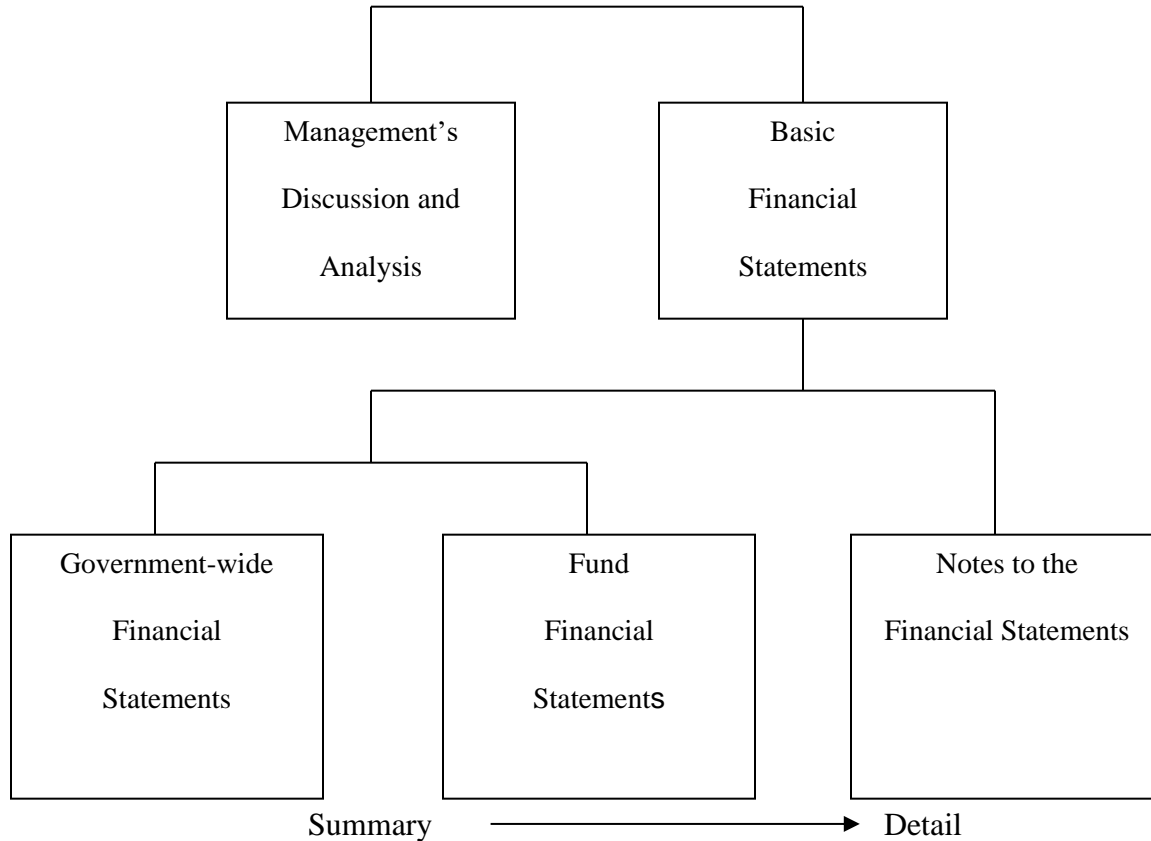
Financial Highlights

- The assets and deferred outflows of resources of the Town of Norlina exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$1,632,456 (*net position*).
- The government's total net position increased by \$23,972 due to increase in governmental net position of \$24,124 and a decrease of \$152 for business-type net position.
- As of the close of the current fiscal year, the Town of Norlina's governmental funds reported combined ending fund balances of \$377,265 with a net increase of \$40,125 in fund balance. Fifty percent (50%) of this total fund balance, or \$188,580, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$188,685 or 23.4 percent of total general fund expenditures for the fiscal year.
- The Town of Norlina's total debt decreased by \$81.452 (4.56%) during the current fiscal year. No new debt was incurred in this fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Norlina'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 using 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 Norlina.

**Required Components of Annual Financial Report
Figure 1**



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town’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 individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as general government, public safety, transportation, and environmental protection. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Norlina.

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 Norlina, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Norlina can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* 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 Norlina adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

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.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Norlina’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 54 of this report.

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

Government-Wide Financial Analysis

**Town of Norlina’s Net Position
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 417 215	\$ 392 650	\$ 221 130	\$ 227 368	\$ 638 345	\$ 620 018
Capital assets	277 477	314 851	2 564 934	2 657 153	2 842 411	2 972 004
Deferred outflows of resources	75 268	42 861	37 354	23 264	112 622	66 125
Total assets and deferred outflows of resources	<u>769 960</u>	<u>750 362</u>	<u>2 823 418</u>	<u>2 907 785</u>	<u>3 593 378</u>	<u>3 658 147</u>
Long-term liabilities outstanding	135 493	133 661	1 686 491	1 708 168	1 821 984	1 841 829
Other liabilities	21 390	44 243	92 824	153 596	114 214	197 839
Deferred inflows of resources	23 287	6 792	1 437	3 203	24 724	9 995
Total liabilities and deferred inflows of resources	<u>180 170</u>	<u>184 696</u>	<u>1 780 752</u>	<u>1 864 967</u>	<u>1 960 922</u>	<u>2 049 663</u>
Net position:						
Net investment in capital assets	244 201	237 984	891 458	945 815	1 135 659	1 183 799
Restricted	188 580	178 488	89 242	89 243	277 822	267 731
Unrestricted	157 009	149 194	61 966	7 760	218 975	156 954
Total net position	<u>\$ 589 790</u>	<u>\$ 565 666</u>	<u>\$ 1 042 666</u>	<u>\$ 1 042 818</u>	<u>\$ 1 632 456</u>	<u>\$ 1 608 484</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 Norlina exceeded liabilities and deferred inflows by \$1,632,456 as of June 30, 2019. The Town’s net position increased by \$23,972 for the fiscal year ended June 30, 2019. However, the largest portion (69.57%) reflects the Town’s net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Norlina uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Norlina’s net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Norlina’s net position, \$277,822 represents resources that are subject to external restrictions on how they may be used. The

remaining balance of \$218,975 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 95.95%, which is comparable to the statewide average of 98.57%.
- Increase in unrestricted revenues representing a 1.44% growth over the previous year.
- Increase in restricted revenue of 56.24% due mainly to a Police grant.
- Increased water and sewer customer revenues of 6.5% over the previous year due to a \$30,000 grant while expenses were 6.9% lower than 2018 levels.

Town of Norlina's Changes in Net Position
Figure 3

	<u>Governmental Activities</u> <u>2019</u>	<u>Business- Type Activities</u> <u>2019</u>	<u>Governmental Activities</u> <u>2018</u>	<u>Business- Type Activities</u> <u>2018</u>
Revenues:				
Program revenues				
Charges for services	\$ 56 573	\$ 652 010	\$ 34 244	\$ 596 274
Operating grants and contributions	149 102	-	95 559	-
Capital grants and contributions	-	-	-	-
General Revenues				
Property taxes	255 928	-	251 718	-
Grants and contributions not restricted to specific programs	351 673	-	346 690	-
Unrestricted investment earnings	13	(78)	24	72
Other	37 180	-	5 312	30 611
Gain on sale of capital assets	-	-	44 542	-
Total revenues	<u>850 469</u>	<u>651 932</u>	<u>778 089</u>	<u>626 957</u>
Expenses:				
General government	202 309	-	160 450	-
Public safety	437 997	-	401 702	-
Transportation	41 577	-	32 629	-
Environmental protection	142 308	-	132 314	-
Interest on long-term debt	2 154	42 713	1 980	43 388
Water and sewer	-	609 371	-	654 702
Total expenses	<u>826 345</u>	<u>652 084</u>	<u>729 075</u>	<u>698 090</u>
Increase (Decrease) in net position	24 124	(152)	49 014	(71 133)
Net position, beginning	565 666	1 042 818	516 652	1 113 951
Net position, June 30	<u>\$ 589 790</u>	<u>\$ 1 042 666</u>	<u>\$ 565 666</u>	<u>\$ 1 042 818</u>

Governmental activities: Governmental activities increased the Town's net position by \$24,124 thereby helping to increase the overall net position of the Town of Norlina.

Certain key elements for the governmental funds:

- Unrestricted revenues had an increase of \$4,983 (1.44% increase).
- Police grant revenues of \$112,319
- Investment in capital assets.

Business-type activities: Business-type activities decreased the Town of Norlina's net position by only \$152.

Key elements of this activity are as follows:

- Increase in total operating revenues by 9.4 percent.
- Decrease in operating expenses by \$46,006 or 6.59 percent due to no major maintenance and repair work needed during the year.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Norlina. At the end of the current fiscal year, Town of Norlina's fund balance available in the General Fund was \$188,685 while total Fund Balance was \$377,265. The Town currently has an available fund balance of 23.40% of general fund expenditures, while total fund balance represents 46.80% of that same amount.

At June 30, 2019, the governmental funds of Town of Norlina reported a combined fund balance of \$377,265, with a net increase in fund balance of \$40,125.

General Fund Budgetary Highlights. During the fiscal year, the Town did not revise the budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Total revenue exceeded budgeted revenue primarily because of the Town received a large police department grant that was not budgeted. Since the Town did not amend the budget to accommodate changes in expected revenue and expenditures, the general fund budget was overspent by \$56,628.

Proprietary Funds. The Town of Norlina's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$61,966. The total change in net position for this fund was a \$152 decrease. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Norlina's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Norlina's investment in capital assets for its governmental and business-type activities as of June 30, 2019 totals \$2,842,411 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, vehicles and water and sewer infrastructure.

Capital asset transactions during the year include the following additions and disposals:

- Purchase of a mower for \$6,298 in environmental.

**Town of Norlina's Capital Assets
(Net of Depreciation)
Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land	\$ 66 837	\$ 66 837	\$ -	\$ -	\$ 66 837	\$ 66 837
Buildings and Improvements	104 749	110 487	-	-	104 749	110 487
Equipment	24 234	27 155	60 779	70 909	85 013	98 064
Vehicles and equipment	81 657	110 372	-	-	81 657	110 372
Water and sewer systems	-	-	<u>2 504 155</u>	<u>2 586 244</u>	<u>2 504 155</u>	<u>2 586 244</u>
Total	<u>\$ 277 477</u>	<u>\$ 314 851</u>	<u>\$ 2 564 934</u>	<u>\$ 2 657 153</u>	<u>\$ 2 842 411</u>	<u>\$ 2 972 004</u>

Additional information on the Town's capital assets can be found in Note III.A.4 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2019, the Town of Norlina had total debt outstanding of \$1,788,205. Of this, \$1,518,412 is backed by the full faith and credit of the Town. The Town has \$192,926 that is from the NC Drinking Water Revolving Loan. During the year, the Town paid off a USDA loan that was for partial funding for two new police cars. The Town also has two direct placement contracts collateralized by two trucks.

**Town of Norlina's Outstanding Debt
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue bonds	\$ -	\$ -	\$ 1 493 412	\$ 1 518 412	\$ 1 493 412	\$ 1 518 412
Installment purchases	33 276	76 867	-	-	33 276	76 867
Notes payable	-	-	<u>180 064</u>	<u>192 926</u>	<u>180 064</u>	<u>192 926</u>
Total	<u>\$ 33 276</u>	<u>\$ 76 867</u>	<u>\$ 1 673 476</u>	<u>\$ 1 711 338</u>	<u>\$ 1 706 752</u>	<u>\$ 1 788 205</u>

The Town of Norlina's total debt decreased by \$81,453 during the past fiscal year due to no new debt was incurred.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. While the town's total debt of \$1,706,752 is 44.17% of the assessed value, the legal debt margin for the Town of Norlina is \$3,243,738.

Additional information regarding the Town of Norlina's long-term debt can be found in in Note III.B.6 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- Steady property valuation suggests limited growth.
- Unemployment in Warren County is and continues to be ongoing problem for the Town. The Town is located in Warren County which had an unemployment rate in 2019 of 6.2 percent while the State had a rate of 4.1 percent and the nation at 3.7 percent.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities:

- The Town of Norlina has maintained the \$0.64 per \$100 valuation property tax rate for the 2019-2020 fiscal year.
- Budgeted revenues and expenditures for the General Fund remained flat with no expected increases in revenue or expenditures.

Business – type Activities:

- Water and Sewer revenues and expenditures are expected to remain the same as the 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 Finance Director, Town of Norlina, P.O. Box 987, Norlina, N.C. 27856.

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 220 792	\$ 22 416	\$ 243 208
Taxes receivables (net)	28 434	-	28 434
Accrued interest receivable	9 877	-	9 877
Accounts receivable (net)	8 001	79 752	87 753
Due from other governments	71 913	-	71 913
Internal balances	(29 720)	29 720	-
Restricted cash and cash equivalents	107 918	89 242	197 160
Total current assets	<u>417 215</u>	<u>221 130</u>	<u>638 345</u>
Non-current assets:			
Capital assets: (Note 4):			
Land, non-depreciable improvements, and construction in progress	66 837	-	66 837
Other capital assets, net of depreciation	210 640	2 564 934	2 775 574
Total capital assets	<u>277 477</u>	<u>2 564 934</u>	<u>2 842 411</u>
Total assets	<u>694 692</u>	<u>2 786 064</u>	<u>3 480 756</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	75 268	37 354	112 622
Total deferred outflows of resources	<u>75 268</u>	<u>37 354</u>	<u>112 622</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1 639	3 962	5 601
Customer deposits	-	50 000	50 000
Current portion of long-term liabilities	19 751	38 862	58 613
Total current liabilities	<u>21 390</u>	<u>92 824</u>	<u>114 214</u>
Long-term liabilities:			
Compensated absences	14 547	3 784	18 331
Net pension liability (LGRS)	95 908	48 093	144 001
Net pension liability (LEOSSA)	11 513	-	11 513
Due in more than one year	13 525	1 634 614	1 648 139
Total liabilities	<u>156 883</u>	<u>1 779 315</u>	<u>1 936 198</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	23 287	1 437	24 724
Total deferred inflows of resources	<u>23 287</u>	<u>1 437</u>	<u>24 724</u>
NET POSITION			
Net investment in capital assets	244 201	891 458	1 135 659
Restricted for:			
Stabilization by State Statute	80 662	-	80 662
Streets – Powell Bill	87 236	-	87 236
Other functions	20 682	-	20 682
Pursuant to loan requirements	-	89 242	89 242
Unrestricted	157 009	61 966	218 975
Total net position	<u>\$ 589 790</u>	<u>\$ 1 042 666</u>	<u>\$ 1 632 456</u>

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

Exhibit 2

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 202 309	\$ 400	\$ -	\$ -	\$ (201 909)	\$ -	\$ (201 909)
Public safety	437 997	477	112 319	-	(325 201)	-	(325 201)
Transportation	41 577	-	36 783	-	(4 794)	-	(4 794)
Environmental protection	142 308	55 696	-	-	(86 612)	-	(86 612)
Interest expense	2 154	-	-	-	(2 154)	-	(2 154)
Total governmental activities (See Note I)	<u>826 345</u>	<u>56 573</u>	<u>149 102</u>	<u>-</u>	<u>(620 670)</u>	<u>-</u>	<u>(620 670)</u>
Business-type activities:							
Water and sewer	652 084	652 010	-	-	-	(74)	(74)
Total business-type activities	<u>652 084</u>	<u>652 010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74)</u>	<u>(74)</u>
Total primary government	<u>\$ 1 478 429</u>	<u>\$ 708 583</u>	<u>\$ 149 102</u>	<u>\$ -</u>	<u>(620 670)</u>	<u>(74)</u>	<u>(620 744)</u>
General revenues							
Taxes:							
Property taxes levied for general purpose					255 928	-	255 928
Other taxes					351 673	-	351 673
Unrestricted investment earnings					13	(78)	(65)
Miscellaneous					391	-	391
Extraordinary item: gain on insurance recovery					36 789	-	36 789
Total general revenues and transfers					<u>644 794</u>	<u>(78)</u>	<u>644 716</u>
Change in net position					24 124	(152)	23 972
Net position, beginning, previously reported					<u>565 666</u>	<u>1 042 818</u>	<u>1 608 484</u>
Net position, ending					<u>\$ 589 790</u>	<u>\$ 1 042 666</u>	<u>\$ 1 632 456</u>

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

Exhibit 3

**Town of Norlina, North Carolina
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2019**

	Governmental Fund
	General Fund
ASSETS	
Cash and cash equivalents	\$ 220 792
Receivables, net:	
Taxes	36 641
Accounts	8 001
Due from other governments	71 913
Restricted cash and cash equivalents	107 918
Total assets	\$ <u>445 265</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 1 639
Due to other funds	29 720
Total liabilities	<u>31 359</u>
DEFERRED INFLOWS OF RESOURCES	
Property taxes receivable	<u>36 641</u>
Total deferred inflows of resources	<u>36 641</u>
FUND BALANCES	
Restricted	
Stabilization by State Statute	80 662
Streets – Powell Bill	87 236
Other functions	20 682
Unassigned	188 685
Total fund balances	<u>377 265</u>
Total liabilities, deferred inflows of resources and fund balances	\$ <u>445 265</u>

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

Exhibit 3 (cont.)

**Town of Norlina
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2019**

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

Total Fund Balance, Governmental Funds	\$	377 265
Capital assets used in governmental activities are not financial resources and therefore are therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 691 257	
Accumulated depreciation	<u>(413 780)</u>	277 477
Deferred outflows of resources related to pensions are not reported in the funds		75 268
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows of resources in the funds		9 877
Earned revenues considered deferred inflows of resources in fund statements		28 434
Long-term liabilities used in governmental activities are not financial uses and therefore, are not reported in the funds		
Net pension liability (LGERS)	\$ (95 908)	
Net pension liability (LEOSSA)	(11 513)	
Long term liabilities	(33 276)	
Vacation accrual	<u>(14 547)</u>	(155 244)
Deferred inflows of resources related to pensions are not reported in the funds		(23 287)
Net position of governmental activities	\$	<u><u>589 790</u></u>

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

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

		<u>Governmental Fund</u>
		<u>General Fund</u>
REVENUES		
Ad valorem taxes	\$	251 762
Unrestricted intergovernmental		351 673
Restricted intergovernmental		149 302
Permits and fees		400
Sales and services		56 173
Investment earnings		13
Miscellaneous		191
Total revenues		<u>809 514</u>
EXPENDITURES		
Current:		
General government		150 992
Public safety		436 498
Transportation		30 227
Environmental protection		136 419
Debt Service:		
Principal		43 591
Interest and other charges		2 153
Capital outlay		6 298
Total expenditures		<u>806 178</u>
Excess (deficiency) of revenues over expenditures		<u>3 336</u>
OTHER FINANCING SOURCES (USES)		
Insurance recovery		36 789
Total other financing sources (uses)		<u>36 789</u>
Net change in fund balances		40 125
Fund balances, beginning		337 140
Fund balances, ending	\$	<u><u>377 265</u></u>

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

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

Net changes in fund balances – total governmental funds \$ 40 125

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 6 297	
Depreciation expense for governmental assets	<u>(43 671)</u>	(37 374)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		18 183
--	--	--------

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. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principle payments on long-term debt		43 591
--------------------------------------	--	--------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in funds.

Change in accrued interest receivable on ad valorem taxes	\$ (1 103)	
Change in unavailable revenue for tax revenues	<u>5 269</u>	4 166

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(228)
Pension expense (LGERS)		(25 651)
Pension expense (LEOSSA)		<u>(18 688)</u>

Total changes in net position of governmental activities	\$	<u>24 124</u>
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The notes to the financial statements are an integral part of this statement.

Exhibit 5

**Town of Norlina, North Carolina
General Fund and Annually Budgeted Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
For the Year Ended June 30, 2019**

	General Fund			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 275 500	\$ 275 500	\$ 251 762	\$ (23 738)
Unrestricted intergovernmental	347 300	347 300	351 673	4 373
Restricted intergovernmental	51 300	51 300	149 302	98 002
Permits and fees	500	500	400	(100)
Sales and services	64 450	64 450	56 173	(8 277)
Investment earnings	200	200	13	(187)
Miscellaneous	10 300	10 300	191	(10 109)
Total revenues	749 550	749 550	809 514	59 964
Expenditures:				
Current:				
General government	156 828	156 828	150 992	5 836
Public safety	359 245	359 245	436 498	(77 253)
Transportation	42 800	42 800	30 227	12 573
Environmental protection	148 677	148 677	142 717	5 960
Debt service:				
Principal retirement	32 000	32 000	43 591	(11 591)
Interest and other charges	-	-	2 153	(2 153)
Contingency	10 000	10 000	-	10 000
Total expenditures	749 550	749 550	806 178	(56 628)
Revenues over (under) expenditures	-	-	3 336	3 336
Other financing sources (uses):				
Insurance recovery	-	-	36 789	36 789
Total other financing sources	-	-	36 789	36 789
Fund Balance appropriated	-	-	-	
Net change in fund balance	\$ -	\$ -	40 125	\$ 40 125
Fund balances, beginning			337 140	
Fund balances, ending			\$ 377 265	

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

Town of Norlina, North Carolina
Statement of Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2019

	Enterprise Fund <hr/> Water and Sewer Fund <hr/>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 22 416
Accounts receivable (net) – billed	79 696
Returned checks	56
Restricted cash and cash equivalents	89 242
Due from general fund	29 720
Total current assets	<hr/> 221 130 <hr/>
Noncurrent assets:	
Capital assets, net of depreciation	2 564 934
Total noncurrent assets	<hr/> 2 564 934 <hr/>
Total assets	<hr/> 2 786 064 <hr/>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	<hr/> 37 354 <hr/>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	3 962
Customer deposits	50 000
Current portion long term debt	38 862
Total current liabilities	<hr/> 92 824 <hr/>
Noncurrent liabilities:	
Compensated absences	3 784
Net pension liability	48 093
Due in more than one year	1 634 614
Total noncurrent liabilities	<hr/> 1 686 491 <hr/>
Total liabilities	<hr/> 1 779 315 <hr/>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	<hr/> 1 437 <hr/>
NET POSITION	
Net investment in capital assets	891 458
Restricted due to loan requirements	89 242
Unrestricted	61 966
Total net position	<hr/> \$ 1 042 666 <hr/>

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

Town of Norlina, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2019

		Enterprise Fund
		Water and Sewer Fund
OPERATING REVENUES		
Charges for services	\$	596 661
Other operating revenues		55 349
Total operating revenues		<u>652 010</u>
OPERATING EXPENSES		
Water and sewer expenses		258 511
Salaries and related benefits		172 886
Other operating expenses		85 755
Depreciation		92 219
Total operating expenses		<u>609 371</u>
Operating income (loss)		<u>42 639</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings		(78)
Interest and other charges		(42 713)
Total nonoperating revenue (expenses)		<u>(42 791)</u>
Change in net position		(152)
Total net position previously reported		1 042 818
Total net position, ending	\$	<u><u>1 042 666</u></u>

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

Town of Norlina, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	Enterprise Fund
	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 594 624
Cash paid for goods and services	(401 188)
Cash paid to or on behalf of employees for services	(171 557)
Customer deposits received (returned) net	(4 850)
Other operating revenues (expenses)	55 349
Net cash provided (used) by operating activities	72 378
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Decrease (increase) in due from other funds	(26 654)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on installment purchases	(37 862)
Interest paid on installment purchases	(42 713)
Net cash provided (used) by capital and related financing activities	(80 575)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	(78)
Net increase (decrease) in cash and cash equivalents	(34 929)
Balances, beginning	146 587
Balances, ending	\$ 111 658
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 42 639
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	92 219
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(2 037)
Increase (decrease) in accounts payable and accrued liabilities	(56 922)
Increase (decrease) in customer deposits	(4 850)
Increase (decrease) in accrued vacation pay	(1 724)
(Increase) decrease in deferred outflows of resources for pensions	(14 091)
Increase (decrease) in net pension liability	18 910
Increase (decrease) in deferred inflows of resources for pensions	(1 766)
Total adjustments	29 739
Net cash provided by operating activities	\$ 72 378

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

Notes to the Financial Statements

Town of Norlina, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Norlina 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 Norlina is a municipal corporation that is governed by an elected mayor and a five-member commission. As required by generally accepted accounting principles, these financial statements present the Town.

B. Basis of Presentation

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

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

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

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

The Town reports the following major governmental funds:

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

The Town has no non-major governmental funds at this time.

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, 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 tax receivables are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Projects, the Capital Projects Fund, and the Enterprise Fund Capital Projects Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project level for the multi-year funds. The budget officer (town clerk/finance director) is authorized to transfer monies from one appropriation to another within the same fund not to exceed 10% of the total fund. Any such transaction is required to be reported to the Town Commission at its next regular meeting. All other 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, Deferred Outflows/Inflows and Fund Equity

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings

association whose principle office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

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

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

All unexpended loan and grant proceeds of General Fund and Enterprise Funds are classified as restricted assets for each fund because their use is completely restricted to the purpose for which the proceeds were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it 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.

<u>Restricted Cash</u>		
Governmental Activities		
	Streets	\$ 87 236
	Other functions	20 682
Total governmental activities		<u>107 918</u>
Business-type Activities		
	Debt-service reserve	89 242
Total business-type activities		\$ <u>89 242</u>
Total Restricted Cash		\$ <u><u>197 160</u></u>

4. Ad Valorem Taxes Receivable

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

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

6. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first in, first out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

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.

7. 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: \$25,000 for infrastructure, and \$5,000 for all other assets. Donated capital assets received 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 value. 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>
Infrastructure	50
Substations and lines	40
Buildings	40
Improvements	10
Vehicles	5
Furniture and equipment	5-10
Computer Equipment	3
Computer Software	5

8. 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 one item that meets this criterion, pension deferrals for the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies 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 – property taxes receivable and pension deferrals.

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance cost, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to five days or 40 hours of earned vacation leave during the first 5 years of employment, up to ten days or 80 hours for 6 to 10 years of employment, and up to fifteen days or 120 hours earned after 10 years of employment with such leave being fully vested when earned. For the Town, the current portion of the accumulated vacation pay is not considered material; therefore, no expenditure or liability has been recorded in the governmental funds. For the Town's proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded within the funds 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 does not have any obligation for the accumulated sick leave until it is taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

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.

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

Restricted for Stabilization by State statute - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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

Restricted for other functions – portion of fund balance that is held in escrow and restricted for a public safety project.

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

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

Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation.

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

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

12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information and 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 Norlina’s employer contributions are recognized when due and the Town of Norlina 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.

II. Stewardship, Compliance, and Accountability

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

None.

2. Contractual Violations

None.

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

None.

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2019, the expenditures in the Town’s General Fund exceeded the

authorized appropriations made by the governing board for public safety by \$77,253 and debt service payments by \$13,744. See findings and responses 2019-1.

D. Delay in the Year-End Closing Process that Delayed Completion of the Audit

The year-end closing processes were not finalized until nine months after year-end. The delay resulted in the audit not being completed in a timely manner. The Town and a new contracted accounting firm employed is making every effort to complete the year-ending closing processes in a timelier manner in the future. See findings and responses 2019-2.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town these deposits are held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$440,271 and a bank balance of \$518,217. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder of \$268,217 was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund for the water and sewer fund totaled \$97.

2. Investments

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

<u>Investments by type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/2019</u>	<u>Maturity</u>	<u>Rating</u>
NCCMT - Government Portfolio	Fair Value	\$ 1 108	N/A	AAAm
Total		\$ <u>1 108</u>		

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.

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town uses the NC Cash Management Trust for all its investment portfolio.

Credit Risk. The Town has no formal policy regarding credit risk but has 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.

3. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ <u>8 208</u>
Total General Fund	<u>8 208</u>
Enterprise Fund:	
Water and Sewer Fund - accounts receivable	<u>6 500</u>
Total Enterprise Fund	<u>6 500</u>
Total	\$ <u><u>14 708</u></u>

4. Capital Assets

Primary Government

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 66 837	\$ -	\$ -	\$ 66 837
Total capital assets not being depreciated	<u>66 837</u>	<u>-</u>	<u>-</u>	<u>66 837</u>
Capital assets being depreciated:				
Buildings and improvements	189 026	-	-	189 026
Equipment	197 996	6 298	-	204 294
Vehicles and equipment	231 100	-	-	231 100
Total capital assets being depreciated	<u>618 122</u>	<u>6 298</u>	<u>-</u>	<u>624 420</u>
Less accumulated depreciation for:				
Buildings and improvements	78 540	5 737	-	84 277
Equipment	170 840	9 219	-	180 059
Vehicles and equipment	120 728	28 715	-	149 443
Total accumulated depreciation	<u>370 108</u>	<u>\$ 43 671</u>	<u>\$ -</u>	<u>413 779</u>
Total capital assets being depreciated, net	<u>248 014</u>			<u>210 641</u>
Governmental activity capital assets, net	<u>\$ 314 851</u>			<u>\$ 277 478</u>

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

General government	\$ 4 299
Public Safety	22 135
Transportation	11 349
Environmental protection	5 888
Total depreciation expense	<u>\$ 43 671</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Water and Sewer Fund - Water				
Capital assets not being depreciated:				
Capital assets being depreciated:				
Plant and distribution systems	\$ 2 142 583	\$ -	\$ -	\$ 2 142 583
Equipment	44 785	-	-	44 785
Vehicles	19 000	-	-	19 000
Total capital assets being depreciated	<u>2 206 368</u>	<u>-</u>	<u>-</u>	<u>2 206 368</u>
Less accumulated depreciation for:				
Plant and distribution systems	628 733	45 959	-	674 692
Equipment	30 551	2 033	-	32 584
Vehicles	19 000	-	-	19 000
Total accumulated depreciation	<u>678 284</u>	<u>\$ 47 992</u>	<u>\$ -</u>	<u>726 276</u>
Total capital assets being depreciated, net	<u>1 528 084</u>			<u>1 480 092</u>
Water and Sewer fund capital assets, net	<u>\$ 1 528 084</u>			<u>\$ 1 480 092</u>

	<u>Beginning Balances</u>		<u>Increases</u>		<u>Decreases</u>		<u>Ending Balances</u>
Water and Sewer Fund - Sewer							
Capital assets not being depreciated:							
Capital assets being depreciated:							
Plant and distribution systems	\$ 1 708 161	\$	-	\$	-	\$	1 708 161
Equipment	106 337		-		-		106 337
Total capital assets being depreciated	<u>1 814 498</u>		<u>-</u>		<u>-</u>		<u>1 814 498</u>
Less accumulated depreciation for:							
Plant and distribution systems	635 769		36 131		-		671 900
Equipment	49 660		8 096		-		57 756
Total accumulated depreciation	<u>685 429</u>	\$	<u>44 227</u>	\$	<u>-</u>		<u>729 656</u>
Total capital assets being depreciated, net	<u>1 129 069</u>						<u>1 084 842</u>
Water and Sewer fund capital assets, net	<u>1 129 069</u>						<u>1 084 842</u>
Business-type capital assets, net	\$ 2 657 153					\$	<u>2 564 934</u>

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employee's Retirement System

Plan Description. The Town of Norlina 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 (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Norlina 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 Norlina's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees, 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 Norlina were \$27,574 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 \$144,001 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, 2017 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 0.00607%, which was an increase of 0.00064% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$37,938. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 22 216	\$ 745
Changes in assumptions	38 212	-
Net difference between projected and actual earnings on pension plan investments	19 767	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	4 078	3 557
Town contributions subsequent to the measurement date	27 574	-
Total	<u>\$ 111 847</u>	<u>\$ 4 302</u>

The \$27,574 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2019	\$ 37 766
2020	24 587
2021	5 120
2022	12 498
Thereafter	-
Total	<u>\$ 79 791</u>

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

Inflation	3.0 percent
Salary increases	3.50 to 8.1 percent, including inflation & productivity factor
Investment rate of return	7.0%, 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 returns projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

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

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

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.0%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 345 903	\$ 144 001	\$ (24 711)

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.

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description.

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

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>5</u>
Total	<u><u>5</u></u>

2. Summary of Significant Accounting Policies:

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

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

3. Actuarial Assumptions

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

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

The discount rate used to measure the TPL is S&P Municipal Bond 20 Year High Grade Rate Index.

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

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefit earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. No benefits came due for the reporting period.

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 total pension liability of \$11,513. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019 the Town recognized pension expenses of \$18,688.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ -	\$ 19 143
Changes of assumptions	775	1 279
County benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 775</u>	<u>\$ 20 422</u>

\$0 paid as benefits came due; therefore, there were no amounts reported as deferred outflows of resources. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension as follows:

Year ended June 30:	
2020	\$ 129
2021	129
2022	129
2023	129
2024	129
Thereafter	130

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

	<u>1% Decrease (2.64%)</u>	<u>Discount Rate (3.64%)</u>	<u>1% Increase (4.64%)</u>
Total pension liability	\$ 13 145	\$ 11 513	\$ 10 070

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers Special Separation Allowance**

	<u>2019</u>
Total Pension Liability as of December 31, 2018	\$ 11 583
Service cost at end of year	4 096
Interest on the total pension liability	366
Difference between expected and actual experience	(3 774)
Changes of assumptions or other inputs	(758)
Benefit payments	-
Net changes	<u>(70)</u>
Total pension Liability as of December 31, 2019	<u>\$ 11 513</u>

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

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 37 938	\$ 18 688	\$ 56 626
Pension Liability	144 001	11 513	155 514
Proportionate share of the net pension liability	.00607%	n/a	
Deferred Outflows of Resources			
Differences between expected and actual experience	22 216	-	22 216
Changes of assumptions	37 437	775	38 212
Net difference between projected and actual earnings on plan investments	20 542	-	20 542
Changes in proportion and differences between contributions and proportionate share of contributions	4 078	-	4 078
Benefit payments and administrative costs paid subsequent to the measurement date	27 574	-	27 574

Deferred Inflows of Resources			
Differences between expected and actual experience	745	19 143	19 888
Changes of assumptions	-	1 279	1 279
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	3 557	-	3 557

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers may make voluntary contributions to the plan.

The Town made contributions of \$8,708 for the reporting year. No amounts were forfeited.

2. 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.

3. Deferred Outflows and Inflows of Resources

The Town of Norlina has several deferred outflows of resources. Deferred outflow of resources is comprised of the following:

Source	Amount
Contribution to pension plan in current fiscal year	\$ 27 574
Differences between expected and actual experience	22 216
Changes of assumptions	38 212
Changes in proportion and differences between employer	
Contributions and proportionate share of contributions	4 078
Net difference between projected and actual	20 542
Total	<u>\$ 112 622</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	\$ -	\$ 36 641
Changes in assumptions	1 279	-
Differences between expected and actual experience	19 888	-
Changes in proportion and differences between employer		
contributions and proportionate share of contributions	3 557	-
Total	<u>\$ 24 724</u>	<u>\$ 36 641</u>

4. 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 and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to the statutory limits, and employee health coverage up to a \$2 million lifetime limit. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchase by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

The Town does not carry flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is not in an area of the State that has been mapped and designated and "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is not eligible to purchase coverage of \$500,000 per structure through the NFIP.

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 \$50,000. The remaining employees that have access to funds are bonded for \$10,000 for each occurrence.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2019 the Town was not a defendant to any lawsuits.

6. Long-Term Obligations

a. Installment Purchase

General Fund:

On February 20, 2018, the Town entered into a direct placement contract to finance a 2015 Chevy truck for the streets/transportation department. The truck is pledged as collateral for the debt while the debt is outstanding. The contract requires thirty-six monthly payments of \$849 with an interest rate of 3.190 percent.

The future minimum payments of the direct placement contract as of June 30, 2019 are as follows:

Year Ending		Principle		Interest
June 30				
2020	\$	9 803	\$	384
2021		6 692		80
Total	\$	<u>16 495</u>	\$	<u>464</u>

On February 20, 2018, the Town entered into a direct placement contract to finance a 2009 Dodge 2500 Service truck for the environmental protection department. The truck is pledged as collateral for the debt while the debt is outstanding. The contract requires thirty-six monthly payments of \$870 with an interest rate of 3.990 percent.

The future minimum payments of the direct placement contract as of June 30, 2019 are as follows:

Year Ending		Principle		Interest
June 30				
2020	\$	9 948	\$	489
2021		6 832		102
Total	\$	<u>16 780</u>	\$	<u>591</u>

On November 17, 2016, the Town entered into an installment purchase agreement to finance two police cars for public safety. The vehicles were pledge as collateral for the debt while the debt is outstanding. The contract requires seven annual payments of \$4,500 with an interest rate of 2.750 percent.

This direct placement contact was paid in full during the 2019 fiscal year.

b. General Obligation Indebtedness

The general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in

the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Water and Sewer Fund:

The Town entered into a direct borrowing agreement with the North Carolina Department of Environment and Natural Resources for the purpose of funding a water meter replacement project. The debt consists of a North Carolina Drinking Water Revolving Loan executed on February 14, 2013 and finalized on August 12, 2013, payable in annual principle payments of \$12,862. Interest has been forgiven for the term of the loan.

Annual debt service requirements to maturity for long-term obligations are as follows:

Year Ending June 30	Principle	Interest
2020	12 862	-
2021	12 862	-
2022	12 862	-
2023-2027	64 309	-
2028-2032	64 309	-
2033	12 860	-
Total	\$ <u>180 064</u>	\$ <u>-</u>

Serviced by the Water and Sewer Fund:

\$1,389,000, Water and Sewer Revenue Bonds, Series 2014A, due in annual installments of \$20,000 to \$57,000 plus interest through June 1, 2054, with interest at 2.75 percent per annum. \$ 1 305 000

\$200,412, Water and Sewer Revenue Bonds, Series 2014B, due in annual installments of \$3,000 to \$8,412 plus interest through June 1, 2054, with with interest at 3.25 percent per annum. 188 412

Total \$ 1 493 412

Annual debt service requirements to maturity for long-term obligations are as follows:

Year Ending June 30	Principle	Interest
2020	\$ 26 000	\$ 42 011
2021	26 000	41 281
2022	27 000	40 549
2023-2027	148 000	190 909
2028-2032	169 000	168 892
2033-2037	195 000	143 730
2038-2042	224 000	114 722
2043-2047	256 000	81 512
2048-2052	293 000	43 429
2053-2054	129 412	5 482
Total	\$ <u>1 493 412</u>	\$ <u>872 517</u>

The Town is in compliance with the Bond Order covenants as to rates and charges, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 2014A and 2014B. Section 5.01 of the Bond Order requires the debt service coverage ratio with respect to the Bonds to be no less than 110% and that the debt service coverage ratio with respect to other annual debt service obligations to be not less than 100%. The debt service coverage ratio calculations for the year ended June 30, 2019 are as follows:

Operating revenues	\$ 652 010
Operating expenses*	<u>517 152</u>
Operating income	134 858
Nonoperating revenues (expenses)**	<u>(78)</u>
Net revenue available for debt service	134 780
Debt service, principal and interest paid (Revenue bonds only)	<u>\$ 67 713</u>
Net revenue to debt service (Revenue bonds only)	199%
Income available for debt service (same as above)	<u>134 780</u>
Debt service, principal and interest paid (excluding revenue bond)	<u>\$ 12 862</u>
Net revenue to debt service (Installment obligation financing for system improvements)	1,047%

* Per rate covenants, this does not include the depreciation expense of \$92,219.

** Per rate covenants, this does not include revenue bond interest paid of \$42,713.

The Town has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$1,589,412 in water and sewer system revenue bonds issued in November 2014. Proceeds from the bonds provided financing for the replacement and rehabilitation of sewer lines and the installation of water lines in various areas of the Town. The bonds are payable solely from water and sewer customer net revenues and are payable through 2054. Annual principal and interest payments on the bonds are detailed above. The total principal and interest remaining to be paid on the bonds is \$2,365,929. Principal and interest paid for the current year was \$25,000 and \$42,713, respectively.

c. Changes in Long-Term Liabilities

	<u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Installment purchases	\$ 76 867	\$ -	\$ 43 591	\$ 33 276	\$ 19 751
Compensated absences	14 319	228	-	14 547	-
Net pension liability (LGERS)	53 771	42 137	-	95 908	-
Net pension liability (LEOSSA)	<u>11 583</u>	<u>-</u>	<u>70</u>	<u>11 513</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 156 540</u>	<u>\$ 42 365</u>	<u>\$ 43 661</u>	<u>\$ 155 244</u>	<u>\$ 19 751</u>
Business-type activities:					
Revenue bonds	\$ 1 518 412	\$ -	\$ 25 000	\$ 1 493 412	\$ 26 000
Compensated absences	5 508	-	1 724	3 784	-
Notes payable	192 926	-	12 862	180 064	12 862
Net pension liability (LGERS)	<u>29 183</u>	<u>18 910</u>	<u>-</u>	<u>48 093</u>	<u>-</u>
Business type activities long-term liabilities	<u>\$ 1 746 029</u>	<u>\$ 18 910</u>	<u>\$ 39 586</u>	<u>\$ 1 725 353</u>	<u>\$ 38 862</u>

Compensated absences typically have been liquidated in the General Fund.

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	\$	377 265
Less:		
Stabilization by State Statute		80 662
Streets-Powell Bill		87 236
Escrow for equipment		20 682
Remaining Fund Balance	\$	<u>188 685</u>

IV. **Related Party Transactions**

There were no related party transactions noted during the fiscal year ended June 30, 2019.

V. **Jointly Governed Organization**

The Town, in conjunction with five counties and fourteen other municipalities established the Kerr-Tar Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints thirty-two members to the Council's governing board. The Town paid membership fees of \$660 to the Council during the fiscal year ended June 30, 2019.

VI. **Summary Disclosure of Significant Contingencies**

Federal and State Assisted Programs

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

Required Supplementary Financial Data

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

- Schedule of Proportionate Share of the Net Pension Liability
For Local Government Employees' Retirement System
- Schedule of Contributions to Local Government
Employees' Retirement System
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered
Payroll

Town of Norlina, North Carolina
Town of Norlina's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Norlina's proportion of the net pension liability (asset) (%)	0.00607%	0.00543%	0.00576%	0.00621%	0.00582%	0.00620%
Norlina's proportion of the net pension liability (asset) (\$)	144 001	82 955	122 246	27 870	(34 323)	74 734
Norlina's covered-employee payroll	373 024	373 058	337 030	303 632	274 195	270 600
Norlina's proportionate share of the net pension liability as percentage of its covered-employee payroll	38.60%	22.24%	36.27%	9.18%	(12.52%)	27.62%
Plan fiduciary net position as a percentage of total pension liability	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

Town of Norlina, North Carolina
Town of Norlina's Contributions
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 27 574	\$ 29 357	\$ 25 616	\$ 21 345	\$ 21 880	\$ 19 651
Contributions in relation to the contractually required contribution	27 574	29 357	25 616	21 345	21 880	19 651
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Norlina's covered-employee payroll	338 992	373 024	373 058	337 030	303 632	274 195
Contributions as a percentage of covered-employee payroll	8.13%	7.87%	6.87%	6.33%	7.21%	7.17%

Town of Norlina, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 11 583	\$ 28 682	\$ 23 229
Service cost at end of year	4 096	1 976	5 632
Interest	366	1 107	829
Change in benefit terms	-	-	-
Difference between expected and actual experience	(3 774)	(21 215)	-
Changes of assumptions and other inputs	(758)	1 033	(1 008)
Benefits	-	-	-
Net Change in Total Pension Liability	<u>(70)</u>	<u>(17 099)</u>	<u>5 453</u>
Total Pension Liability - ending	<u>\$ 11 513</u>	<u>\$ 11 583</u>	<u>\$ 28 682</u>

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total Pension Liability	11 513	11 583	28 682
Covered payroll	160 292	108 498	226 641
Total Pension Liability as a percentage of total payroll	7.18%	10.68%	12.66%

Notes to the schedules:

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

Individual Fund Statements and Schedules

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 250 572	\$
Interest		1 190	
Total	<u>275 500</u>	<u>251 762</u>	<u>(23 738)</u>
Unrestricted intergovernmental:			
Local option sales taxes		294 975	
Utility franchise and sales tax		51 261	
Beer and wine tax		4 679	
Solid waste disposal tax		758	
Total	<u>347 300</u>	<u>351 673</u>	<u>4 373</u>
Restricted intergovernmental:			
Powell Bill allocation		36 783	
Police grants		112 319	
Revitalization		200	
Total	<u>51 300</u>	<u>149 302</u>	<u>98 002</u>
Permits and fees:			
Planning and zoning revenue		400	
Total	<u>500</u>	<u>400</u>	<u>(100)</u>
Sales and services:			
Garbage collection fees		55 696	
Officers fees		477	
Total	<u>64 450</u>	<u>56 173</u>	<u>(8 277)</u>
Investment earnings	<u>200</u>	<u>13</u>	<u>(187)</u>
Miscellaneous:			
Miscellaneous	<u>10 300</u>	<u>191</u>	<u>-</u>
Total	<u>10 300</u>	<u>191</u>	<u>(10 109)</u>
Total Revenues	<u>749 550</u>	<u>809 514</u>	<u>59 964</u>

(Continued)

**Town of Norlina, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance – Budget and Actual
For the Fiscal Year Ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General Government			
Administration:			
Salaries and employee benefits		62 719	
Other operating expenditures		88 273	
Total General Government	<u>156 828</u>	<u>150 992</u>	<u>5 836</u>
Public Safety			
Police:			
Salaries and employee benefits		258 321	
Other operating expenditures		53 188	
Police grant expenditures		9 128	
Supplies		90 861	
Total	<u>334 245</u>	<u>411 498</u>	<u>(77 253)</u>
Fire:			
Other operating expenditures		25 000	
Total	<u>25 000</u>	<u>25 000</u>	<u>-</u>
Total Public Safety	<u>359 245</u>	<u>436 498</u>	<u>(77 253)</u>
Streets and highways:			
Street lighting		11 982	
Other operating expenditures		18 245	
Total Transportation and Utilities	<u>42 800</u>	<u>30 227</u>	<u>12 573</u>
Environmental Protection			
Sanitation:			
Salaries and employee benefits		10 041	
Other operating expenditures		12 677	
Contracted services		113 701	
Capital outlay		6 298	
Total Environmental Protection	<u>148 677</u>	<u>142 717</u>	<u>5 960</u>

(Continued)

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Debt Service:			
Principal retirement		43 591	
Interest and other charges		2 153	
Total Debt Service	<u>32 000</u>	<u>45 744</u>	<u>(13 744)</u>
Contingency	10 000	-	10 000
Total Expenditures	<u>749 550</u>	<u>806 178</u>	<u>(56 628)</u>
Revenues over (under) expenditures	<u>-</u>	<u>3 336</u>	<u>3 336</u>
Other financing sources (uses):			
Insurance recovery		36 789	
Total	<u>-</u>	<u>36 789</u>	<u>36 789</u>
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>40 125</u>	<u>\$ 40 125</u>
Fund Balances, beginning		<u>337 140</u>	
Fund Balances, ending		<u>\$ 377 265</u>	

Town of Norlina, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Water sales:			
Residential and commercial	\$ 332 000	\$ 317 384	\$ (14 616)
Total	<u>332 000</u>	<u>317 384</u>	<u>(14 616)</u>
Sewer charges:			
Residential and commercial		279 277	
Total	<u>323 200</u>	<u>279 277</u>	<u>(43 923)</u>
Water and sewer connections	<u>5 000</u>	<u>-</u>	<u>(5 000)</u>
State Grant	-	30 000	30 000
Other operating revenues	<u>21 250</u>	<u>25 349</u>	<u>4 099</u>
Total operating revenues	<u>681 450</u>	<u>652 010</u>	<u>(29 440)</u>
Nonoperating revenues:			
Interest earnings	-	(78)	(78)
Total revenues	<u>681 450</u>	<u>651 932</u>	<u>(29 518)</u>
Expenditures			
Operating expense:			
Salaries and employee benefits		171 557	
Purchases water and sewer		258 511	
Repairs and maintenance		13 655	
Other operating expenses		72 100	
Total Operating Expenses	<u>600 550</u>	<u>515 823</u>	<u>84 727</u>
Debt service:			
Bond principle		25 000	
Installment note principle		12 862	
Interest and other charges		42 713	
Total debt service	<u>80 900</u>	<u>80 575</u>	<u>325</u>
Total expenditures	<u>681 450</u>	<u>596 398</u>	<u>85 052</u>
Revenues and other sources over (under) expenditures and other uses:	\$ -	\$ 55 534	\$ 55 534

Town of Norlina, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2019

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

	\$	55 534
Reconciling items:		
Principal retirement		37 862
(Increase) Decrease in accrued vacation pay		1 724
Increase (Decrease) in deferred outflows of resources - pension		14 091
(Increase) Decrease in net pension liability		(18 910)
(Increase) Decrease in deferred inflows of resources-pension		1 767
Depreciation		(92 220)
Total reconciling items		<u>(55 686)</u>
Change in net position	\$	<u>(152)</u>

Other Schedules

This section contains additional information required on property taxes and USDA requested data.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy
- Water and Sewer: Schedule of Net Position by Function
- Water and Sewer Fund: Schedule of Revenues, Expenses, and Changes in Fund Net Position by Function
- Water and Sewer: Schedule of Cash Flows by Function

Town of Norlina, 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	\$ -	\$ 259 499	\$ 248 978	\$ 10 521
2017-2018	5 416	-	1 045	4 371
2016-2017	4 575	-	786	3 789
2015-2016	3 575	-	372	3 203
2014-2015	2 671	-	-	2 671
2013-2014	3 029	-	-	3 029
2012-2013	2 565	-	-	2 565
2011-2012	2 661	-	74	2 587
2010-2011	2 054	-	20	2 034
2009-2010	1 875	-	4	1 871
2008-2009	1 434	-	1 434	-
	\$ 29 855	\$ 259 499	\$ 252 713	36 641
Less: allowance for uncollectible accounts:				
General Fund				8 207
Ad valorem taxes receivable – net				\$ 28 434
<u>Reconcilement with revenues:</u>				
Ad valorem taxes – General Fund				\$ 251 762
Reconciling items:				
Interest collected				(1 190)
Releases				693
Taxes written off				1 448
Subtotal				951
Total collections and credits				\$ 252 713

Town of Norlina, North Carolina
Analysis of Current Tax Levy
Town – Wide Levy
For the Fiscal Year Ended June 30, 2019

	<u>Town-Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current rate	\$ 39 962 031	0.64	\$ 255 757	\$ 220 025	\$ 35 732
Penalties	<u>92 500</u>	0.64	<u>592</u>	<u>592</u>	<u>-</u>
Total	40 054 531		256 349	\$ 220 617	\$ 35 732
Discoveries:					
Current year and prior years	600 469	0.64	3 843	3 843	-
Penalties	-		-	-	-
Releases	<u>(108 281)</u>	0.64	<u>(693)</u>	<u>(693)</u>	<u>-</u>
Total property valuation	\$ <u><u>40 546 719</u></u>				
Net levy			259 499	223 767	35 732
Uncollected taxes at June 30, 2019			<u>(10 521)</u>	<u>(10 521)</u>	<u>-</u>
Current year's taxes collected			\$ <u><u>248 978</u></u>	\$ <u><u>213 246</u></u>	\$ <u><u>35 732</u></u>
Current levy collection percentage			<u><u>95 95%</u></u>	<u><u>95 30%</u></u>	<u><u>100.00%</u></u>

Town of Norlina
Schedule of Net Position
Water and Sewer Fund by Function
June 30, 2019

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 79 103	\$ (56 687)	\$ 22 416
Restricted cash and cash equivalents	44 621	44 621	89 242
Accounts receivable (net)	38 807	40 889	79 696
Returned checks	56	-	56
Due From general fund	29 720	-	29 720
Total current assets	<u>192 307</u>	<u>28 823</u>	<u>221 130</u>
Noncurrent assets:			
Capital assets, net of depreciation	<u>1 480 092</u>	<u>1 084 842</u>	<u>2 564 934</u>
Total noncurrent assets	<u>1 480 092</u>	<u>1 084 842</u>	<u>2 564 934</u>
Total assets	<u>1 672 399</u>	<u>1 113 665</u>	<u>2 786 064</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	<u>20 017</u>	<u>17 337</u>	<u>37 354</u>
Total deferred outflows of resources	<u>20 017</u>	<u>17 337</u>	<u>37 354</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	3 168	794	3 962
Customer deposits	25 000	25 000	50 000
Revenue bond payable current	13 000	13 000	26 000
Notes payable current	<u>12 862</u>	<u>-</u>	<u>12 862</u>
Total current liabilities	<u>54 030</u>	<u>38 794</u>	<u>92 824</u>
Noncurrent liabilities:			
Other noncurrent liabilities:			
Compensated absences	1 892	1 892	3 784
Net pension liability	25 724	22 369	48 093
Notes payable	167 202	-	167 202
Revenue bonds payable	<u>733 706</u>	<u>733 706</u>	<u>1 467 412</u>
Total non-current liabilities	<u>928 524</u>	<u>757 967</u>	<u>1 686 491</u>
Total liabilities	<u>982 554</u>	<u>796 761</u>	<u>1 779 315</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	769	668	1 437
NET POSITION			
Net investment in capital assets	553 322	338 136	891 458
Restricted	44 621	44 621	89 242
Unrestricted	<u>111 150</u>	<u>(49 184)</u>	<u>61 966</u>
Total net position	<u>\$ 709 093</u>	<u>\$ 333 573</u>	<u>\$ 1 042 666</u>

Town of Norlina
Schedule of Revenues, Expenses, and Changes in Fund Net Position
Water and Sewer Fund by Function
For the Year Ended June 30, 2019

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 317 384	\$ 279 277	\$ 596 661
Other operating revenues	<u>26 587</u>	<u>28 762</u>	<u>55 349</u>
Total operating revenues	<u>343 971</u>	<u>308 039</u>	<u>652 010</u>
OPERATING EXPENSES			
Water and sewer expenses	95 697	162 814	258 511
Salaries and related benefits	92 477	80 409	172 886
Other operating expenses	47 648	38 107	85 755
Depreciation	<u>47 992</u>	<u>44 227</u>	<u>92 219</u>
Total operating expenses	<u>283 814</u>	<u>325 557</u>	<u>609 371</u>
Operating income (loss)	<u>60 157</u>	<u>(17 518)</u>	<u>42 639</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	(39)	(39)	(78)
Interest and other charges	<u>(21 356)</u>	<u>(21 357)</u>	<u>(42 713)</u>
Total nonoperating revenue (expenses)	<u>(21 395)</u>	<u>(21 396)</u>	<u>(42 791)</u>
Changes in net position	<u>38 762</u>	<u>(38 914)</u>	<u>(152)</u>
Total net position, beginning	<u>670 331</u>	<u>372 487</u>	<u>1 042 818</u>
Total net position, ending	<u>\$ 709 093</u>	<u>\$ 333 573</u>	<u>\$ 1 042 666</u>

Town of Norlina
Schedule of Cash Flows
Water and Sewer Fund by Function
For the Fiscal Year Ended June 30, 2019

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 317 444	\$ 277 180	\$ 594 624
Cash paid for goods and services	(169 276)	(231 912)	(401 188)
Cash paid to or on behalf of employees for services	(91 766)	(79 791)	(171 557)
Customer deposits received (returned) net	(2 425)	(2 425)	(4 850)
Other operating revenues and expenses	26 587	28 762	55 349
Net cash provided (used) by operating activities	<u>80 564</u>	<u>(8 186)</u>	<u>72 378</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Decrease (increase) in due from other funds	(26 654)	-	(26 654)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on bond maturities and notes payable	(25 362)	(12 500)	(37 862)
Interest paid on bond maturities and notes payable	<u>(21 356)</u>	<u>(21 357)</u>	<u>(42 713)</u>
Net cash provided (used) by capital and related financing activities	<u>(46 718)</u>	<u>(33 857)</u>	<u>(80 575)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>(39)</u>	<u>(39)</u>	<u>(78)</u>
Net cash from investment activities	<u>(39)</u>	<u>(39)</u>	<u>(78)</u>
Net increase (decrease) in cash and cash equivalents	<u>7 153</u>	<u>(42 082)</u>	<u>(34 929)</u>
Balances, beginning of the year	<u>116 571</u>	<u>30 016</u>	<u>146 587</u>
Balances, end of the year	\$ <u>123 724</u>	\$ <u>(12 066)</u>	\$ <u>111 658</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ 60 157	\$ (17 518)	\$ 42 639
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	47 992	44 227	92 219
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	60	(2 097)	(2 037)
Increase (decrease) in accounts payable and accrued liabilities	(25 339)	(31 583)	(56 922)
Increase (decrease) in customer deposits	(2 425)	(2 425)	(4 850)
(Increase) decrease in deferred outflows of resources for pension	(6 904)	(7 187)	(14 091)
Increase (decrease) in net pension liability	9 273	9 637	18 910
Increase (decrease) in deferred inflows of resources for pension	(1 037)	(729)	(1 766)
Increase (decrease) in compensated absences	(1 213)	(511)	(1 724)
Total adjustments	<u>20 407</u>	<u>9 332</u>	<u>29 739</u>
Net cash provided by operating activities	\$ <u>80 564</u>	\$ <u>(8 186)</u>	\$ <u>72 378</u>

May & Place, PA

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 900
LOUISBURG, NC
27549
Bus: 919-496-3041
Fax: 919-496-6342

SCOTT H. MAY, CPA
DALE R. PLACE, CPA, CFE

Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Commission
Norlina, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information for the Town of Norlina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the Town of Norlina's basic financial statements, and have issued our report thereon dated October 10, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Norlina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as items 2019-1 and 2019-2

Purpose of this Report

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

May & Place, PA

Louisburg, North Carolina
October 10, 2020

**Town of Norlina, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2019**

COMPLIANCE AND OTHER MATTERS

Finding: 2019-1

Criteria:	G.S. 159-28(a) states that no obligation may be incurred in a function accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.
Condition:	Expenditures in the Town's general fund exceeded authorized appropriations for the function of debt service by \$13,744 and Public Safety by \$77,253. This also indicates the pre-audit process is not functioning properly to make certain that a sufficient amount of appropriations is approved to cover the expenditures.
Effect:	Over-expenditures in the general fund for debt service payments and Public Safety.
Cause:	These over-expenditures occurred due to the entity not amending the budget.
Recommendation:	We recommend that management more closely review its monthly budget reports in order to implement budget amendments and/or transfers before year end to ensure that there are no violations of the pre-audit certification process.
Views of responsible officials and planned corrective actions:	See Management's Corrective Action Plan

TOWN OF NORLINA

139 Hyco St. P.O. Box 149
Norlina, North Carolina 27563
Phone: 252-456-3325

Corrective Action Plan
For the Fiscal Year Ended June 30, 2019

Financial Statement Findings

Finding: 2019-1

Name of contact person:

Christina Allman, Town Clerk/Finance Director

Corrective action:

Management will more closely review its budget to actual reports and make appropriate budget amendments and/or transfers in order to include enough budget appropriations in each function in order to cover all obligations made during the fiscal year. Management will also review its pre-audit procedures to ensure expenditures are within appropriated amounts before expenditures are made.

Proposed Completion Date:

Management has implemented the above procedure during the fiscal year ending June 30, 2019.

**Town of Norlina, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2019**

COMPLIANCE AND OTHER MATTERS

Finding: 2019-2

Criteria:	Timely preparation of bookkeeping records for year-end audit.
Condition:	The delayed year-end closing processes extended the completion of the audit eighteen months beyond the fiscal year-end.
Effect:	Late completion of the June 30, 2019 audit.
Cause:	Delay in year-end closing record preparation process.
Recommendation:	Timely year-end closing and preparation to begin the audit.
Views of responsible officials and planned corrective actions:	See Management's Corrective Action Plan.

TOWN OF NORLINA

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Corrective Action Plan
For the Fiscal Year Ended June 30, 2019

Financial Statement Findings

Finding: 2019-2

Name of contact person:

Christina Allman, Town Clerk/Finance Director

Corrective action:

Management is going to contract with a new accounting firm to assist with its bookkeeping and assemble the required financial information and schedules to prepare the financial statements for the year under audit.

Proposed Completion Date:

Management has implemented the above procedure for the fiscal year ending June 30, 2019.