

TOWN OF NORWOOD
Norwood, North Carolina

Financial Statements
For the Fiscal Year Ended
June 30, 2019

Town Council Members

Harold Thompson, Mayor
Robbie Cohen
Betty Harrison
Wes Hartsell
James Lily
Larry McMahon

Administrative and Financial Staff

Scott Howard, Administrator
Geneca Spivey, Finance Officer
Kelly Caudle, Town Clerk

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 11, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 49 and 50, respectively, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 51 and 52, respectively, and the Other Postemployment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios on page 53 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the procedures performed as described above, the combining and individual fund 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 November 12, 2019 on our consideration of Town of Norwood'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 Town of Norwood's internal control over financial reporting and compliance.



November 12, 2019
Rockingham, North Carolina

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

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

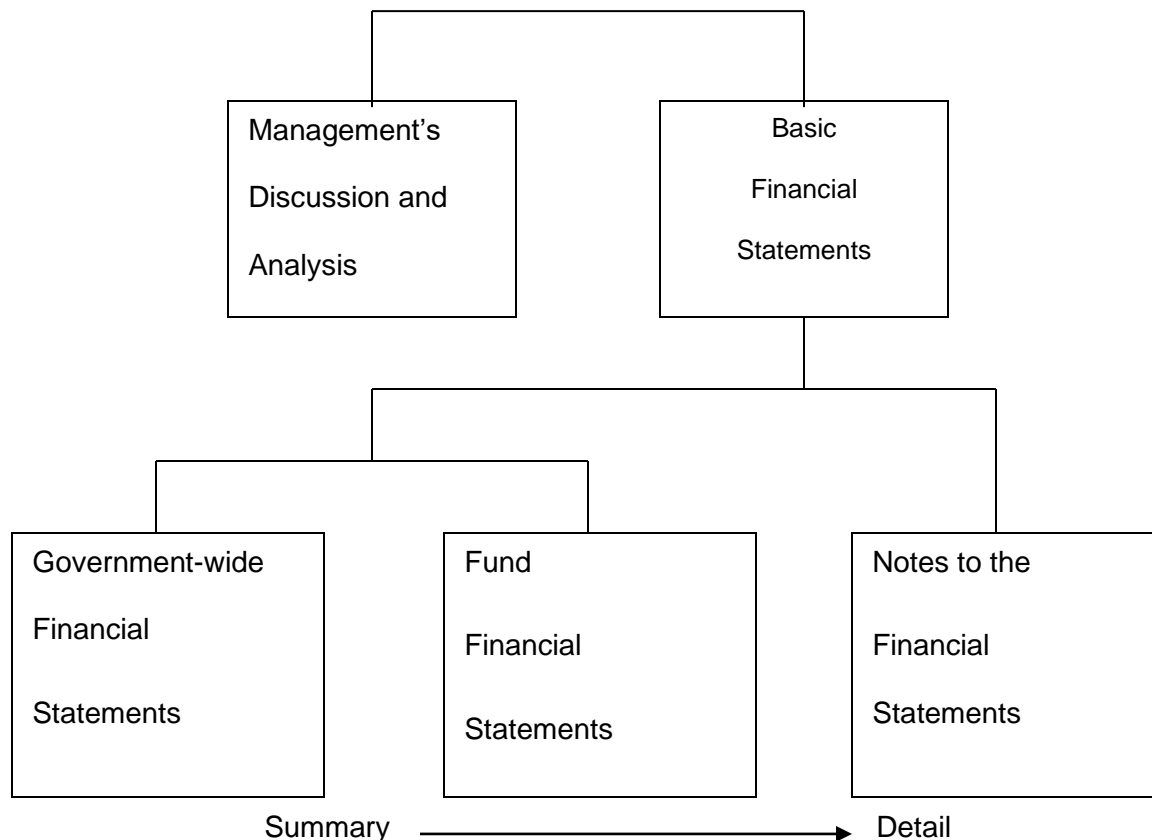
- The assets and deferred outflows of resources of the Town of Norwood exceeded its liabilities and deferred inflows of resources at the close of the year by \$12,647,914 (net position).
- The government's total net position decreased by \$224,991.
- As of the close of the current fiscal year, the Town of Norwood's governmental funds reported ending fund balance of \$1,715,754, a decrease of \$30,738 in comparison to the prior year. Approximately 49.0 percent of this total amount is available for spending at the government's discretion (unassigned fund balance).
- As the end of the current fiscal year, unassigned Fund Balance was \$840,929 or 36.4 percent of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

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

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 fund statements; 2) the budgetary comparison statement; 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 North Carolina General Statutes also can be found in this section of the statements.

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to the financial statement of 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 on the Town's net position and how they have 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 public safety, parks and recreation, and general administration. Property taxes finance most of these activities. The Town occasionally receives State and Federal grant funds. 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 Norwood.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Norwood, 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 Norwood 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 the assets can readily be converted into cash flow in and out, what monies are left at year-end that will be available for spending next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported on in the Statement of Net Position and the Statement of Activities) and governmental funds is described in reconciliation that is a part of the financial statements.

The Town of Norwood adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Council; 2) the final budget as amended by the Council; 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 – The Town of Norwood has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Norwood uses one enterprise fund to account for its water and sewer activity. This fund is the same as the function shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements –The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Norwood's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 49 of this report.

Government-Wide Financial Analysis - Following is a condensed statement of net position as of June 30, 2019 and 2018.

Figure 2						
Condensed Statement of Net Position						
As of June 30, 2018 and 2017						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Current assets	\$ 1,821,743	\$ 1,848,190	\$ 826,164	\$ 894,604	\$ 2,647,907	\$ 2,742,794
Capital assets	1,837,356	1,892,842	11,119,706	11,261,728	12,957,062	13,154,570
Deferred outflows of resources	214,022	115,500	21,416	12,242	235,438	127,742
Total assets and deferred outflows of resources	3,873,121	3,856,532	11,967,286	12,168,574	15,840,407	16,025,106
Long-term liabilities outstanding	917,022	809,155	1,837,014	1,875,804	2,754,036	2,684,959
Other liabilities	120,360	114,306	274,257	317,727	394,617	432,033
Deferred inflows of resources	40,245	31,648	3,595	3,561	43,840	35,209
Total liabilities and deferred inflows of resources	1,077,627	955,109	2,114,866	2,197,092	3,192,493	3,152,201
Net position:						
Net investment in capital assets	1,494,695	1,541,007	9,177,504	9,240,841	10,672,199	10,781,848
Restricted	731,449	800,843	-	-	731,449	800,843
Unrestricted	569,350	559,573	674,916	730,641	1,244,266	1,290,214
Total net position	\$ 2,795,494	\$ 2,901,423	\$ 9,852,420	\$ 9,971,482	\$ 12,647,914	\$ 12,872,905

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

As noted earlier, net position may serve over time as one of the useful indicators of a government's financial condition. The assets and deferred outflows of the Town of Norwood exceeded liabilities and deferred inflows by \$12,647,914 as of June 30, 2019. The Town's net position decreased by \$224,991 for the fiscal year ended June 30, 2019. The largest portion (84.4%) of the Town's net position reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Norwood uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Norwood's investment in its 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 Norwood's net position, \$731,449 is restricted. Of this amount, \$409,381 represents transportation resources and special revenue resources that are subject to external restrictions on how they may be used. \$322,068 is restricted for stabilization by State Statute. The remaining balance of \$1,244,266 is unrestricted.

Several particular aspects of the Town's financial operations influence the total restricted and unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.94%.
- Continued efforts to keep debt below debt threshold.
- Increased water and sewer rates to ensure the Enterprise Fund budget is self-supporting.

The following table shows the revenues and expenses for the Town for the current and prior fiscal year.

Figure 3						
Condensed Statement of Changes in Net Position						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues:						
Charges for services	103,611	74,758	1,405,157	1,281,606	1,508,768	1,356,364
Operating grants and contributions	86,167	87,285	-	-	86,167	87,285
Capital grants and contributions	75,000	75,077	-	-	75,000	75,077
General revenues:						
Property taxes	1,165,160	1,102,370	-	-	1,165,160	1,102,370
Grants and contributions not restricted to specific programs	797,014	739,348	-	-	797,014	739,348
Other	54,555	153,826	35,453	8,516	90,008	162,342
Total revenues	2,281,507	2,232,664	1,440,610	1,290,122	3,722,117	3,522,786
Expenses:						
General government	671,762	826,817	-	-	671,762	826,817
Public safety	785,969	694,977	-	-	785,969	694,977
Transportation	413,440	247,233	-	-	413,440	247,233
Environmental protection	306,891	396,665	-	-	306,891	396,665
Cultural and recreational	170,393	189,140	-	-	170,393	189,140
Garage	22,973	25,948	-	-	22,973	25,948
Other	16,008	10,455	-	-	16,008	10,455
Water and sewer	-	-	1,559,672	1,521,545	1,559,672	1,521,545
Total expenses	2,387,436	2,391,235	1,559,672	1,521,545	3,947,108	3,912,780
Change in net position before capital contributions	(105,929)	(158,571)	(119,062)	(231,423)	(224,991)	(389,994)
Capital contributions	-	-	-	495,000	-	495,000
Increase (decrease) in net position	(105,929)	(158,571)	(119,062)	263,577	(224,991)	105,006
Net position, beginning, as previously reported	2,901,423	2,982,470	9,971,482	9,670,949	12,872,905	12,653,419
Restatements	-	77,524	-	36,956	-	114,480
Net position, beginning, restated	2,901,423	3,059,994	9,971,482	9,707,905	12,872,905	12,767,899
Net position, ending	2,795,494	2,901,423	9,852,420	9,971,482	12,647,914	12,872,905

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

Governmental activities. Governmental activities decreased the Town's net position by \$105,929. The Town's property taxes collections remain stable as well as the operations of the town, however, the Town will need to look at increasing the property tax rate in the future. Management is working to attract businesses and revitalize the downtown area of the Town of Norwood, and believes that continued investment in the Town will result in increased revenue in future years.

Business-type activities. Business type activities decreased the Town of Norwood's net position by \$119,062. The Town is increasingly spending more money to maintain its aging water and sewer infrastructure, and is currently working to find the sources of funding that will be needed to upgrade the Town's water and sewer infrastructure. The Town will need to increase water and sewer rates and replace aging, inaccurate water meters. The Town expects that the replacement of the Town's water meters will increase revenues in the Water and Sewer Fund, as water meters lose accuracy over time.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Norwood'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 Norwood's financing requirements.

The General Fund is the chief operating fund of the Town of Norwood. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$840,929 and the total fund balance was \$1,715,754. Expenditures exceeded revenues and other financing sources by \$22,942 for the year ended June 30, 2019. This decrease was largely due to capital expenditures during the year. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 36.4 percent of total General Fund expenditures and total fund balance represents 74.3 percent of total General Fund expenditures for the year ended June 30, 2019.

At June 30, 2019, the governmental funds of the Town of Norwood reported a combined fund balance of \$1,715,754.

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

There were several reasons the Town revised its budget throughout the year. The Town amended the budget in the General Fund several times for capital asset acquisitions and in the Water and Sewer Fund for capital acquisitions and unexpected water and sewer line repair expenses.

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

Proprietary Funds. The Town of Norwood'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 \$674,916. The Water and Sewer Fund's net investment in capital assets was \$9,177,504. The total decrease in net position was \$119,016. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Norwood's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Norwood's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$12,957,062 (net of accumulated depreciation). These assets include buildings, streets, land, machinery and equipment, park facilities, and vehicles.

The following is a summary of the capital assets, net of depreciation, at June 30, 2019 and 2018.

Figure 4						
Summary of Capital Assets						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Land	\$ 275,858	\$ 275,858	\$ 552,989	\$ 552,989	\$ 828,847	\$ 828,847
Buildings, Plant and Distribution Systems	683,573	705,558	10,062,816	10,392,680	10,746,389	11,098,238
Equipment	219,164	248,929	307,810	283,534	526,974	532,463
Other Improvements	447,595	445,441	-	-	447,595	445,441
Vehicles and Motorized Equipment	211,166	217,056	100,416	-	311,582	217,056
Construction in Progress	-	-	95,675	32,525	95,675	32,525
Total	\$ 1,837,356	\$ 1,892,842	\$ 11,119,706	\$ 11,261,728	\$ 12,957,062	\$ 13,154,570

The Town entered into the Interlocal Intake and Transmission Agreement with Union County in fiscal year 2013. The terms of this agreement provide that Union County will finance the construction of a joint raw water intake facility in exchange for access to raw water from Lake Tillery. Additional information on the Town of Norwood's capital assets can be found in the notes to the financial statements.

Long-term Debt. As of June 30, the Town of Norwood had no outstanding bonded debt. The following table shows the outstanding debt of Town of Norwood as of June 30, 2019:

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

Figure 5
As of June 30, 2019 and 2018

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Capitalized leases	-	-	-	49,474	-	49,474
Direct placement						
installment purchases	342,661	351,835	1,942,202	1,971,413	2,284,863	2,323,248
Compensated absences	31,334	36,580	4,547	4,739	35,881	41,319
OPEB liability	254,582	226,563	28,287	26,665	282,869	253,228
Net pension liability (LGERS)	226,321	112,506	25,147	13,837	251,468	126,343
Total pension liability (LEO)	<u>142,502</u>	<u>152,141</u>	<u>-</u>	<u>-</u>	<u>142,502</u>	<u>152,141</u>
Totals	<u>997,400</u>	<u>879,625</u>	<u>2,000,183</u>	<u>2,066,128</u>	<u>2,997,583</u>	<u>2,945,753</u>

Outstanding debt activity is as follows:

- Existing installment purchase agreement in governmental activities for various police and sanitation vehicles and equipment.
- Existing lease and installment purchase agreements in business type activities for water and sewer lines

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Norwood is \$23,468,21. The Town has no bonds authorized or issued at June 30, 2019.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators affect the growth and prosperity of the town.

- Norwood is still seeing an increase in residential building permits being issued. The areas most affected are the Edgewater and Eagle Pointe subdivisions, as well as the area served by the new sewer line.
- Norwood is still struggling with a lack of retail shops downtown and is working to attract businesses to revitalize the downtown area of Norwood.

TOWN OF NORWOOD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: The Town has appropriated \$301,000 of fund balance. The budget for the General fund has a 11.2 percent decrease from the prior year.

Business-type Activities: The Town's budget for the Enterprise fund increases by 7.4% over prior year.

Request 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:

Geneca Spivey, Finance Officer
Town of Norwood
P.O. Box 697
Norwood, NC 28128
Phone: 704-474-3416; Fax 704-474-3201
Email: townofnorwood@norwoodgov.com

BASIC FINANCIAL STATEMENTS

TOWN OF NORWOOD
STATEMENT OF NET POSITION
June 30, 2019

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,108,850	\$ 615,062	\$ 1,723,912
Taxes receivable (net)	66,007	-	66,007
Inventory	-	97,097	97,097
Accounts receivable (net)	4,378	153,766	158,144
Due from other governments	160,066	-	160,066
Internal balances	73,061	(73,061)	-
Restricted cash and cash equivalents	409,381	33,300	442,681
Total current assets	1,821,743	826,164	2,647,907
Non-current assets:			
Capital assets			
Land and construction in progress	275,858	648,664	924,522
Other capital assets, net of depreciation	1,561,498	10,471,042	12,032,540
Total capital assets	1,837,356	11,119,706	12,957,062
Total assets	3,659,099	11,945,870	15,604,969
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals-LGERS	192,748	21,416	214,164
Pension deferrals-LEO	21,274	-	21,274
Total deferred outflows of resources	214,022	21,416	235,438
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	39,813	28,574	68,387
Accrued interest	-	9,506	9,506
Unearned revenue	169	39,708	39,877
Customer deposits	-	33,300	33,300
Compensated absences	15,667	2,274	17,941
Current portion of installment purchases	64,711	160,895	225,606
Total current liabilities	120,360	274,257	394,617
Long-term liabilities:			
Net pension liability (LGERS)	226,321	25,147	251,468
Total pension liability (LEO)	142,502	-	142,502
Total OPEB liability	254,582	28,287	282,869
Compensated absences	15,667	2,273	17,940
Long-term portion of installment purchases	277,950	1,781,307	2,059,257
Total long-term liabilities	917,022	1,837,014	2,754,036
Total liabilities	1,037,382	2,111,271	3,148,653
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals-LGERS	9,330	1,037	10,367
Pension deferrals-LEO	7,888	-	7,888
OPEB deferrals	23,027	2,558	25,585
Total deferred inflows of resources	40,245	3,595	43,840
NET POSITION			
Net investment in capital assets	1,494,695	9,177,504	10,672,199
Restricted for:			
Stabilization by State statute	322,068	-	322,068
Other functions	409,381	-	409,381
Unrestricted	569,350	674,916	1,244,266
Total net position	\$ 2,795,494	\$ 9,852,420	\$ 12,647,914

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

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TOWN OF NORWOOD
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 671,762	\$ 6,391	\$ -	\$ 75,000	\$ (590,371)	\$ -	\$ (590,371)	
Public safety	785,969	25,044	10,530	-	(750,395)	-	(750,395)	
Transportation	413,440	-	75,637	-	(337,803)	-	(337,803)	
Environmental protection	306,891	55,336	-	-	(251,555)	-	(251,555)	
Cultural and recreation	170,393	16,840	-	-	(153,553)	-	(153,553)	
Cemetery	6,125	-	-	-	(6,125)	-	(6,125)	
Garage	22,973	-	-	-	(22,973)	-	(22,973)	
Interest on long-term debt	9,883	-	-	-	(9,883)	-	(9,883)	
Total governmental activities	2,387,436	103,611	86,167	75,000	(2,122,658)	-	(2,122,658)	
Business-type activities:								
Water and sewer	1,520,879	1,405,157	-	-	-	(115,722)	(115,722)	
Total primary government	\$ 3,908,315	\$ 1,508,768	\$ 86,167	\$ 75,000	(2,122,658)	(115,722)	(2,238,380)	
General revenues:								
Taxes:								
Property taxes, levied for general purpose					1,165,160	-	1,165,160	
Grants and contributions not restricted to specific programs					797,014	-	797,014	
Unrestricted investment earnings					29,848	9,017	38,865	
Miscellaneous					12,802	26,436	39,238	
Other					11,905	(38,793)	(26,888)	
Total general revenues and capital contributions					2,016,729	(3,340)	2,013,389	
Change in net position					(105,929)	(119,062)	(224,991)	
Net position, beginning					2,901,423	9,971,482	12,872,905	
Net position, ending					\$ 2,795,494	\$ 9,852,420	\$ 12,647,914	

TOWN OF NORWOOD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2019

Exhibit 3

	Major Fund	Non-Major Fund	Total Governmental Funds
	General Fund	Special Revenue Fund	
ASSETS			
Cash and cash equivalents	\$ 1,108,850	\$ -	\$ 1,108,850
Restricted cash	409,381	-	409,381
Receivables, net:			
Taxes	66,007	-	66,007
Accounts receivable	4,378	-	4,378
Due from other governments	160,066	-	160,066
Due from other funds	157,793	-	157,793
Total assets	<u>\$ 1,906,475</u>	<u>\$ -</u>	<u>\$ 1,906,475</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 39,813	\$ -	\$ 39,813
Due to other funds	84,732	-	84,732
Total liabilities	<u>124,545</u>	<u>-</u>	<u>124,545</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	66,007	-	66,007
Prepaid taxes	169	-	169
Total deferred inflows of resources	<u>66,176</u>	<u>-</u>	<u>66,176</u>
FUND BALANCES			
Restricted			
Stabilization by State statute	322,068	-	322,068
Streets	409,381	-	409,381
Assigned			
Subsequent year's expenditures	301,000	-	301,000
Unassigned	683,305	-	683,305
Total fund balances	<u>1,715,754</u>	<u>-</u>	<u>1,715,754</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,906,475</u>	<u>\$ -</u>	<u>\$ 1,906,475</u>
Total fund balances			\$ 1,715,754
Reconciliation of fund balance as reported in the balance sheet - governmental funds with net position - governmental activities			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			1,837,356
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position-LGERS			192,748
Benefit payments and administrative expenses subsequent to the measurement date-LEO			21,274
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds			66,007
Compensated absences not expected to be materially liquidated with expendable available resources			(31,334)
Net pension liability-LGERS			(226,321)
Total pension liability-LEO			(142,502)
Total OPEB liability			(254,582)
Deferred inflows of resources related to pensions are not reported in the fund - LGERS & LEO			(17,218)
Deferred inflows of resources related to OPEB are not reported in the fund			(23,027)
Other long-term liabilities (accrued interest) are not due and payable in the current period and are therefore not reported in the funds			<u>(342,661)</u>
Net position of governmental activities			<u>\$ 2,795,494</u>

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

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2019

	Major Fund	Non-Major Fund	
	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 1,163,103	\$ -	\$ 1,163,103
Unrestricted intergovernmental	797,014	-	797,014
Restricted intergovernmental	86,167	-	86,167
Permits and fees	77,000	-	77,000
Sales and services	101,611	-	101,611
Investment earnings	29,848	-	29,848
Miscellaneous	12,802	-	12,802
Total revenues	2,267,545	-	2,267,545
EXPENDITURES			
Current:			
General government	629,045	-	629,045
Police department	725,790	-	725,790
Transportation	399,542	-	399,542
Sanitation	310,350	-	310,350
Cultural and recreation	117,130	-	117,130
Cemetery	40,816	-	40,816
Garage	22,973	-	22,973
Debt Service:			
Principal retirement	54,659	-	54,659
Interest and other charges	9,883	-	9,883
Total expenditures	2,310,188	-	2,310,188
Revenues over (under) expenditures	(42,643)	-	(42,643)
OTHER FINANCING SOURCES			
Insurance proceeds	11,905	-	11,905
Transfer (from) Special revenue fund	7,796	(7,796)	-
Total other financing sources	19,701	(7,796)	11,905
Net change in fund balance	(22,942)	(7,796)	(30,738)
Fund balances, beginning	1,738,696	7,796	1,746,492
Fund balances, ending	\$ 1,715,754	\$ -	\$ 1,715,754

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (Continued)
For the Year Ended June 30, 2019

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

Net changes in fund balances - total governmental funds	\$ (30,738)
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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

Depreciation expense	(182,906)
Capital Outlay	127,420

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

50,595

Benefit payments paid and administrative expense for the Law Enforcement Officers' Special Separation Allowance are not included on the Statement of Activities

13,299

OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities

-

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

Change in unavailable revenue for tax revenues	2,057
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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	(5,246)
Pension expense-LGERS	(65,544)
Pension expense-LEO	(11,897)
OPEB plan expense	(12,139)

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 net position. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt proceeds	(45,489)	
Principal payments on long-term debt	<u>54,659</u>	9,170

Total changes in net position of governmental activities	<u><u>\$ (105,929)</u></u>
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TOWN OF NORWOOD**Exhibit 6**

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

	General Fund			Variance With Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 1,165,232	\$ 1,165,232	\$ 1,163,103	\$ (2,129)
Unrestricted intergovernmental	716,000	733,300	797,014	63,714
Restricted intergovernmental	76,800	144,800	86,167	(58,633)
Permits and fees	75,000	76,100	77,000	900
Sales and services	103,000	90,300	101,611	11,311
Investment earnings	3,600	6,200	29,848	23,648
Miscellaneous	28,800	5,250	12,802	7,552
Total revenues	2,168,432	2,221,182	2,267,545	46,363
Expenditures:				
Current:				
General government	749,125	719,975	629,045	90,930
Police department	667,702	726,602	725,790	812
Transportation	649,650	639,650	399,542	240,108
Sanitation	459,798	386,756	310,350	76,406
Cultural and recreation	106,060	153,560	117,130	36,430
Cemetery	54,000	48,000	40,816	7,184
Garage	50,000	50,000	22,973	27,027
Debt service:				
Principal retirement	-	54,659	54,659	-
Interest and other charges	-	9,883	9,883	-
Total expenditures	2,736,335	2,789,085	2,310,188	478,897
Revenues under expenditures	(567,903)	(567,903)	(42,643)	525,260
Other financing sources:				
Insurance proceeds	-	-	11,905	11,905
Transfer from Special revenue fund	-	-	7,796	7,796
Total other financing sources	-	-	19,701	19,701
Revenues under expenditures and other financing sources	(567,903)	(567,903)	(22,942)	544,961
Appropriated fund balance	567,903	567,903	-	(567,903)
Net change in fund balance	\$ -	\$ -	(22,942)	\$ (22,942)
Fund balance, beginning			1,738,696	
Fund balance, ending			\$ 1,715,754	

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

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TOWN OF NORWOOD
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
June 30, 2019

Exhibit 7

	Water/Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 615,062
Restricted cash and cash equivalents	33,300
Inventory	97,097
Accounts receivable (net)	153,766
Due from other funds	84,732
Total current assets	<u>983,957</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	648,664
Other capital assets, net of depreciation	10,471,042
Total capital assets	<u>11,119,706</u>
Total assets	<u>12,103,663</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	21,416
Total deferred outflows of resources	<u>21,416</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	27,781
Accrued salaries and wages	793
Accrued interest	9,506
Customer deposits	33,300
Unearned revenue	39,708
Due to other funds	157,793
Compensated absences - current	2,274
Installment purchases - current	160,895
Total current liabilities	<u>432,050</u>
Noncurrent liabilities:	
Compensated absences	2,273
Net pension liability	25,147
Total OPEB liability	28,287
Installment purchases - noncurrent	1,781,307
Total noncurrent liabilities	<u>1,837,014</u>
Total liabilities	<u>2,269,064</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	1,037
OPEB deferrals	2,558
Total deferred inflows of resources	<u>3,595</u>
NET POSITION	
Net investment in capital assets	9,177,504
Unrestricted	674,916
Total net position	<u>\$ 9,852,420</u>

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

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TOWN OF NORWOOD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION - PROPRIETARY FUND
For the Year Ended June 30, 2019

Exhibit 8

	<u>Major Fund</u> <u>Water and</u> <u>Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 1,279,046
Water and sewer taps	35,930
Reconnection and availability fees	90,181
Total operating revenues	<u>1,405,157</u>
OPERATING EXPENSES	
Water treatment and distribution	435,404
Wastewater collection and treatment	158,281
Water and sewer field operations	550,133
Depreciation	377,061
Total operating expenses	<u>1,520,879</u>
Operating income (loss)	<u>(115,722)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	9,017
Other revenues	26,436
Interest and other charges	(38,793)
Total nonoperating revenue (expenses)	<u>(3,340)</u>
Change in net position	(119,062)
Total net position, beginning, as restated	<u>9,971,482</u>
Total net position, ending	<u><u>\$ 9,852,420</u></u>

TOWN OF NORWOOD
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended June 30, 2019

Exhibit 9

	<u>Major Fund</u>
	<u>Water and</u>
	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,447,001
Cash paid for goods and services	(988,712)
Cash paid to or on behalf of employees for services	(135,697)
Other revenue	26,436
Customer deposits received	10,292
Customer deposits returned	(10,221)
	<u>349,099</u>
Net cash provided by operating activities	<u>349,099</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Increase in due to other funds	<u>72,148</u>
Net cash provided by noncapital financing activities	<u>72,148</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(235,039)
Debt proceeds	111,121
Principal paid on note maturities	(189,806)
Interest paid on note maturities	<u>(38,793)</u>
Net cash (used) by capital and related financing activities	<u>(352,517)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>9,017</u>
Net increase in cash and cash equivalents	<u>77,747</u>
Balances, beginning of the year	<u>570,615</u>
Balances, end of the year	<u><u>\$ 648,362</u></u>

TOWN OF NORWOOD
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
For the Year Ended June 30, 2019

Exhibit 9

	<u>Major Fund</u>
	<u>Water and</u>
	<u>Sewer Fund</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating loss	\$ (115,722)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	377,061
Changes in assets and liabilities:	
Miscellaneous revenue	26,436
Decrease in accounts receivables, net	77,225
(Increase) in inventories	(3,186)
Increase in unearned revenue	34,252
(Decrease) in accrued interest	(2,786)
(Decrease) in accounts payable and accrued liabilities	(26,054)
(Decrease) in fees collected reimbursements	(21,000)
(Decrease) in accrued salaries and wages	(798)
(Decrease) in compensated absences	(192)
Increase in customer deposits	71
(Increase) decrease in deferred outflows of resources-pensions	(9,174)
Increase (decrease) in net pension liability	11,310
Increase (decrease) in OPEB liability	1,622
Increase (decrease) in deferred inflows of resources-pensions	(748)
Increase (decrease) in deferred inflows of resources-OPEB	782
Total adjustments	464,821
Net cash provided by operating activities	\$ 349,099

NOTES TO THE FINANCIAL STATEMENTS

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

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

Note I - Summary of Significant Accounting Policies

The accounting policies of the Town of Norwood (the "Town") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

Reporting Entity

The Town of Norwood is a municipal corporation in Stanly County and has a population of approximately 2,400. The Town is a municipal corporation that is governed by an elected mayor and a five-member council. The Town provides services which include general government, a police department, a fire department, streets, sanitation, cemetery, and cultural and recreation. The Town maintains a water and sewer system which services the Town and surrounding areas on a user-charge basis.

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 activity* 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 business-type activity 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. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as 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 result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

The Town reports the following major governmental fund:

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

The Town reports the following non-major governmental fund:

Special Revenue Fund – Grant Project Fund. This fund is used to account for grant funds that are restricted for use for a particular purpose.

The Town reports the following major enterprise fund:

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

Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principle ongoing operations. The principle operating revenues of the Town enterprise funds are charges to customers for sales and services. The town also recognizes as operating revenues 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.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. 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 Norwood because the tax is levied by Stanly 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 are both restricted and unrestricted net assets 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.

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 Fund. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Water and Sewer Capital Projects Fund and for the Special Revenue Grant Projects Fund. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and the multi-year funds. All amendments must be approved by the governing Council, and the Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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

Deposits and Investments

All deposits of the Town are made in Council-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

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

Cash and Cash Equivalents

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

Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Community Service Block Grant funds are classified as restricted cash, as they can only be used for purposes outlined in Community Service Block Grant legislation. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Reimbursable fees collected are classified as restricted cash, as the cash is payable to a third party and is not available for use by the Town.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

Town of Norwood Restricted Cash

Governmental Activities

General Fund	Streets	\$ 409,381
Total governmental activities		<u>409,381</u>

Business-type Activities

Water and Sewer Fund	Customer deposits	<u>33,300</u>
Total Business-type Activities		<u>33,300</u>
Total Restricted Cash		<u>\$ 442,681</u>

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, 2019. 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.

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.

Inventory

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's General Fund did not have any inventory.

The inventories of the Town's enterprise fund consists of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, buildings, equipment, improvements, vehicles, computer software, infrastructure, plant and distribution systems, and equipment and furniture, \$3,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. 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

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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>
Buildings	40
Infrastructure	20-50
Improvements	10-20
Vehicles	5-15
Computer software	5
Furniture and equipment	5-10
Computer equipment	3-5

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criterion, pension and OPEB 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, an ABC Board receivable, and pension and OPEB deferrals.

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.

Compensated Absences

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

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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 actually taken, no accrual for sick leave has been made.

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. There are no nonspendable fund balance items.

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.

TOWN OF NORWOOD
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For the Year Ended June 30, 2019

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Norwood'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. There are no committed fund balance items.

Assigned fund balance – portion of fund balance that Town of Norwood 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 Town Council 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 Norwood 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.

Defined Benefit Cost-Sharing Plans

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

Note II - Detail Notes on All Funds

Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

to be 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 and 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 \$736,297 and a bank balance of \$851,713. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$250.

Investments

At June 30, 2019, the Town of Norwood had \$1,430,046 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowances for doubtful accounts:

Governmental activities		
General fund:		
Taxes receivable	\$	20,000
Accounty receivable		<u>4,000</u>
Total General fund		24,000
Business-type activities		<u>30,000</u>
Total	\$	54,000

Capital Assets

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

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

	Beginning Balances	Increases	Retirements and Transfers	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 275,858	\$ -	\$ -	\$ 275,858
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>275,858</u>	<u>-</u>	<u>-</u>	<u>275,858</u>
Capital assets being depreciated:				
Buildings	957,874	-	-	957,874
Equipment	737,873	6,317	-	744,190
Other improvements	1,347,286	76,653	-	1,423,939
Vehicles and motorized equipment	625,207	44,450	-	669,657
Computer software	3,983	-	-	3,983
Infrastructure	305,720	-	-	305,720
Total capital assets being depreciated	<u>3,977,943</u>	<u>127,420</u>	<u>-</u>	<u>4,105,363</u>
Less accumulated depreciation for:				
Buildings	252,316	21,985	-	274,301
Equipment	488,944	36,082	-	525,026
Other improvements	901,845	74,499	-	976,344
Vehicles and motorized equipment	408,151	50,340	-	458,491
Computer software	3,983	-	-	3,983
Infrastructure	305,720	-	-	305,720
Total accumulated depreciation	<u>2,360,959</u>	<u>182,906</u>	<u>-</u>	<u>2,543,865</u>
Total capital assets being depreciated, net	<u>1,616,984</u>			<u>1,561,498</u>
Governmental activity capital assets, net	<u>\$ 1,892,842</u>			<u>\$ 1,837,356</u>

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

General government	\$ 36,250
Public safety	40,992
Transportation	13,898
Environmental protection	38,503
Cultural and recreation	<u>53,263</u>
Total depreciation expense	<u>\$ 182,906</u>

Capital asset activity for the Business-type activities for the year ended June 30, 2019 was as follows:

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

	Beginning Balances	Increases	Retirements and Transfers	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 552,989	\$ -	\$ -	\$ 552,989
Construction in progress	32,525	95,675	32,525	95,675
Total capital assets not being depreciated	585,514	95,675	32,525	648,664
Capital assets being depreciated:				
Vehicles	32,026	110,554	-	142,580
Plant and distribution systems	16,804,826	-	-	16,804,826
Furniture and maintenance equipment	712,146	61,335	55,833	717,648
Total capital assets being depreciated	17,548,998	171,889	55,833	17,665,054
Less accumulated depreciation for:				
Vehicles	32,027	10,137	-	42,164
Plant and distribution systems	6,412,145	329,865	-	6,742,010
Furniture and maintenance equipment	428,612	37,059	55,833	409,838
Total accumulated depreciation	6,872,784	377,061	55,833	7,194,012
Total capital assets being depreciated, net	10,676,214			10,471,042
Business-type activities capital assets, net	\$ 11,261,728			\$ 11,119,706

The Town entered into the Interlocal Intake and Transmission Agreement with Union County in fiscal year 2013. Per the terms of this agreement, Union County will finance the construction of the water facility in exchange for the Town of Norwood allowing Union County to draw water from Lake Tillery. The land is owned by the Town of Norwood and has been added to the Water and Sewer Fund's capital assets.

Liabilities

Pension Plan and Post Employment Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town of Norwood 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 government 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

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
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report may be obtained by writing to the Office of the State, 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 Norwood 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 Norwood's contractually required contribution rate for the year ended June 30, 2019, was 8.5% 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 Norwood were \$56,217 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.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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 \$251,468 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.01060%, which was an increase of 0.00233% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$72,827. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 38,796	\$ 1,302
Changes of assumptions	66,730	-
Net difference between projected and actual earnings on pension plan investments	34,519	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	17,902	9,065
Employer contributions subsequent to the measurement date	56,217	-
Total	<u>\$ 214,164</u>	<u>\$ 10,367</u>

\$56,217 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 ended June 30:

2019	\$ 70,157
2020	44,664
2021	8,833
2022	23,926
2023	-
Thereafter	-
Total	<u>\$ 147,580</u>

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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 and productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

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

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

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

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

<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%
	<u>100.0%</u>	

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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 7.0%. 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 7.0 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 (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Town proportionate share of the net pension liability (asset)	\$ 604,049	\$ 251,468	\$ (43,153)

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.

Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Norwood 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 .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 law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2017, the separation allowance's membership consisted of:

TOWN OF NORWOOD
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Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>7</u>
Total	<u><u>8</u></u>

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 criteria which are outlined in GASB Statement 73.

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 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

Mortality rates are based on the RP-2014 Mortality tables with adjustments for mortality improvements based on MP-2015.

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 benefits 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. The Town paid \$13,499 as 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 \$142,502. 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 expense of \$11,897.

TOWN OF NORWOOD
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For the Year Ended June 30, 2019

At June 30, 2019 the Town reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,191	\$ 2,044
Changes of assumptions	5,584	5,844
Benefit payments made subsequent to the measurement date	13,499	-
Total	<u>\$ 21,274</u>	<u>\$ 7,888</u>

\$13,499 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$ 1,623
2021	1,623
2022	1,623
2023	1,439
2024	1,178
Thereafter	<u>402</u>
Total	<u>\$ 7,888</u>

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 lower (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	\$ 153,236	\$ 142,502	\$ 132,625

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

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

	<u>2018</u>
Beginning balance	\$ 152,141
Service cost	6,736
Interest on the total pension liability	4,594
Changes of benefit terms	-
Differences between expected and actuarial experience in the measurement of the total pension liability	(2,427)
Changes of assumptions or other inputs	(5,043)
Benefit payments	(13,499)
Other changes	<u>-</u>
Ending balance of the total pension liability	<u>\$ 142,502</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. No significant changes in actuarial assumptions were noted other than a decrease in the municipal bond rate from 3.86% at the prior measurement date to 3.16% as of December 31, 2018.

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

Following is information related to the proportionate share and pension expense for all pension plans:

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

	LGERS	LEOSSA	Total
Pension expense	\$ 72,827	\$ 11,897	\$ 84,724
Pension liability	251,468	142,502	393,970
Proportionate share of the net pension liability	0.01060%	n/a	
Deferred outflows of resources			
Differences between expected and actual experience	38,796	2,191	40,987
Changes of assumptions	66,730	5,584	72,314
Net difference between projected and actual earnings on plan investments	34,519	-	34,519
Changes in proportion and differences between contributions and proportionate share of contributions	17,902	-	17,902
Benefit payments and administrative costs paid subsequent to the measurement date	56,217	13,499	69,716
Deferred inflows of resources			
Differences between expected and actual experience	1,302	2,044	3,346
Changes of assumptions	-	5,844	5,844
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	9,065	-	9,065

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 also make voluntary contributions to the plan. The Town made contributions of \$15,738 for the reporting year. No amounts were forfeited.

Other Postemployment Benefits (OPEB)

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single employer defined benefit healthcare plan ("the Retiree Health Plan"). The Town Council has the

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

authority to establish and amend the benefit terms and financing requirements. No such assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least 20 years of of creditable service with the Town, of which the last 10 years were consecutive. Retirees who qualify for coverage will receive healthcare benefits paid fully by the Town, until the retiree reaches the age of 65 or becomes eligible to receive Medicare benefits. The cost paid by the Town to provide these benefits to retirees shall not exceed the amounts paid by the Town to provide healthcare benefits for current full time employees. The Town pays the full cost of coverage for these benefits through private insurers. A separate report was not issued for the plan. During the year ended June 30, 2019, no retirees were receiving benefits.

Membership of the Retiree Health Plan consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	0	0
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	10	9
Total	10	9

Total OPEB Liability

The Town's total OPEB liability of \$282,869 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases, including wage inflation	
General employees	3.50% - 7.75%
Law enforcement officer	3.50% - 7.35%
Discount rate	3.89 %
Healthcare cost trend rates	
Pre-Medicare	7.5% for 2017 decreasing to an ultimate rate of 5.00% by 2023

The discount rate is based on the June average yield of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1	\$ 253,228
Changes for the year	
Service cost	33,077
Interest	9,015
Changes of benefit terms	-
Differences between expected and actual experience	(14)
Changes in assumptions or other inputs	(12,437)
Benefit payments	-
Net changes	<u>29,641</u>
Balance at June 30	<u>\$ 282,869</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.56% to 3.89%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 - December 31, 2014, adopted by the LGERS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate (3.89%)</u>	<u>1% Increase</u>
Total OPEB liability	\$ 322,086	\$ 282,869	\$ 248,058

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

Healthcare Cost Trend Rates

	<u>1% Decrease</u>	<u>7.5%</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 227,103	\$ 282,869	\$ 355,607

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized OPEB expense of \$41,834. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 21
Changes of assumptions	-	25,564
Total	<u>\$ -</u>	<u>\$ 25,585</u>

At June 30, 2019, the Town reported no deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date, as no retirees were receiving benefits. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ (3,733)
2020	(3,733)
2021	(3,733)
2022	(3,733)
2023	(3,733)
Thereafter	<u>(6,920)</u>
Total	<u>\$ (25,585)</u>

Other Employment Benefit

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. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

The Town had deferred outflows of resources. Deferred outflows of resources are comprised of the following:

Contributions to the pension plan in current fiscal year	\$ 56,217
Benefit payments and administrative expenses for LEOSA made subsequent to measurement date	13,499
Benefit payments and administrative expenses for OPEB made subsequent to measurement date	-
Differences between expected and actual experience	40,987
Changes of assumptions	72,314
Net difference between projected and actual earnings on pension plan investments	34,519
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,902
Charge on refunding	-
Total	<u>\$ 235,438</u>

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

	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes	\$ -	\$ 169
Taxes receivable (General Fund)	-	66,007
Differences between expected and actual experience	3,367	-
Changes of assumptions	31,408	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,065	-
Total	<u>\$ 43,840</u>	<u>\$ 66,176</u>

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 coverage of \$3 million per occurrence and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The pools are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

protect against large workers' compensation claims that exceed certain dollar cost levels. Medical stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town carries no flood insurance through the National Flood Insurance Plan (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 \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

Claims, Judgments and Contingent Liabilities

At June 30, 2019, there was no material pending or threatened litigation or assessments involving the Town of Norwood.

Long-Term Obligations

Installment Purchase Agreements

In August 2009, the Town entered into a \$250,000 direct placement contract to finance the Lake Shore Water Lines. The financing agreement requires annual payments beginning in the fiscal year 2011 with an interest rate of 4.02%. The future minimum payments of the installment purchase agreement as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 16,667	\$ 4,076
2021	16,667	3,406
2022	16,667	2,717
2023	16,667	2,038
2024	16,667	2,025
2025-2029	16,650	-
Total	<u>\$ 99,985</u>	<u>\$ 14,262</u>

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

In October 2014, the Town entered into a \$2,312,873 direct placement to finance the Berry Hill Sewer Project, which is funded by an installment purchase agreement from the Department of Environment and Natural Resources. The loan has an interest rate of 2.0%. The future minimum payments on the installment purchase agreement as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 123,650	\$ 33,385
2021	123,650	30,912
2022	123,650	28,439
2023	123,650	25,966
2024	123,650	23,493
2025-2029	618,248	80,372
2030-2034	494,598	19,786
Total	<u>\$ 1,731,096</u>	<u>\$ 242,353</u>

In November 2018, the Town entered into a \$405,000 direct placement contract to finance vehicles and equipment for General Fund use. The property is pledged as collateral for the debt while the debt is outstanding. The financing agreement requires annual payments with an interest rate of 2.77%. The future minimum payments of the installment purchase agreement as of June 30, 2019 are as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 56,194	\$ 6,346
2021	57,753	6,787
2022	59,393	5,146
2023	61,061	3,478
2024	62,776	1,763
Total	<u>\$ 297,177</u>	<u>\$ 23,520</u>

In October 2018, the Town of Norwood entered into a \$45,485 direct placement contract to finance vehicles and equipment for General Fund use. The property is pledged as collateral for the debt while the debt is outstanding. The financial agreement requires annual payments of \$10,016 including an interest rate of 3.25%. The future minimum payments of the installment purchase agreement as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 8,518	\$ 1,499
2021	8,795	1,221
2022	9,088	928
2023	9,387	629
2024	9,697	320
Total	<u>\$ 45,485</u>	<u>\$ 4,597</u>

In December 2018, the Town of Norwood entered into a \$56,000 direct placement contract to finance a vehicle for Enterprise fund use. The property is pledged as collateral for the debt while the debt is outstanding. The financial agreement requires annual payments of \$12,510 including an interest rate of 3.75%. The future minimum payments of the installment purchase agreement as of June 30, 2019 are as follows:

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 10,381	\$ 2,129
2021	10,771	1,739
2022	11,185	1,325
2023	11,611	900
2024	<u>12,052</u>	<u>458</u>
Total	\$ 56,000	\$ 6,551

In February 2019, the Town of Norwood entered into a \$55,121 direct placement contract to finance a vehicle for Enterprise fund use. The property is pledged as collateral for the debt while the debt is outstanding. The financial agreement requires annual payments of \$12,349 including an interest rate of 3.85%. The future minimum payments of the installment purchase agreement as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 10,197	\$ 2,152
2021	10,591	1,758
2022	11,009	1,340
2023	11,439	910
2024	<u>11,885</u>	<u>464</u>
Total	\$ 55,121	\$ 6,624

At June 30, 2019, the Town of Norwood had no bonds authorized or outstanding and a legal debt margin of \$23,160,246.

Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Governmental activities:					
Direct placement					
Installment purchases	\$ 351,835	\$ 45,485	\$ 54,659	\$ 342,661	\$ 64,711
Compensated absences	36,580	10,815	16,061	31,334	15,667
Other postemployment benefits	226,563	28,019	-	254,582	-
Net pension liability (LGRS)	112,506	113,815	-	226,321	-
Total pension liability (LEO)	<u>152,141</u>	<u>-</u>	<u>9,639</u>	<u>142,502</u>	<u>-</u>
Total	<u>\$ 879,625</u>	<u>\$ 198,134</u>	<u>\$ 80,359</u>	<u>\$ 997,400</u>	<u>\$ 80,378</u>
Business-type activities:					
Capitalized lease	\$ 49,474	\$ -	\$ 49,474	\$ -	\$ -
Direct placement					
Installment purchases	1,971,413	111,121	140,332	1,942,202	160,895
Compensated absences	4,739	922	1,114	4,547	2,274
Other postemployment benefits	26,665	1,622	-	28,287	-
Net pension liability (LGRS)	<u>13,837</u>	<u>11,310</u>	<u>-</u>	<u>25,147</u>	<u>-</u>
Total	<u>\$ 2,066,128</u>	<u>\$ 124,975</u>	<u>\$ 190,920</u>	<u>\$ 2,000,183</u>	<u>\$ 163,169</u>

Compensated absences have typically been liquidated in the General Fund and the Water and Sewer Fund.

TOWN OF NORWOOD
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

Interfund Balances and Activity

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

Balances due to the Enterprise Fund from the General Fund:

Due to the Enterprise Fund for payment on capital projects \$ 84,732

Balances due to the General Fund from the Enterprise Fund:

Due to the General Fund for amounts deposited into the
Enterprise Fund bank account \$ 157,793

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

From the Special Revenue Fund to the General Fund \$ 7,796

Fund Balance

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

Total fund balance - General Fund	<u>\$ 1,715,754</u>
Stabilization by State Statute	164,444
Streets - Powell Bill	409,381
Appropriated fund balance in the subsequent year's budget	301,000
Unassigned fund balance	840,929

Note IV - Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

Note V – Significant Effects of Subsequent Events

There were no subsequent events that occurred during the period June 30, 2019 to the date of the release of this report.

Required Supplemental Financial Data

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

- Schedule of Proportionate Share of Net Pension Asset for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability of Law Enforcement Officer's Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll
- Schedule of Changes in the Total OPEB Liability and Related Ratios

TOWN OF NORWOOD**TOWN OF NORWOOD'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)****LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM****Required Supplementary Information****Last Six Fiscal Years ***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Norwood's proportion of the net pension liability (asset) (%)	0.01060%	0.00827%	0.01084%	0.01021%	0.00923%	0.01010%
Norwood's proportion of the net pension liability (asset) (\$)	\$ 251,468	\$ 126,343	\$ 230,061	\$ 45,822	\$ (54,434)	\$ 121,744
Norwood's covered-employee payroll	\$ 644,865	\$ 591,447	\$ 606,863	\$ 643,291	\$ 612,199	\$ 637,229
Norwood's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	39.00%	21.36%	37.91%	7.12%	(8.89%)	19.11%
Plan fiduciary net position as a percentage of the total pension liability **	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

TOWN OF NORWOOD
TOWN OF NORWOODS' CONTRIBUTIONS
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
Required Supplementary Information
Last Six Fiscal Years

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 56,217	\$ 50,652	\$ 44,883	\$ 40,835	\$ 45,738	\$ 43,711
Contributions in relation to the contractually required contribution	<u>56,217</u>	<u>50,652</u>	<u>44,883</u>	<u>40,835</u>	<u>45,738</u>	<u>43,711</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Norwood's covered-employee payroll	\$ 693,017	\$ 644,865	\$ 591,447	\$ 606,863	\$ 643,291	\$ 612,199
Contributions as a percentage of covered-employee payroll	8.11%	7.85%	7.59%	6.73%	7.11%	7.14%

TOWN OF NORWOOD
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
Required Supplementary Information
June 30, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 152,141	\$ 143,762	\$ 149,150
Service cost	6,736	5,084	5,958
Interest on the total pension liability	4,594	5,289	5,084
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(2,427)	3,243	-
Changes of assumptions or other inputs	(5,043)	8,262	(2,931)
Benefits payments	(13,499)	(13,499)	(13,499)
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 142,502</u>	<u>\$ 152,141</u>	<u>\$ 143,762</u>

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

TOWN OF NORWOOD
SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE
OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
Required Supplementary Information
June 30, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 142,502	\$ 152,141	\$ 143,762
Covered Payroll	288,692	246,290	281,148
Total pension liability as a percentage of covered payroll	49.36%	61.77%	51.13%

Notes to the schedule:

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

TOWN OF NORWOOD
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
Required Supplementary Information
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service Cost	\$ 33,077	\$ 35,371
Interest	9,015	6,925
Changes of benefit terms	-	-
Differences between expected and actual experience	(14)	(13)
Changes of assumptions	(12,437)	(19,115)
Benefit payments	-	-
Net change in total OPEB liability	29,641	23,168
Total OPEB liability - beginning	253,228	230,060
Total OPEB liability - ending	<u>\$ 282,869</u>	<u>\$ 253,228</u>
Covered payroll	\$ 693,017	\$ 644,865
Total OPEB liability as a percentage of covered payroll	40.82%	39.27%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal year</u>	<u>Rate</u>
2019	3.56%-3.89%

No assets are accumulated in a trust that meets the requirements of GASB No, 75, paragraph 4 to pay related benefits

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

MAJOR GOVERNMENTAL FUNDS

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

Special Revenue Fund – Grant Project fund – This fund is used to account for the grant funds that are restricted for use for a particular purpose.

TOWN OF NORWOOD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2019

Exhibit A-1
page 1 of 4

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 1,161,740	\$ -
Interest	-	1,363	-
Total ad valorem taxes	1,165,232	1,163,103	(2,129)
Unrestricted intergovernmental:			
Local option sales taxes	-	584,553	-
Franchise tax	-	181,967	-
Solid waste disposal tax	-	1,785	-
Beer and wine tax	-	10,379	-
Gas tax refund	-	7,669	-
Sales tax refund	-	8,891	-
Occupancy tax	-	1,770	-
Total unrestricted intergovernmental	733,300	797,014	63,714
Restricted intergovernmental:			
Powell Bill allocation	-	75,637	-
Confiscated property allocations	-	10,530	-
Total restricted intergovernmental	144,800	86,167	(58,633)
Permits and fees:			
Fees	-	75,000	-
Zoning permits	-	1,750	-
Other permits	-	250	-
Total permits and fees	76,100	77,000	900
Sales and services:			
Garbage collections	-	55,336	-
Rents, concessions and fees	-	4,700	-
Police officers cost	-	25,044	-
Surplus sales	-	4,391	-
Arbor Day	-	12,140	-
Total sales and services	90,300	101,611	11,311
Investment earnings	6,200	29,848	23,648
Miscellaneous	5,250	12,802	7,552
Total revenues	2,221,182	2,267,545	46,363

TOWN OF NORWOOD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (Continued)
For the Year Ended June 30, 2019

Exhibit A-1
page 2 of 4

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General government:			
Salaries and employee benefits	-	180,902	-
Professional services	-	39,989	-
Contracted services	-	91,808	-
Travel/training	-	3,369	-
Telephone, internet, and postage	-	9,790	-
Maintenance and repairs	-	8,783	-
Departmental supplies	-	5,522	-
Dues and subscriptions	-	15,781	-
Insurance and bonds	-	82,493	-
Miscellaneous	-	1,300	-
Zoning expense	-	36,638	-
Other operating expenditures	-	43,162	-
Utilities	-	19,895	-
Special programs	-	73,866	-
Special projects	-	15,747	-
Total general government	<u>719,975</u>	<u>629,045</u>	<u>90,930</u>
Police department:			
Salaries and employee benefits	-	518,140	-
Utilities	-	3,275	-
Maintenance and repairs	-	6,404	-
Telephone, internet, and postage	-	8,365	-
Travel and training	-	6,117	-
Departmental supplies	-	19,560	-
Vehicle expense	-	36,431	-
Equipment	-	9,821	-
Contracted services	-	5,930	-
K-9 unit	-	704	-
Miscellaneous	-	60,276	-
Capital outlay	-	50,767	-
Total police department	<u>726,602</u>	<u>725,790</u>	<u>812</u>

TOWN OF NORWOOD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (Continued)
For the Year Ended June 30, 2019

Exhibit A-1
page 3 of 4

	Budget	Actual	Variance Positive (Negative)
Streets - municipality:			
Salaries and employee benefits	-	80,819	-
Vehicle expense	-	5,377	-
Street lights	-	42,100	-
Other operating expenditures	-	12,277	-
Maintenance and repairs	-	4,313	-
Capital outlay	-	41,962	-
Total streets - municipality	<u>234,650</u>	<u>186,848</u>	<u>47,802</u>
Streets - Powell Bill:			
Professional services	-	3,047	-
Maintenance and repairs	-	18,000	-
Construction and paving	-	191,647	-
Total streets - powell bill	<u>405,000</u>	<u>212,694</u>	<u>192,306</u>
Total Transportation	<u>639,650</u>	<u>399,542</u>	<u>240,108</u>
Sanitation:			
Salaries and employee benefits	-	87,046	-
Contracted services	-	170,762	-
Other operating expenditures	-	22,720	-
Dumpster rent/haul	-	29,822	-
Total sanitation	<u>386,756</u>	<u>310,350</u>	<u>76,406</u>
Cultural and recreational:			
Salaries and employee benefits	-	45,470	-
Utilities	-	18,169	-
Departmental supplies	-	7,050	-
Contracted services	-	1,148	-
Dumpster rent/haul	-	3,274	-
Maintenance and repairs	-	7,328	-
Physical improvements	-	34,691	-
Total cultural and recreational	<u>153,560</u>	<u>117,130</u>	<u>36,430</u>
Cemetery:			
Salaries and employee benefits	-	39,138	-
Other operating expenditures	-	1,678	-
Total cemetery	<u>48,000</u>	<u>40,816</u>	<u>7,184</u>

TOWN OF NORWOOD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (Continued)
For the Year Ended June 30, 2019

Exhibit A-1
page 4 of 4

	Budget	Actual	Variance Positive (Negative)
Garage:			
Salaries and employee benefits	-	18,986	-
Maintenance and repairs	-	3,575	-
Other operating expenses	-	412	-
Total	<u>50,000</u>	<u>22,973</u>	<u>27,027</u>
Debt service:			
Principal retirement	-	54,659	-
Interest and other charges	-	9,883	-
Total	<u>64,542</u>	<u>64,542</u>	<u>-</u>
Total expenditures	<u>2,789,085</u>	<u>2,310,188</u>	<u>478,897</u>
Revenues over (under) expenditures	(567,903)	(42,643)	525,260
Other financing sources:			
Insurance proceeds	-	11,905	11,905
Transfer from Special Revenue fund	-	7,796	-
Total other financing sources	<u>-</u>	<u>19,701</u>	<u>19,701</u>
Appropriated fund balance	<u>567,903</u>	<u>-</u>	<u>(567,903)</u>
Revenues, other financing sources and appropriated fund balance over (under) expenditures	<u>\$ -</u>	(22,942)	<u>\$ (22,942)</u>
Fund Balance, Beginning		<u>1,738,696</u>	
Fund Balance, Ending		<u>\$ 1,715,754</u>	

TOWN OF NORWOOD
SPECIAL REVENUE FUND - GRANT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
From Inception and For the Year Ended June 30, 2019

Exhibit A-2

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues - Scattered Housing Grant					
Restricted intergovernmental					
Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures - Scattered Housing Grant	-	-	-	-	-
Other financing sources					
Transfer to General fund	-	-	(7,796)	-	-
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	(7,796)	<u>(7,796)</u>	<u>(7,796)</u>
Fund balance, beginning			<u>7,796</u>		
Fund balance, ending			<u>-</u>		

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

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

TOWN OF NORWOOD
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2019

Exhibit B-1
page 1 of 2

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Water and sewer	\$ -	\$ 1,279,046	\$ -
Water and sewer taps	-	35,930	-
Reconnection and availability fees	-	90,181	-
Total operating revenues	1,521,000	1,405,157	(115,843)
Nonoperating revenues:			
Sales tax refund		26,436	-
Interest on investments		9,017	-
Total nonoperating revenues	30,000	35,453	5,453
Total nonoperating revenues	42,500	35,453	(7,047)
Total revenues	1,551,000	1,440,610	(110,390)
Expenditures:			
Water treatment and distribution:			
Telephone and postage	-	10,073	-
Utilities	-	41,227	-
Permits	-	890	-
Maintenance and supplies	-	133,576	-
Contracted services	-	187,992	-
Professional services	-	4,935	-
Chemicals	-	41,829	-
Other operating activities	-	14,882	-
Total water treatment and distribution	436,110	435,404	706
Wastewater collection and treatment:			
Utilities	-	14,807	-
Maintenance and supplies	-	45,252	-
Chemicals	-	29,297	-
Sludge removal	-	1,629	-
Contracted services	-	66,075	-
Other operating expenditures	-	1,222	-
Capital outlay	-	107,547	-
Total wastewater collection and treatment	266,311	265,829	482
Water and sewer field operations:			
Salaries and employee benefits	-	144,389	-
Utilities	-	37,662	-
Professional services	-	1,994	-
Contracted services	-	141,869	-
Other operating expenditures	-	220,618	-
Capital outlay	-	127,492	-
Total water and sewer field operations	671,664	674,024	(2,360)

TOWN OF NORWOOD
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
(Continued)
For the Year Ended June 30, 2019

Exhibit B-1
page 2 of 2

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement	-	189,806	-
Interest and other charges	-	41,579	-
Total debt service	231,665	231,385	280
 Total expenditures	1,605,750	1,606,642	(892)
 Revenues under expenditures	(54,750)	(166,032)	(111,282)
 Other financing sources (uses):			
Debt proceeds	-	111,121	111,121
Total other financing sources	-	111,121	111,121
 Revenues under expenditures and other financing sources	(54,750)	(54,911)	(161)
 Appropriated fund balance	54,750	-	(54,750)
 Net change in fund balance	\$ -	\$ (54,911)	\$ (54,911)
 Reconciliation from budgetary basis			
Net change in fund balance		\$ (54,911)	
Depreciation		(377,061)	
Capital outlay		235,039	
Debt proceeds		(111,121)	
Debt principal		189,806	
Decrease in accrued interest		2,786	
Decrease in compensated absences		192	
Increase (Decrease) in deferred outflows of resources for pensions		9,174	
(Increase) Decrease in net pension liabilities		(11,310)	
(Increase) Decrease in OPEB liabilities		(1,622)	
(Increase) Decrease in deferred inflows of resources for pensions		748	
(Increase) Decrease in deferred inflows of resources for OPEB		(782)	
Total		(64,151)	
 Change in Net Position		\$ (119,062)	

Other Schedules

This section includes additional information on property taxes.

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

TOWN OF NORWOOD
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2019

Exhibit C-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018-2019	\$ -	\$ 1,160,800	\$ 1,136,879	\$ 23,921
2017-2018	19,740	-	11,359	8,381
2016-2017	17,025	-	8,716	8,309
2015-2016	9,393	-	2,355	7,038
2014-2015	7,125	-	1,228	5,897
2013-2014	7,676	-	724	6,952
2012-2013	8,281	-	792	7,489
2011-2012	6,396	-	278	6,118
2010-2011	6,789	-	(213)	7,002
2009-2010	5,885	-	985	4,900
2008-2009	3,988	-	3,988	-
	<u>\$ 92,298</u>	<u>\$ 1,160,800</u>	<u>\$ 1,167,091</u>	86,007
Less: allowance for doubtful accounts: General Fund				<u>20,000</u>
Ad valorem taxes receivable - net				<u>\$ 66,007</u>
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				\$ 1,163,103
Reconciling items:				
Taxes written off				<u>3,988</u>
Total collections and credits				<u>\$ 1,167,091</u>

TOWN OF NORWOOD
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
June 30, 2019

Exhibit C-2

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 297,528,718	0.39	\$ 1,160,362	\$ 1,083,585	\$ 76,777
Discoveries	315,641	0.39	1,231	1,231	-
Abatements	<u>(203,333)</u>	0.39	<u>(793)</u>	<u>(793)</u>	<u>-</u>
Total property valuation	<u>\$ 297,641,026</u>				
Net Levy:			1,160,800	1,084,023	76,777
Uncollected taxes at June 30, 2019			<u>(23,921)</u>	<u>(23,766)</u>	<u>(155)</u>
Current year's taxes collected			<u>\$ 1,136,879</u>	<u>\$ 1,060,257</u>	<u>\$ 76,622</u>
Current levy collection percentage			<u>97.94%</u>	<u>97.81%</u>	<u>99.80%</u>

COMPLIANCE SECTION



220 East Washington Street
Post Office Box 697
Rockingham, North Carolina 28380
(910) 557-1176

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

INDEPENDENT AUDITORS' REPORT

**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**

To the Honorable Mayor and
Members of the Town Council
Town of Norwood, 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, and the aggregate remaining fund information of the Town of Norwood, North Carolina, as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprises the Town of Norwood's basic financial statements, and have issued our report thereon dated November 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Norwood'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 Norwood's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2018-1, 2018-2, 2018-3, and 2018-4.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Norwood'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Norwood's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

A handwritten signature in black ink that reads "Anderson Smith + Wike PLLC". The signature is written in a cursive, flowing style.

November 12, 2019
Rockingham, North Carolina

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

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(s) identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

No major Federal programs reported

State Awards

No major State programs reported

Section II. Financial Statement Findings

Finding 2019-1

SIGNIFICANT DEFICIENCY

Fund accounting for capital projects

Criteria: The Town is responsible for recording and properly classifying financial transactions related to capital projects.

Condition: The Town does not consistently account for capital project transactions in a separate fund.

Effect: Capital project expenditures could be misstated on the financial statements.

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

Recommendation: Town personnel should pursue the necessary training to increase their knowledge of fund accounting under generally accepted accounting principles.

Management Response: The Council agrees with this finding and recommendation.

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

Finding 2019-2

SIGNIFICANT DEFICIENCY

Knowledge of financial statements

Criteria:	An understanding of the Town's financial statements is necessary for accurate, timely financial reporting and for the Town's operations.
Condition:	The Town is responsible for overseeing the preparation of and reviewing the Town's financial statements. Town personnel currently lack the knowledge and training to adequately understand, oversee, or review the financial statements.
Effect:	Misstatements could exist that were not identified.
Cause:	Town personnel lack basic knowledge of generally accepted accounting principles for municipalities.
Recommendation:	Town personnel should pursue the necessary training to increase their knowledge of financial reporting requirements and accounting for municipalities under generally accepted accounting principles.
Management Response:	The Council agrees with this finding and recommendation.

Finding 2018-03

SIGNIFICANT DEFICIENCY

Segregation of Duties

Criteria:	Segregation of duties provides checks and balances to reduce possibilities for misstatements resulting from errors in judgment, dishonesty, personal carelessness, distraction and fatigue
Condition:	The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.
Effect:	Potential misstatement of financial statements.
Cause:	The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.
Recommendations:	The Board should continually keep in mind that internal controls are limited due to the size of the Town's staff.

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

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

Finding 2019-4

SIGNIFICANT DEFICIENCY
Other Post Employment Benefits

Criteria: Procedures and controls must be in place to ensure that Other Post Employment Benefits are paid in accordance with policy approved by the Town Council.

Condition: The Town has an other post employment benefit policy that provides healthcare to employees that have 20 years of service, provided the last 10 years of the 20 years of service are consecutive. During Fiscal Year 2019, the Town had no procedures in place to determine who was eligible for benefits upon retirement and were not knowledgeable of the Town's policy.

Effect: Individuals could have retired and not been provided with postemployment benefits.

Cause: Lack of oversight by management.

Recommendation: The Town should implement controls and procedures to ensure that each retiree receives the benefits that are due at retirement.

Management Response: The Council agrees with this finding.

Section III. Federal Award Findings and Responses

None reported

Section IV. State Award Findings and Responses

None reported

TOWN ADMINISTRATOR

Scott Howard

TOWN CLERK

Kelly Caudle

FINANCE OFFICER

Geneca Spivey

MAYOR

Harold Thompson

MAYOR PRO-TEM

James Lilly

COMMISSIONERS

Robbie Cohen

Betty Harrison

Wes Hartsell

Larry McMahon



Re: Corrective Action Plan

Finding 2019-1

Name of Contact Person: Scott Howard, Town Administrator

Corrective Action Plan: The Town has approved capital project budget ordinances for these projects and will transfer related expenditures to the respective capital project funds..

Proposed Completion Date: Immediately

Finding 2019-2

Name of Contact Person: Scott Howard, Town Administrator

Corrective Action Plan: The Town is soliciting external CPA firms to perform the Town's accounting and financial reporting services.

Proposed Completion Date: Immediately

Finding 2019-3

Name of Contact Person: Scott Howard, Town Administrator

Corrective Action Plan: The Town should continually keep in mind that internal controls are limited due to the size of the Town's staff and monitor accordingly and the Town is soliciting external CPA firms to perform the Town's accounting and financial reporting services

Proposed Completion Date: Immediately

Finding 2019-4

Name of Contact Person: Scott Howard, Town Administrator

Corrective Action Plan: The Town is developing a formal policy that will satisfy all OPEB requirements in regards to this area.

Proposed Completion Date: Immediately

**Town of Norwood, North Carolina
Prior Year Findings
For the Fiscal Year Ended June 30, 2019**

Finding: 2018 – 1

Status: Similar comment found in current year. See Finding 2019-1

Finding: 2018 – 2

Status: Similar comment found in current year. See Finding 2019-2

Finding: 2018 – 3

Status: Corrected

Finding: 2018 – 04

Status: Corrected

Finding: 2018 – 05

Status: Corrected

Finding: 2018 – 06

Status: Corrected

Finding: 2018 – 07

Status: Similar comment found in current year. See Finding 2019-3

Finding: 2018 – 08

Status: Corrected

Finding: 2018 – 09

Status: Similar comment found in current year. See Finding 2019-4